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## **Municipal Tax Issues**

The generation, transmission, and distribution of electricity require significant capital investment, especially for not-for-profit public power providers like Missouri River Energy Services (MRES) and its financing partner, the Western Minnesota Municipal Power Agency (WMMPA). Tax-exempt bonds remain the foremost tool available to MRES and its member communities to finance the infrastructure needed to deliver reliable and affordable power.

MRES continues to strongly advocate for federal policies that support this municipal financing framework. Key priorities include preserving access to tax-exempt bonds, restoring the ability to advance refund (refinancing) existing bonds, and protecting Build America Bond (BABs) payments from sequestration. Equally important, MRES urges policymakers to ensure that municipal electric utilities receive equitable treatment when it comes to federal incentives for investing in renewable energy and emerging technologies. These efforts are central to supporting the long-term resilience and sustainability of municipal electric utility systems across the region.

### **Continued Access to Tax-Exempt Financing is Critical**

Tax-exempt bonds are essential to all state and local governmental entities and to every citizen that depends on the infrastructure these bonds finance. Roads and bridges, water and wastewater plants, schools and hospitals, police and fire stations – all these public infrastructure projects are built and financed with tax-exempt bonds.

As units of local government, MRES and its municipal electric utility members have historically relied on tax-exempt bonds as the primary means of financing new generation and transmission. For example, if tax-exempt financing were not available, the cost to MRES to finance the Red Rock Hydroelectric Project would have been approximately \$8 million more per year, or \$240 million total over a 30-year bond. MRES was very pleased to see that the One Big Beautiful Bill Act (OBBBA) did not alter the treatment of municipal bonds.

### **Reinstating Advanced Refunding**

In 2017, the Tax Cuts and Jobs Act regrettably eliminated the ability to issue advance refunding (or refinancing) of municipal bonds. Utilization of this tool provides substantial savings to the ratepayers and taxpayers alike by allowing state and local governments to refinance outstanding bonds at lower interest rates and thereby realize considerable savings on debt service. The elimination of the option for an advance refunding further strains tight budgets for state and local governments.

In 2016, the advance refunding of more than \$120 billion of municipal securities saved taxpayers and ratepayers at least \$3 billion. In the five years preceding the passage of the Tax Cut and Jobs Act, state and local governments issued \$392 billion in advance refunding bonds, generating at least \$12 billion in net present value savings. The issuance of advance refunding bonds to take advantage of market conditions would reduce the cost of financing worthy infrastructure projects.

For example, in October 2019, due to historically low interest rates, MRES was able to save \$52 million issuing taxable advance refunding bonds for approximately \$285 million of tax-exempt debt.

However, those savings would have been \$102 million had MRES been able to use tax-exempt advance refunding. That would have meant an extra \$2 million in savings each year for the next 26 years: savings benefiting ratepayers, Main Street, and the local economy.

Representative David Kustoff (R-TN) has introduced **H.R. 1255/Investing in Our Communities Act**, a bill to reinstate advance refunding of bonds. HR 1255 is currently pending in House Ways and Means Committee. MRES and its members urge the House delegation to support this bipartisan legislation. Additionally, MRES and its members urge the Senate to introduce and support a companion bill.

***MRES and its members urge support of H.R. 1255, which restores the ability to issue advance refunding of municipal bonds.***

### **Protecting Build America Bond Payments from Sequestration**

MRES, through WMMPA, issued Build America Bonds (BABs) in 2010. In exchange for agreeing to help jump-start the economy with new projects, and jump-start markets by issuing taxable debt, the federal government agreed to pay a portion of the additional interest expense for the life of the bonds. However, that promise has been breached—and there is discussion of renegeing on that promise entirely if Pay-As-You-Go Act (Paygo) sequestration takes effect.

If BABs payments from the Department of Treasury were eliminated completely, it would cost WMMPA \$2.2 million per year, or over \$50 million over the term of outstanding bonds. WMMPA has endured an average reduction of over seven percent in BABs payments since 2013. The Government's breach has cost MRES approximately \$1.8 million to date and would cost MRES approximately \$4.4 million through the term of the BABs, assuming no additional sequestration increase. BABs were not intended to be subject to budget sequestration and there should be modifications to protect BAB payments from sequestration.

***MRES and its members urge Congressional support to protect BAB payments from sequestration to restore the Government's promise. At the very least, Congress should act to prevent Paygo sequestration from eliminating BAB payments entirely.***

### **Protecting Elective Pay**

Elective pay, also known as "direct pay," enables tax-exempt entities like municipal electric utilities to qualify for federal clean energy tax credits that are then received as direct cash payments from the IRS. While federal tax credits for clean energy have been around for decades, they were largely unavailable to tax-exempt, not-for-profit entities like municipal utilities. Direct pay now places municipal electric utilities on a more even playing field with for-profit utilities and energy developers. For MRES specifically, the ability to use direct pay for the investment tax credit equates to about \$9 million. These savings, in turn, benefit the ratepayers.

While the OBBBA included the phaseout of certain clean energy tax credits, as Congress looks at other generation or transmission tax credits, those would need to be available to municipal electric utilities thru elective pay.

***MRES and its members urge Congress to continue to recognize the importance of elective pay and continue framework which supports municipal investments.***