Overview

- Tax-exempt municipal bonds are the basic tool used by states, cities, counties, towns, school districts, and other government entities to fund the capital improvements necessary to provide needed facilities and services. The ability to issue tax-exempt bonds supports the division of responsibility between the federal government and state and local entities. As units of state and local government, public power utilities are authorized to issue tax-exempt bonds to construct generation projects and improve the infrastructure necessary to distribute electricity.

- Continued access to and flexibility in the use of tax-exempt financing is essential to enable public power utilities to continue providing reliable service, and to do so in a cost-effective manner. The ability to sell debt with interest exempt from federal income taxes has been a significant tool to state and local government borrowers, including public power utilities, in providing essential public facilities and services.

Action Requested

AMP and OMEA understand the pressures on the federal treasury, but urge congressional consideration of the following points:

- AMP and OMEA urge their U.S. Representatives and Senators to continue to support public power’s use of tax-exempt bonds and other effective programs to construct generation projects and improve the infrastructure necessary to provide affordable, reliable electricity to our communities.

- The Build America Bond (BAB) program has been, in many cases, the most cost-effective tool for borrowing – providing needed capital for large-scale projects. Legislation is needed to provide incentives, similar to BABs, for construction of new generating assets. In turn, this would create jobs and promote economic growth.

- Congress is encouraged to extend the authorization for the Clean Renewable Energy Bond (CREB) program (which is now expired) and to provide a number of improvements, including elimination of the cap on allocations, removal of the “other government entity” category for allocations, and simplification of the expenditure rules.

- Congress is encouraged to expand the benefits of the 1603 grant program to public power utilities and to renew the program, which expired at the end of 2011.
In these days of credit and capital market volatility, it is especially important that municipalities have the tools necessary to succeed. AMP’s financing efforts for capital expenditures are supported by its strong bond rating and the financial soundness and creditworthiness of its member municipal electric systems. AMP bonds remain an attractive investment for bondholders. However, AMP continues to monitor developments in the markets for potential impacts on the borrowing ability of the organization and its members.

AMP is committed to the financial soundness and creditworthiness of its members. AMP monitors the financial position and credit scores of its members at least annually. AMP members are committed to meeting their debt and power supply obligations.

AMP is concerned that some states currently allow or are proposing legislation to allow municipals to declare bankruptcy. There is also discussion about states declaring bankruptcy. AMP supports alternative legislative measures that would allow municipals to restructure without declaring bankruptcy. Municipal bankruptcies would have an immediate negative impact on the tax-exempt bond market by lowering credit ratings and driving up bond yields, thus making it more difficult to finance essential projects.

AMP notes with strong objection the President’s FY 2013 budget submission, in which he proposes, with no grandfathering provisions, that the interest earned on state and municipal bonds would not be deductible for investors with a marginal tax rate above 28%. This cap proposal would increase the cost of borrowing for state and local governments, as investors would be expected to demand higher interest rates in exchange for the reduction in deductibility.

AMP remains concerned by the 2010 Deficit Reduction Commission’s report, suggesting the elimination or severe restrictions on the use of tax-exempt financing; as such action would simply be a transfer tax on local communities and would undermine investments vital to economic recovery.

AMP is currently undertaking an aggressive asset development and significant capital expenditure program to construct a number of generating facilities. This effort is designed to mitigate its member municipal electric systems’ exposure to the volatile wholesale electric market, and is part of a balanced portfolio of clean and renewable power supply assets. These generating facilities that have been financed include:

1. A 23.26% AMP ownership interest in the 1,600 MW Prairie State Energy Campus coal-fired facility in Illinois. AMP has financed approximately $1.696 billion, of which $685.8 million was through Build America Bonds (BABs) which qualified AMP to receive $467.4 million in incentive payments from the Treasury Department over the term of the bonds. These savings benefit the project participants and their customers. The project is scheduled to begin commercial operation in early Spring with Unit 1 coming on line in March 2012 and Unit 2 in April of 2012. In addition, at the peak of construction it employed over 4,200 construction workers, providing a significant boost to the region’s economy.

Action Requested - continued

- Congress is encouraged to repeal the “Rostenkowski Rule” in section 141(d) of the Internal Revenue Code to allow public power providers to use tax-exempt bonds to purchase generation and associated transmission facilities that are privately owned. From both a tax and energy perspective, it makes little sense to prohibit the mutually beneficial purchase of underutilized assets from investor-owned utilities who are interested in selling their facilities.

- While AMP would prefer a permanent increase in the limit for bank-qualified debt, AMP supports the provision in the Senate-passed transportation bill (S. 1813, passed on March 14, 2012 by a vote of 74-22) to temporarily increase the bank-qualified debt limit from $10 million to $30 million, index that limit for future years, and apply it on a borrower-by-borrower basis, as opposed to aggregating all bank-qualified bonds issued by a conduit issuer. The Senate language increases the limit for the period of July 1, 2012 to June 30, 2013.

- Congress is encouraged to repeal the “Rostenkowski Rule” in section 141(d) of the Internal Revenue Code to allow public power providers to use tax-exempt bonds to purchase generation and associated transmission facilities that are privately owned. From both a tax and energy perspective, it makes little sense to prohibit the mutually beneficial purchase of underutilized assets from investor-owned utilities who are interested in selling their facilities.

- While AMP would prefer a permanent increase in the limit for bank-qualified debt, AMP supports the provision in the Senate-passed transportation bill (S. 1813, passed on March 14, 2012 by a vote of 74-22) to temporarily increase the bank-qualified debt limit from $10 million to $30 million, index that limit for future years, and apply it on a borrower-by-borrower basis, as opposed to aggregating all bank-qualified bonds issued by a conduit issuer. The Senate language increases the limit for the period of July 1, 2012 to June 30, 2013.
American Municipal Power, Inc. (AMP) is a public power leader in providing energy supply and services for member municipal electric systems. AMP has 129 member systems in seven states - Ohio (82), Pennsylvania (30), Michigan (6), Virginia (5), Kentucky (3) and West Virginia (2), and the Delaware Municipal Electric Corporation. These systems serve more than 600,000 customers. The Ohio Municipal Electric Association (OMEA) is the legislative liaison to AMP and 81 Ohio municipal electric communities, which serve approximately 370,000 customers. For more information on AMP or OMEA, please contact: Jolene Thompson, AMP senior vice president and OMEA executive director, at either 614.540.1111 or jthompson@amppartners.org. More information about AMP and OMEA can be found at www.amppartners.org.

(2) The ongoing construction of four run-of-the-river hydroelectric projects at existing locks and dams along the Ohio River, which will generate 313 MW. Three of the projects are located in Kentucky and one is located in West Virginia. AMP has financed approximately $2.73 billion, of which $2.22 billion was through BABs which qualified AMP to receive over $1.69 billion in incentive payments from the Treasury Department over the term of the bonds. These savings benefit the projects’ participants and their customers. In addition, these projects will employ more than 1,600 construction workers.

With more than $2.9 billion in BABs issued, AMP is the largest user of BABs in the public power sector. AMP will receive approximately $2.16 billion in incentive payments from the Treasury Department over the terms of these bonds. BABs help keep financing costs down, to the benefit of AMP members participating in various projects.

While the current economic climate is imposing new challenges for AMP’s capital expenditure program, the organization’s strong financial position and finance team have successfully accessed the capital markets in recent years to fund the projects under development. The volatility of current market conditions is creating hurdles for all types of generation projects, and delays to any of these projects may be detrimental to regional reliability, increase the ultimate cost of projects, and delay much needed economic development. Despite the continuing distress in the financial markets, AMP accessed the market for more than $4.43 billion from 2008 to 2011 to support generation project development and has plans for capital bond issuances during the 2012-2014 period. All projects currently under development are rated in the “A” category by the three major rating agencies Standard & Poor’s, Fitch, and Moody’s.

AMP has also participated in the Clean Renewable Energy Bond (CREB) program. AMP has received CREB allocations in each of the three years the bonding authority has been available. A total of $172.9 million has been received since the initial offering in 2006. The allocations serve to validate AMP’s position of providing a range of energy options to our member communities and being leaders in the deployment of renewable generation technology. A total of $158.6 million was issued to help finance the run-of-the-river hydroelectric projects in 2009 and 2010. Because New CREBs qualified for incentive payments, AMP will receive more than $82.1 million in incentive payments from the Treasury Department over the term of the bonds. AMP is the largest recipient of CREB allocations in the public power sector. These savings benefit project participants and help incentivize infrastructure development.

Another project financing tool that should be available to public power is the Section 1603 program, which is currently available only to private companies. The program, which expired at the end of 2011, allows private companies to receive a 30% cash grant for certain renewable energy projects. Legislation was introduced to extend this benefit to public power, but was not enacted.

Bank-qualified debt, a type of tax-exempt bond, is also available to municipalities as a source of project funding, but its use is currently limited by statute to $10 million per issuance. Banks that finance projects through use of bank-qualified debt receive federal tax benefits, and in exchange offer the municipality lower interest loans, which help reduce the overall cost of projects. AMP supports legislative efforts to increase the bank-qualified debt limit to $30 million, index that limit for future years, and apply it on a borrower-by-borrower basis, as opposed to aggregating all bank-qualified bonds issued by a conduit issuer.