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Statement of

Missouri River Energy Services

House Ways and Means Committee

Hearing on Tax Reform and Tax Provisions Affecting State and Local Governments

March 19, 2013

The generation, transmission, and distribution of electricity are highly capital-intensive undertakings. Tax-exempt bonds remain the most important tool available to Missouri River Energy Services (MRES) and its member communities to finance necessary electricity infrastructure projects.

As units of state and local government, MRES and its members have historically relied on tax-exempt bonds as the primary means of financing new generation and transmission.

This critical tool has come under fire as part of the larger effort to reform the tax code and reduce the federal budget deficit. In 2010, the Simpson-Bowles Report suggested eliminating it altogether, and Republicans and Democrats on both sides of Capitol Hill have offered proposals to curb the deductibility of municipal bond interest. Adoption of any of these proposals would place even greater strain on municipalities.

The broad goal of tax simplification and reform is laudable. However, as the Committee contemplates tax reform legislation, we would urge careful consideration of the following points with respect to tax-exempt financing:

- **Tax-exempt bonds are the primary mechanism for financing local public infrastructure.** These projects not only include electric utility facilities, but also schools, roads, bridges, hospitals, and water and wastewater infrastructures. Eliminating tax-exempt bonds or reducing their attractiveness as investment vehicles will raise borrowing costs for all levels of government from townships to states. Today, the vast majority of our nation's infrastructure is financed by states and localities. Tax-exempt bonds are the primary vehicle for these investments. Given the current condition of most state and local budgets, increased financing costs resulting from the taxation of municipal bond interest would delay, scale back, or even shelve many critical projects. The impact on economic recovery and growth could be devastating.

- **Taxing the interest on municipal bonds is no way to fix the federal budget deficit**. States and localities are already engaged in aggressive measures to trim their budgets. Restricting a key financial tool would make their fiscal situation more challenging. Removing the tax exemption for municipal bonds would simply push the nation's fiscal problems onto state and local governments.

- **Reduced benefits for tax-exempt financing would shift greater tax burden to lower and middle income families**. New restrictions on tax-exempt financing would also place a greater burden on lower and middle income families as state and local governments raise taxes to pay for increased costs of infrastructure, construction, and upgrades.

- **Restricting tax-exempt bonds would threaten economic growth**. Tax-exempt bonds finance countless projects that produce quality jobs and put in place infrastructure necessary for sustained economic recovery and growth. Restrictions on tax-exempt financing might temporarily improve the federal balance sheet, but they would harm the economy and damage deficit-reduction efforts in the long term.

The on-going debate over reducing the benefits of tax-exempt financing and the possibility of such actions affecting existing bonds retroactively threatens to shake the confidence of the market in tax-exempt financing opportunities even if Congress ultimately chooses to leave this financing mechanism untouched.

MRES urges the Committee to recognize the value and importance of tax-exempt bonds and retain the existing federal tax exempting for municipal bonds.