



BUDGET SEQUESTRATION DETRIMENTALLY IMPACTING BONDS USED TO FINANCE IMPORTANT INFRASTRUCTURE

In 2018, AMP completed a multi-year effort to construct and invest more than \$6 billion in electric generation infrastructure in the Midwest. These investments include ownership interests in coal, natural gas and hydro-electric plants. These projects provide power supply to 85 municipal electric communities in Ohio, Michigan, Kentucky, Virginia and West Virginia and created much-needed jobs and investment in the region. AMP's projects were financed using a combination of tax-exempt and tax-advantaged bonds, including a significant use of the now expired Build America Bonds (BABs) and New Clean Renewable Energy Bonds (New CREBs) programs.



(l to r): Prairie State Energy Campus (IL), Meldahl Hydro Project (KY), Willow Island Hydro Project (WV), Cannelton Hydro Project (KY), Smithland Hydro Project (KY)

BABs and New CREBs are concepts that some finance experts have suggested could be used as a tool in a new infrastructure package; AMP's experience should be a cautionary tale.

As part of the Budget Control Act of 2011, mandatory sequestration went into effect in March 2013 and was originally imposed through FY 2021. The sequester has since been extended five times and now runs through 2029. Subjecting BABs and New CREBs payments to sequestration cuts has cost participating AMP member communities more than \$34 million to date – dollars that could be invested in local communities and used to reduce electric rates and create jobs. AMP members stand to lose an additional \$40 million* over the life of the sequester unless action is taken to honor the pledge to provide federal incentives needed to support needed investment.

In drafting the legislation that established BABs and New CREBs, Congress intended to protect the federal payments from year-to-year budget cuts. Unfortunately, when implementing budget sequestration in 2012 — without greater legislative clarity — the Office of Management and Budget (OMB) determined that payments to entities other than individual taxpayers would be subject to cuts. While many programs have experienced cuts under sequestration, BABs and New CREBs stand out as long-term investment tools that were designed to provide certain and predictable annual payments. Moreover, BABs and New CREBs payments have suffered additional sequestration cuts not experienced by most programs, since they are classified as “mandatory spending,” which has experienced unilateral sequestration extensions.

Bond Issue	Issue Amount	Allocation %	Subsidization Cuts 2013-2019	Est. Subsidization Cuts 2020-2029	Total Est. Cuts 2013-2029
Sub Total (Prairie State)	\$685,835,000	22.95%	\$6,611,263	\$7,205,857	\$13,817,120
Sub Total (Combined Hydro)	\$1,723,000,000	57.65%	\$21,240,555	\$24,966,021	\$46,206,576
Sub Total (Meldahl)	\$580,000,000	19.41%	\$6,415,268	\$7,854,802	\$14,270,070
Total BABs/CREBs	\$2,988,835,000	100.00%	\$34,267,086	\$40,026,680	\$74,293,766

It is clearly a broken promise by the federal government for bond issuers to have negotiated financial deals based on the commitment of a payment on which the federal government is now reneging. The imposition and multiple extensions of sequestration to BABs and New CREBs payments provide an excellent example of the shortfalls of these alternative financing options. The federally authorized payments to AMP across all issuances from FY 2013 to FY 2029 are expected to be reduced annually (by 5.9 percent in 2020) for a total estimated reduction of more than \$74 million by 2029. In addition to lost dollars promised to local communities, this creates troubling implications for future investment.

**Total Direct Impact of Sequester on
AMP Project Participants - 2013-2029***
\$74,293,766

AMP PROJECTS UTILIZING BABS/NEW CREBS

Prairie State Energy Campus located in Illinois: For its ownership stake in the new coal plant and associated coal mine, AMP issued approximately \$1.696 billion of bonds. Of that amount, \$685.8 million was issued as BABs, which qualified AMP to receive \$467.4 million in payments from the Treasury Department over the term of the bonds. At the peak of construction, this project employed more than 4,200 construction workers, providing a significant boost to the region's economy. The plant and mine currently employ approximately 600 workers. Sixty-eight AMP member communities from the states of Ohio, Kentucky, Michigan, Virginia and West Virginia participate in the project.

Ohio River Hydropower Projects located in Kentucky and West Virginia: For its ownership in four run-of-the-river hydropower projects, AMP issued approximately \$2.73 billion of bonds. Of that amount, \$2.3 billion was through BABs and New CREBs, which qualified AMP to receive over \$1.78 billion in payments from the Treasury Department over the term of the bonds. At the peak of construction more than 1,850 construction workers were employed with indirect jobs estimated at more than 1,500 and payroll at \$400 million. Seventy-nine AMP member communities from the states of Ohio, Kentucky, Michigan, Virginia and West Virginia participate in the project.

KEY CONSIDERATIONS

- AMP requests that congressional offices seek legislative remedies to restore full BABs and New CREBs payments beginning in 2020, by either shielding these credit payments from sequestration or restoring the cut payments through an annual "gross-up" payment, including leveraging the budget processes and infrastructure package.
- AMP request that congressional offices communicate a request to the Administration (OMB and Treasury) that they overturn their policy determination.
- AMP request that Congress and the Administration take action to reclassify BABs and New CREBs so that they will not be subject to future sequestration.

* 2019-2029 estimate based on Cong. Budget Office, Estimated Impact of Automatic Budget Enforcement Procedures Specified in the Budget Control Act. Rate is reset annually by Treasury.

American Municipal Power, Inc. (AMP) is the nonprofit wholesale power supplier and services provider for 135 members, including 134 member municipal electric systems in Indiana, Kentucky, Maryland, Michigan, Ohio, Pennsylvania, Virginia and West Virginia, as well as the Delaware Municipal Electric Corporation — a joint action agency with nine member communities. Combined, these member utilities serve more than 650,000 customers. AMP is one of the largest organizations of its type in the country and has total assets of more than \$6.7 billion, annual revenues of approximately \$1.2 billion and total annual sales of approximately 15 million MWh. For more information, please contact Jolene Thompson, AMP Executive Vice President of Member Services & External Affairs at 614-519-8901 or jthompson@ampppartners.org.

