

Bond Case Briefs

Municipal Finance Law Since 1971

Tax-Free Energy Bonds Draw Billions From Yield-Hungry Investors.

These twists on munis offer rewards for those who understand the risk.

Takeaways by Bloomberg AI

- Investors bought \$31.4 billion worth of prepaid energy bonds last year, with these bonds making up from 5% to 25% of a municipal debt index fund.
- Energy bonds differ from regular munis in that investors indirectly lend money to pay in advance for a 30-year supply of energy at a discount to prevailing energy prices.
- Bond buyers get a higher interest rate than on a regular muni bond, with a California prepaid energy offering priced in January having a 4.08% yield.

A complicated kind of debt deal is electrifying the muni market these days: prepaid energy bonds.

Last year investors bought \$31.4 billion worth, three times as much as in 2022. If you buy a municipal debt index fund, energy bonds currently make up from 5% to 25% of your investment.

Here's how they differ from regular munis. In a plain-vanilla general obligation bond, investors lend money to a government and rely on its taxing authority to pay it back. Or, in revenue bonds, investors get repaid through the money generated by an important project, such as a toll road, a hospital or a subway. Munis are attractive to wealthy individuals because the interest is generally exempt from federal income tax and, if the government is in their own state, local taxes as well.

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Bloomberg Markets

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