



# Tax Reform: Municipal Market Update & Considerations

*Fundamentals of Public Finance Seminar*

**Presented by: Dan Kozloff**

October 8, 2026

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PFM

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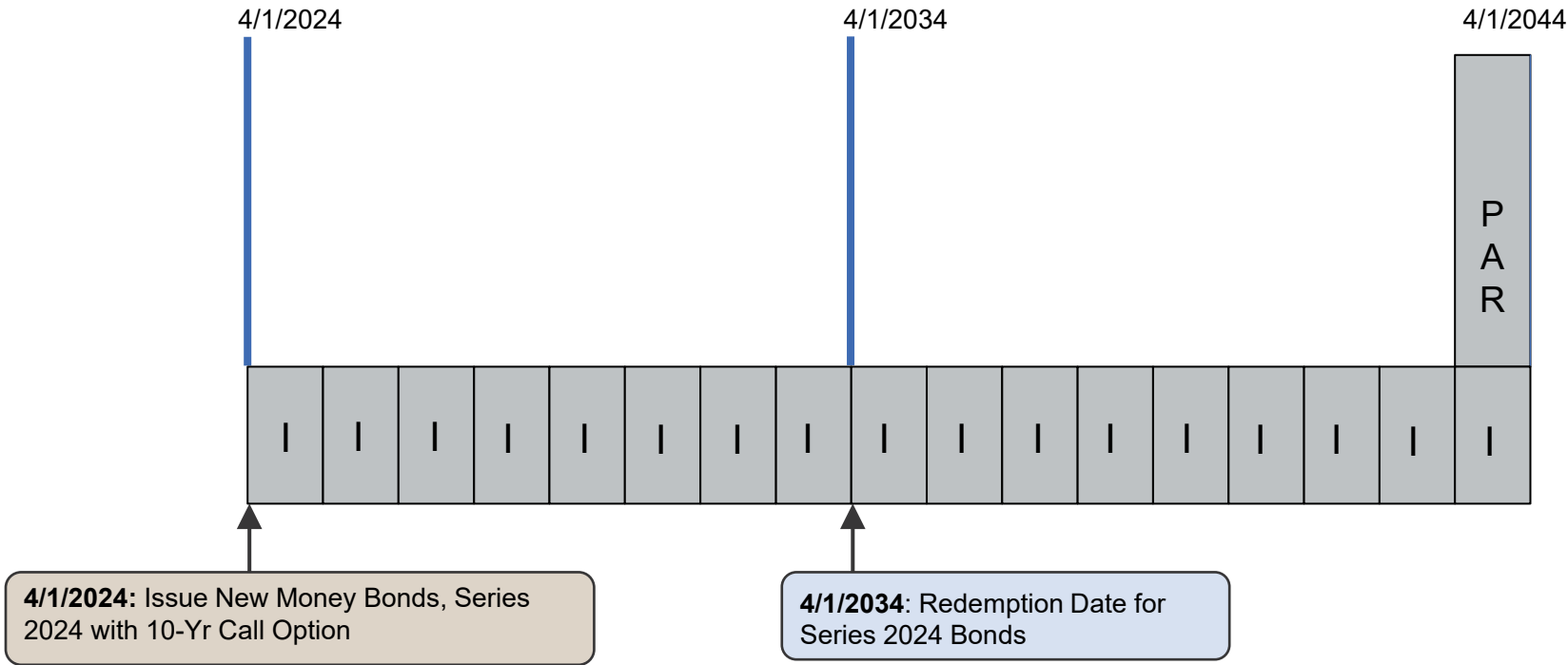
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# Setting the table: Advance vs. Current Refundings



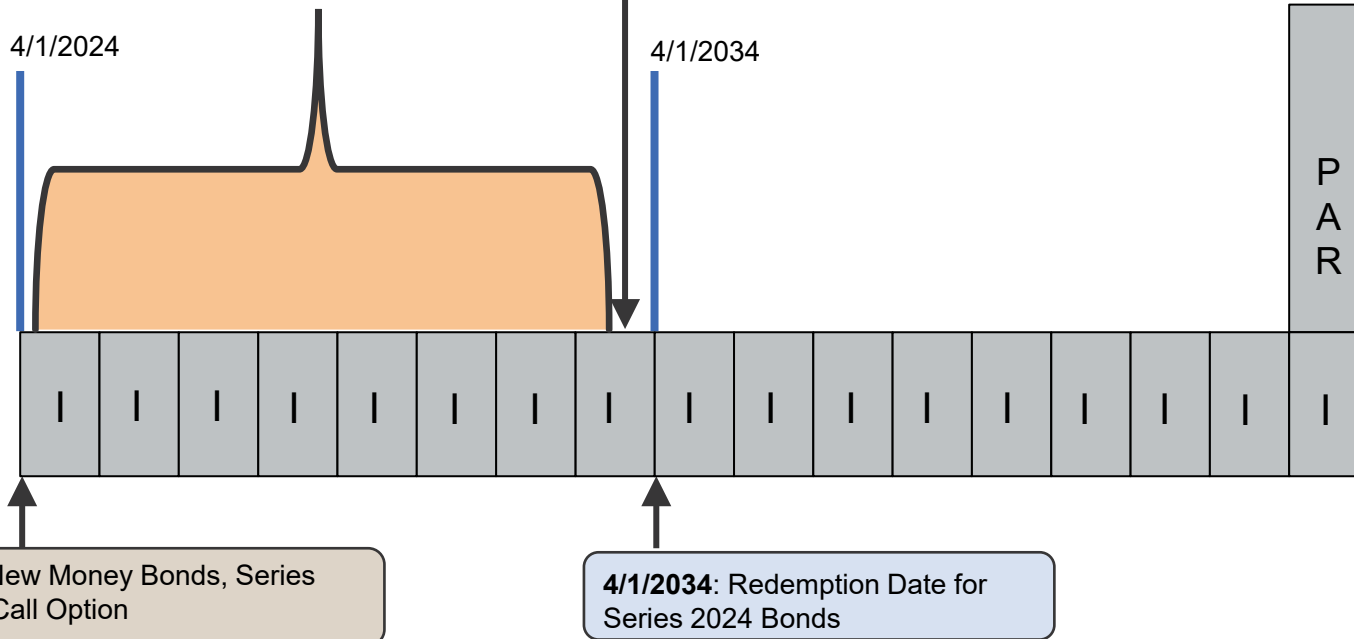


## Setting the table: Advance vs. Current Refundings

**4/2/2024–12/31/2033:** advance refunding period (>90 days prior to call date). Refunding escrow funded by new bonds, escrow pays existing bonds' debt service through redemption date of original bonds.

**1/1/2034:** 90 days prior to call date, start of current refunding period.

4/1/2044

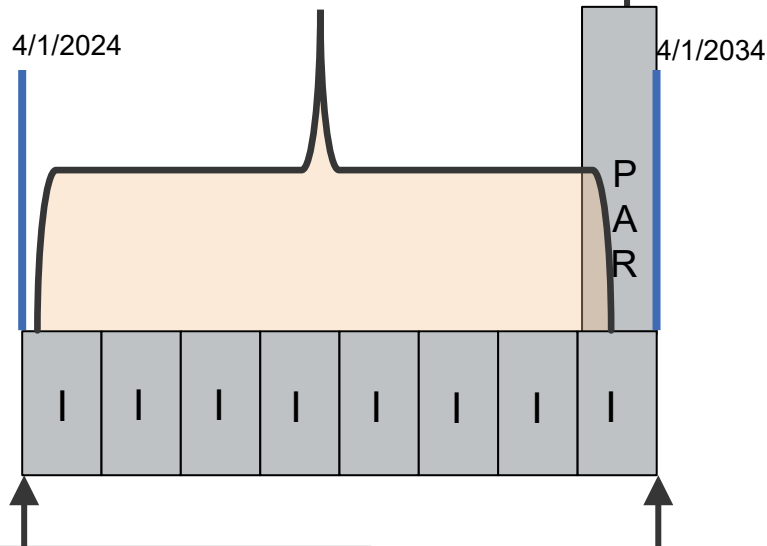




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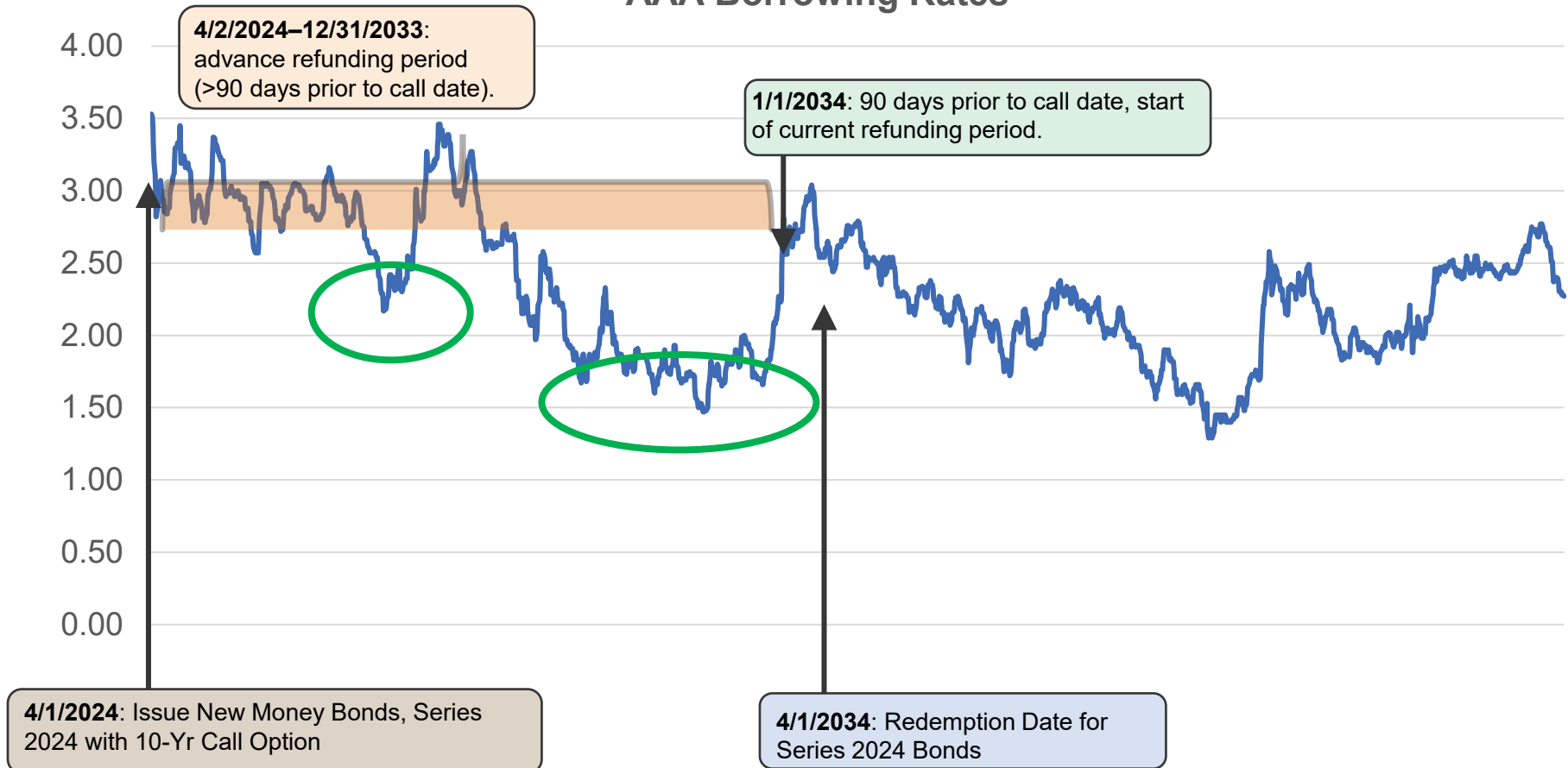
**4/1/2024:** Issue New Money Bonds, Series 2024 with 10-Yr Call Option

**4/1/2034:** Redemption Date for Series 2024 Bonds



## Advance refunding = flexibility + opportunity

### AAA Borrowing Rates





## Poll question #1

◆ Characteristics of advance refundings include:

- a) The existence of two tax-exempt bond issues at one time, with refunded bonds funded by an irrevocable refunding escrow.
- b) Allows issuers to take advantage of low rate environments, any time prior to the redemption date of original issued bonds.
- c) None of the above (a and b)
- d) Both of the above (a and b)



# Municipal Bond Market Impacts of Tax Cuts & Jobs Act of 2017

- The 2017 Tax Cuts & Jobs Act had significant impacts on the municipal market.

As initially proposed, the tax reforms proposed elimination of:

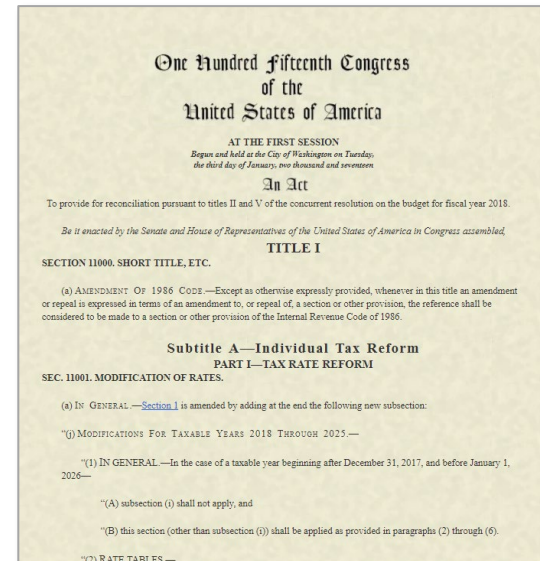
- Tax-exempt private activity bonds
- Tax-exempt advance refundings
- New tax credit bonds
- Tax-exempt stadium bonds

**SPARED** from tax reform:

- Private activity bonds
- Stadium bonds

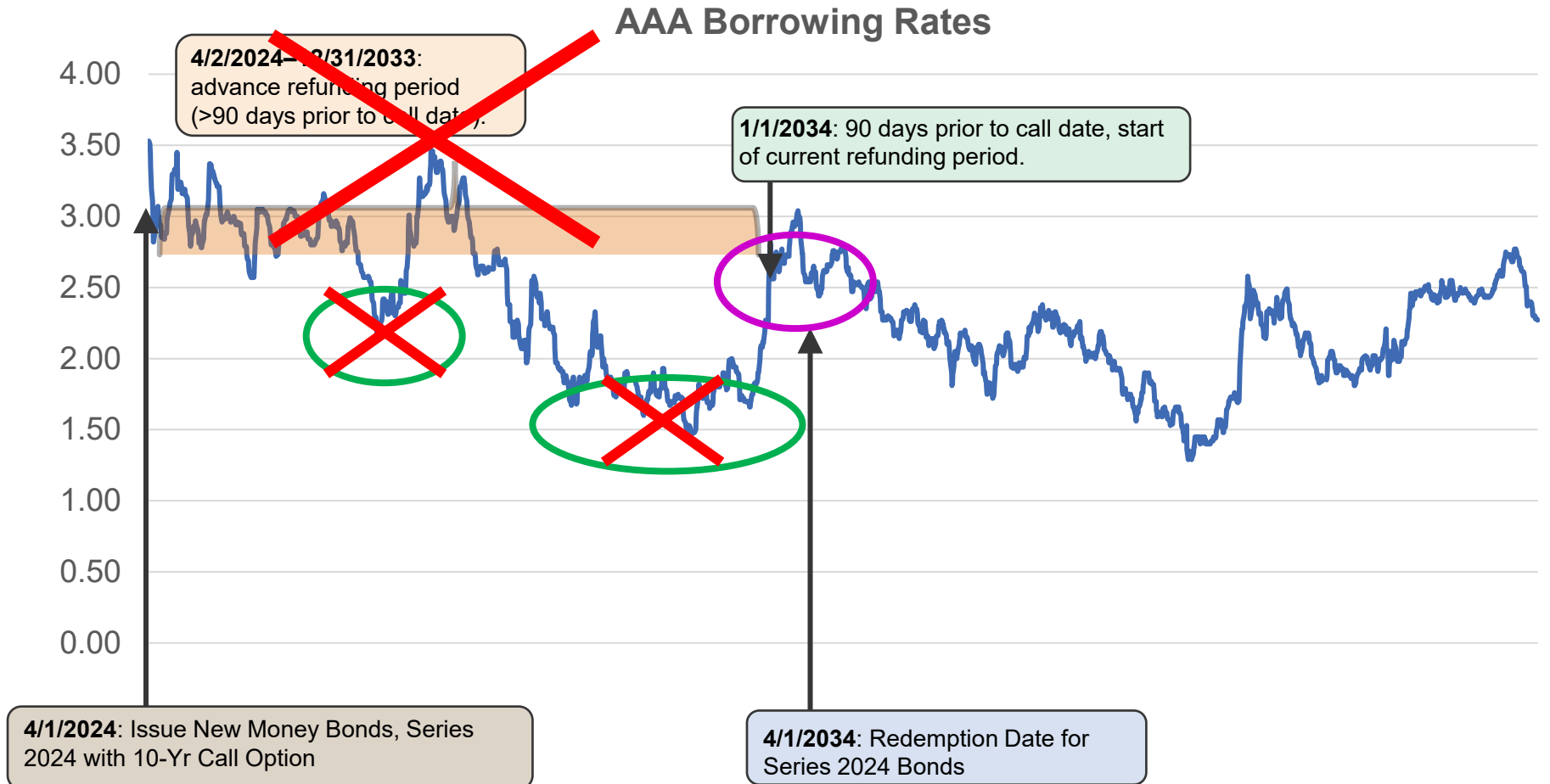
**ELIMINATED** through tax reform:

- Tax-exempt advance refundings
- New tax credit bonds
- Additionally, lower tax rates for corporations (21% from 35%) and individuals could lead to a drop in demand for municipal bonds or higher return requirements (i.e., higher rates) from investors





## Elimination of tax-exempt advance refundings





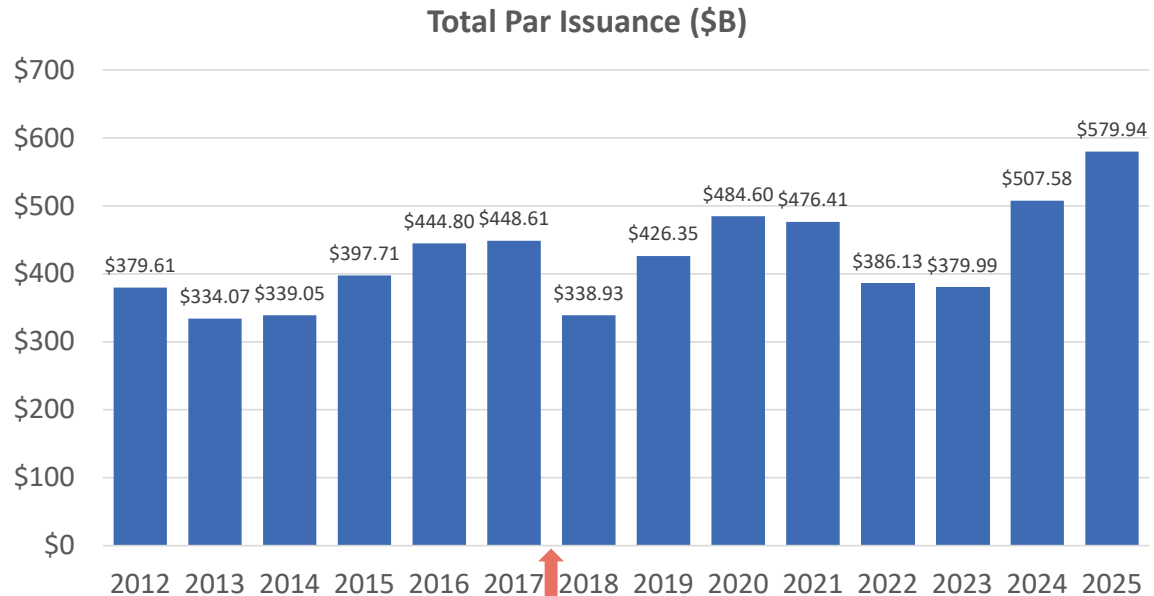
## Poll question #2

- ◆ The Tax Cuts & Jobs Act of 2017 had major impacts on the municipal market through:
  - a) Prohibiting the use of tax-exempt advance refunding bonds.
  - b) Eliminating the use of tax-exempt bonds to fund professional sports stadiums.
  - c) Lowering tax rates for corporations and individuals, decreasing the value of tax exemption.
  - d) Eliminating the use of tax-exempt private activity bonds.
  - e) All of the above
  - f) A and C only.



## 2019 – 2026: A Changing Market

- 2017 saw a spike of muni issuance volume as issuers flooded the market in December after the tax reform package was announced.
  - \$144.6 billion in Q4 (33% of full year amount)
  - \$62.5 billion in December (1,168 transactions) – a new record
    - 3x higher dollar volume than December, 2016
    - Previous monthly issuance record: \$54.7 billion (December, 1985)
- 2018 saw a dip in issuance volume (down 24%) with the elimination of advance refundings and the surge in late 2017.
- Issuance volume rebounded in 2019 with issuance volume growth through 2020-2021, before a slower pace of issuance in 2022 and 2023 due to inflation, market volatility, and higher interest rates.
- 2025 volume set an all time high for par amount issued, outpacing 2024's record year – 2026 is tracking to be similar.



SOURCE: Bond Buyer

Tax reform begins



## 2025-26 Municipal Market Update – growing investor demand and increased volume

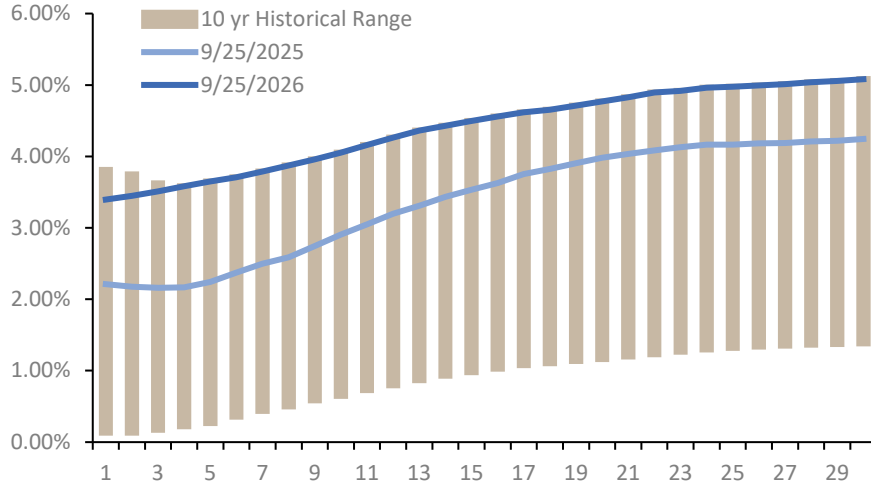
- Following the strong issuance environment and robust issuance volume throughout the COVID-19 pandemic, largely driven by historic low rates and federal stimulus packages, rates increased sharply beginning in January of 2022 and remained elevated through 2023.
- Increases in rates and volatility in the markets were largely due to:
  - Increases in inflation levels and ongoing challenges to reverse the trend
  - FOMC rate increases
  - Geo-political events
- 2024 saw significant improvement on 2022 and 2023 markets, with strong demand for municipal bonds and lower rates driven by many factors, including FOMC rate cuts and expectations.
- 2024 bond issuance volume rebounded, with 33% more par issued than 2023 issuance levels<sup>1</sup>.
- 2025 issuance volume outpaced 2024's record setting amount, setting a new high water mark for par issued.
  - Economic factors (e.g., inflation, recessionary risks), FOMC activity, political and geopolitical events, and investor demand will continue to drive the market through 2026. Many market participants project 2026 issuance to be similar, if not outpace 2025's levels.
- It remains to be seen how the recent sharp increase in interest rates will impact 2026 Q4 volume.

1. Source: Bond Buyer, Ipreo

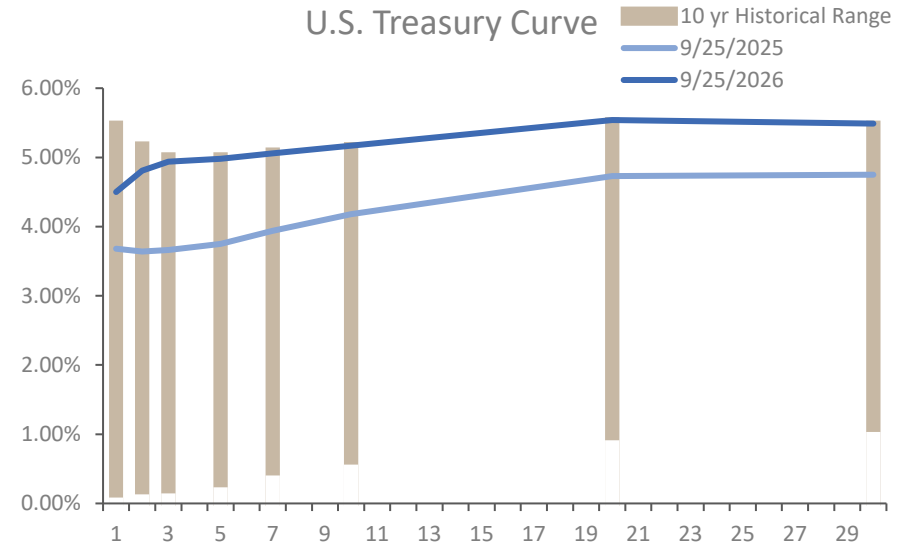


## 2026 Municipal Market Environment

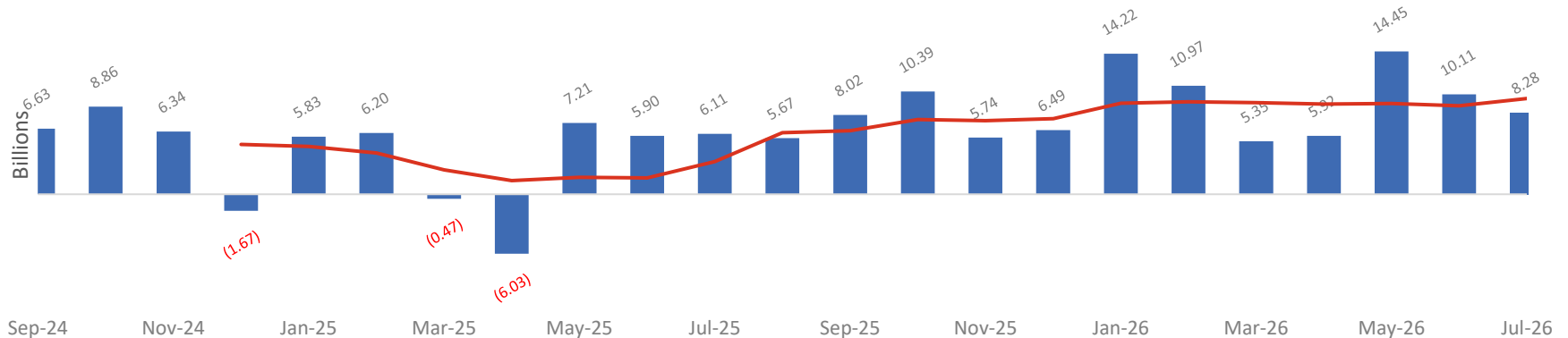
### AAA Municipal Curve



### U.S. Treasury Curve



### ICI Monthly Fund Flows (Past 24 Months)



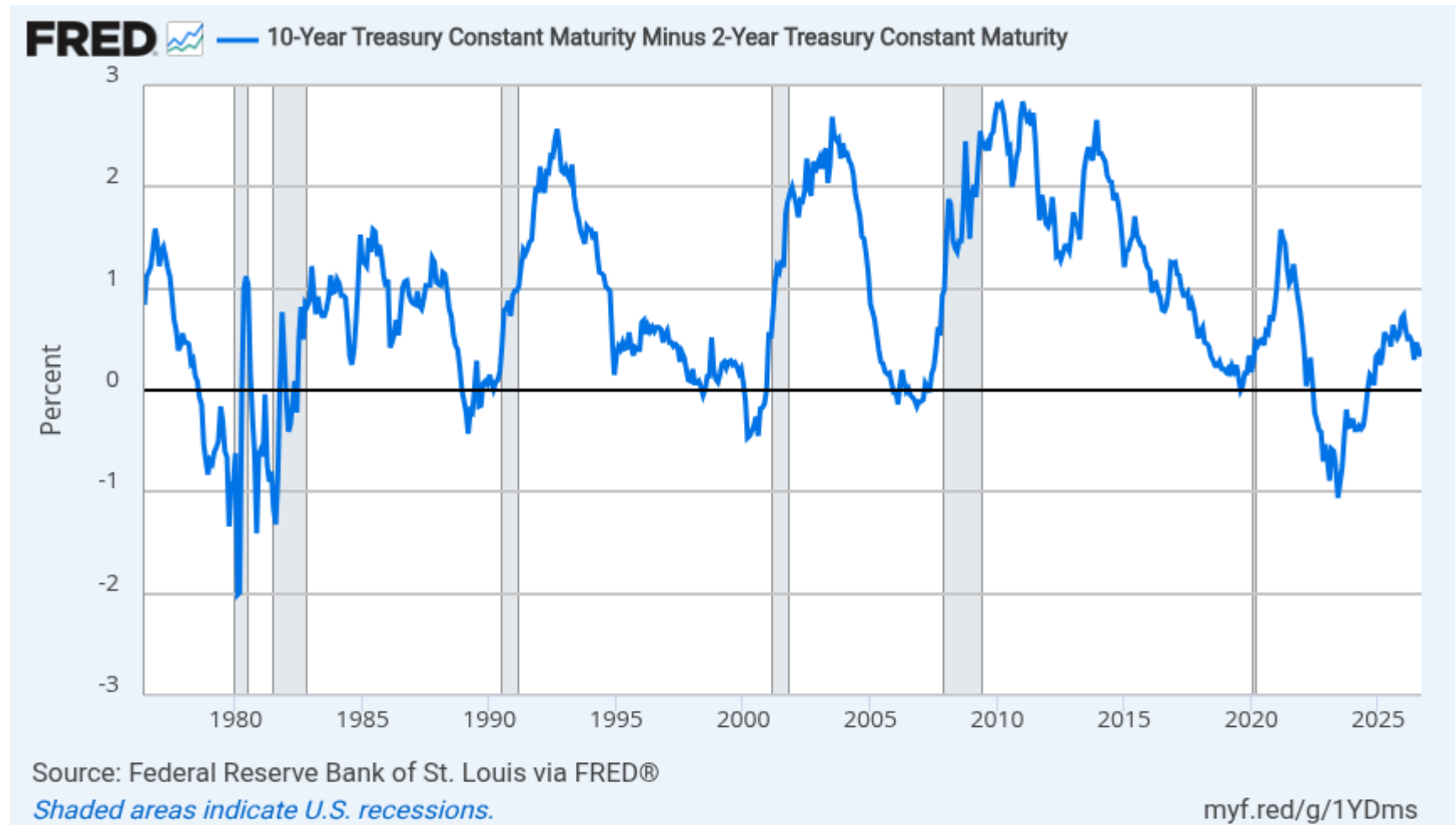


## A Volatile Market

| AAA BVAL Rate Movement for the Past 3 Months |                |     |      |      |      |     |      |      |      |      |     |      |      |      |      |      |      |      |      |      |            |              |      |
|----------------------------------------------|----------------|-----|------|------|------|-----|------|------|------|------|-----|------|------|------|------|------|------|------|------|------|------------|--------------|------|
| AAA<br>Tenor                                 | Date & Weekday |     |      |      |      |     |      |      |      |      |     |      |      |      |      |      |      |      |      |      | Total<br>Δ | 9/25<br>Rate |      |
|                                              | 6/29           | 7/6 | 7/13 | 7/20 | 7/27 | 8/3 | 8/10 | 8/17 | 8/24 | 8/31 | 9/4 | 9/14 | 9/15 | 9/16 | 9/17 | 9/18 | 9/21 | 9/22 | 9/23 | 9/24 |            |              | 9/25 |
|                                              | Mon            | Mon | Mon  | Mon  | Mon  | Mon | Mon  | Mon  | Mon  | Mon  | Fri | M    | T    | W    | T    | F    | M    | T    | W    | T    |            |              | F    |
| 1                                            | 2.28           | -1  | 4    | 5    | 14   | 0   | -7   | -2   | 1    | 2    | 6   | 19   | 5    | 0    | 7    | 6    | 10   | 9    | 9    | 15   | 10         | 112          | 3.40 |
| 2                                            | 2.31           | 0   | 5    | 5    | 15   | 1   | -8   | -1   | 2    | 2    | 6   | 20   | 5    | 0    | 5    | 5    | 10   | 8    | 10   | 15   | 9          | 114          | 3.45 |
| 3                                            | 2.38           | 0   | 9    | 5    | 15   | 1   | -8   | -1   | 3    | 2    | 6   | 21   | 5    | 0    | 3    | 5    | 7    | 7    | 10   | 15   | 8          | 113          | 3.51 |
| 4                                            | 2.46           | 0   | 9    | 5    | 16   | 2   | -9   | 0    | 3    | 4    | 6   | 22   | 3    | 0    | 1    | 5    | 6    | 7    | 10   | 15   | 7          | 112          | 3.58 |
| 5                                            | 2.53           | 0   | 8    | 8    | 16   | 3   | -9   | 0    | 4    | 5    | 6   | 22   | 3    | 1    | -1   | 3    | 6    | 5    | 10   | 15   | 7          | 112          | 3.65 |
| 6                                            | 2.60           | 0   | 9    | 8    | 17   | 3   | -10  | 2    | 4    | 5    | 6   | 23   | 3    | 0    | -1   | 3    | 3    | 5    | 9    | 15   | 7          | 111          | 3.71 |
| 7                                            | 2.67           | 1   | 9    | 9    | 17   | 3   | -10  | 1    | 5    | 5    | 7   | 23   | 4    | 0    | -3   | 3    | 4    | 4    | 9    | 15   | 6          | 112          | 3.79 |
| 8                                            | 2.72           | 1   | 11   | 10   | 16   | 3   | -10  | 2    | 5    | 6    | 8   | 24   | 3    | 0    | -3   | 3    | 3    | 4    | 10   | 14   | 5          | 115          | 3.87 |
| 9                                            | 2.80           | 0   | 12   | 10   | 16   | 3   | -10  | 3    | 6    | 6    | 9   | 23   | 3    | 0    | -3   | 4    | 3    | 3    | 9    | 14   | 5          | 116          | 3.96 |
| 10                                           | 2.88           | 1   | 11   | 10   | 16   | 3   | -10  | 4    | 7    | 6    | 9   | 24   | 3    | 0    | -3   | 3    | 3    | 3    | 9    | 14   | 4          | 117          | 4.05 |
| 11                                           | 2.96           | 0   | 12   | 9    | 16   | 3   | -9   | 4    | 9    | 6    | 11  | 23   | 5    | 0    | -3   | 2    | 3    | 3    | 8    | 14   | 4          | 120          | 4.16 |
| 12                                           | 3.04           | 0   | 13   | 10   | 15   | 4   | -9   | 5    | 9    | 8    | 10  | 23   | 5    | 0    | -3   | 2    | 3    | 2    | 8    | 14   | 3          | 122          | 4.26 |
| 13                                           | 3.10           | 0   | 12   | 10   | 18   | 4   | -8   | 5    | 9    | 9    | 10  | 23   | 5    | 0    | -4   | 4    | 4    | 1    | 8    | 13   | 3          | 126          | 4.36 |
| 14                                           | 3.12           | 0   | 14   | 11   | 19   | 4   | -8   | 6    | 10   | 8    | 11  | 22   | 6    | 0    | -3   | 4    | 3    | 0    | 8    | 13   | 3          | 131          | 4.43 |
| 15                                           | 3.16           | 0   | 13   | 11   | 20   | 4   | -7   | 6    | 10   | 11   | 11  | 22   | 6    | -1   | -3   | 4    | 3    | 1    | 7    | 13   | 3          | 134          | 4.50 |
| 16                                           | 3.25           | 0   | 13   | 10   | 17   | 4   | -7   | 7    | 9    | 12   | 11  | 22   | 6    | -1   | -3   | 4    | 3    | 2    | 7    | 13   | 2          | 131          | 4.56 |
| 17                                           | 3.34           | -1  | 13   | 10   | 17   | 3   | -7   | 7    | 9    | 12   | 11  | 22   | 6    | -1   | -3   | 4    | 3    | 1    | 7    | 13   | 2          | 128          | 4.62 |
| 18                                           | 3.44           | 0   | 11   | 8    | 17   | 3   | -7   | 7    | 9    | 12   | 11  | 22   | 6    | -1   | -3   | 4    | 0    | 1    | 7    | 13   | 1          | 121          | 4.65 |
| 19                                           | 3.57           | 0   | 11   | 8    | 14   | 4   | -8   | 6    | 10   | 11   | 12  | 21   | 4    | -1   | -3   | 3    | 0    | 1    | 7    | 13   | 1          | 114          | 4.71 |
| 20                                           | 3.69           | 0   | 11   | 7    | 15   | 3   | -8   | 6    | 10   | 8    | 11  | 21   | 4    | -1   | -3   | 2    | 0    | 1    | 8    | 12   | 1          | 108          | 4.77 |
| 21                                           | 3.78           | -1  | 12   | 7    | 15   | 3   | -8   | 6    | 11   | 6    | 9   | 20   | 4    | 0    | -3   | 2    | 0    | 1    | 7    | 12   | 2          | 105          | 4.83 |
| 22                                           | 3.85           | -1  | 12   | 7    | 15   | 3   | -7   | 6    | 10   | 6    | 9   | 20   | 4    | 0    | -3   | 2    | 0    | 1    | 7    | 12   | 1          | 104          | 4.89 |
| 23                                           | 3.90           | 0   | 10   | 6    | 15   | 3   | -7   | 5    | 11   | 6    | 8   | 20   | 4    | 0    | -3   | 2    | 0    | 1    | 8    | 11   | 2          | 102          | 4.92 |
| 24                                           | 3.96           | -1  | 11   | 6    | 15   | 3   | -7   | 4    | 11   | 6    | 8   | 20   | 4    | 0    | -4   | 3    | 0    | 1    | 7    | 12   | 1          | 100          | 4.96 |
| 25                                           | 3.99           | -1  | 11   | 7    | 14   | 3   | -7   | 5    | 9    | 6    | 8   | 20   | 4    | -1   | -3   | 2    | 0    | 1    | 8    | 12   | 1          | 99           | 4.98 |
| 26                                           | 4.01           | 0   | 11   | 6    | 15   | 2   | -6   | 5    | 8    | 6    | 8   | 19   | 5    | -1   | -3   | 2    | 0    | 1    | 8    | 11   | 1          | 98           | 4.99 |
| 27                                           | 4.03           | 0   | 11   | 6    | 15   | 3   | -7   | 5    | 8    | 6    | 8   | 19   | 5    | -1   | -3   | 2    | 0    | 1    | 7    | 12   | 1          | 98           | 5.01 |
| 28                                           | 4.06           | -1  | 12   | 6    | 15   | 2   | -6   | 5    | 8    | 6    | 8   | 19   | 4    | 0    | -4   | 2    | 0    | 1    | 8    | 12   | 1          | 98           | 5.04 |
| 29                                           | 4.07           | -1  | 13   | 6    | 15   | 3   | -6   | 4    | 9    | 5    | 9   | 19   | 4    | -1   | -4   | 3    | 0    | 0    | 8    | 12   | 1          | 99           | 5.06 |
| 30                                           | 4.09           | 0   | 12   | 7    | 15   | 2   | -6   | 5    | 9    | 5    | 8   | 19   | 4    | 0    | -4   | 2    | 0    | 1    | 8    | 11   | 1          | 99           | 5.08 |



## Where will the Fed go? Recessionary risks.





## Poll question #3

Which of the below statements is **false**:

- a) Historically low interest rates existed during the COVID-19 pandemic.
- b) Inverted UST yield curves have historically led to periods of US economic expansion (i.e., GDP growth).
- c) The 2025 market to date is characterized by high issuance volume and rate volatility.



## The threat to municipal tax-exemption Through the storm – more to come?

- ◆ The new presidential administration and its congressional counterparts stated their intent to extend and expand the tax reform and cuts first initiated in the 2017 Tax Cuts and Jobs Act (“TCJA”)<sup>1</sup>.
- ◆ Congress is required to find ways to offset decreases in revenues by cutting spending within the federal budget.
- ◆ **Amongst many other identified areas for spending cuts, full elimination of municipal tax exemption had been listed as a potential source of funding for TCJA and for the 2025 tax package.**
- ◆ Interested parties, organizations, and issuers across the US mobilized to defend the preservation of municipal tax exemption, and succeeded in preserving municipal tax exemption in the final passage of the OBBBA.
- ◆ Despite this success, we must ask the question of whether a door has been opened that puts greater risk on municipal tax exemption for future legislative packages and sessions.
- ◆ Issuers should remain active in communicating the value of tax exemption to their representatives in Washington.



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