The Tax Cuts and Jobs Act (TCJA) was enacted by Congress and signed into law by the president in late 2017. Since its implementation, there have been a number of impacts on the municipal note and bond markets. Some of these were nearly immediate and pronounced, while others are still developing. We have categorized these shifts into three factors: supply, demand and credit-related.

**SUPPLY**

The most striking effect on the overall municipal market was the elimination of advance refundings from the market. This debt refinancing tool had previously accounted for approximately 25%-30% of the municipal market. With this restriction effective post December 31, 2017, total municipal bond issuance declined from $448 billion in 2017 to $338 billion in 2018 — a drop of 25% — according to the Securities Industry and Financial Markets Association (SIFMA). SIFMA’s “2019 Municipal Issuance Survey,” published in December 2018, projects that total 2019 municipal bond issuance will contract by about 4%. While pointedly eliminating supply, there was no provision in the TCJA that would stimulate other new issuance of tax-exempt securities.

**DEMAND**

While the TCJA’s impact on municipal bond issuance was evident fairly quickly and was a one-time event, demand for tax-exempt income has been robust, with steady inflows into municipal funds during the first five months of this year. Demand should continue to be driven primarily by the $10,000 cap on state and local tax deduction (SALT) included in the TCJA. Taxpayers primarily in states with relatively high personal income tax and property tax burdens should be expected to drive demand for tax-exempt income, particularly after the 2018 tax-filing season. With one tax-filing season now complete following the implementation of the TCJA, the impact on individuals is evident. For many high-income-bracket individuals in high-tax states, such as California, Connecticut, Maryland, New Jersey and New York, the value of investing in municipal bonds (either directly or through a mutual fund) and municipal money market funds is becoming more acute.

**CREDIT**

The impact of the TCJA’s provisions on the area of municipal credit is less obvious and subject to a closer long-
term examination. While the debt management tool of advance refunding was removed from municipalities, we find the credit impact to be minimal. To the extent the TCJA has led to job creation and a rise in personal income and disposable income, many states have benefited as the economy expanded with the TCJA providing some stimulus.

A small number of states have reported personal income tax receipts below budgetary projections in the months leading up to April 15. However, tax collections accelerated as the filing date approached, and some states, including California, New Jersey and New York, saw a sharp increase in receipts during April, presumably as taxpayers had delayed filings. Outmigration has been occurring in several high-tax states, but the acceleration due to the TCJA’s cap on SALT deductions has not yet been quantified.

**SUMMARY**

Investing in tax-exempt securities, including tax-exempt money market funds, has always been considered by many as a sound investment decision. The impact of the SALT cap potentially makes this portfolio option even more attractive, as investors may seek to reduce their total tax liabilities. This can be achieved by shifting assets into money market funds which currently generate attractive income, exempt from federal, state and local income taxes. An additional potential benefit of tax-exempt money market funds is the high degree of liquidity provided along with the relative safety of a portfolio of high-quality securities.