

U.S. Municipal Bond Market

Hotel California (Such a Lovely Place), Unique Tax Policies Under Consideration

Summary

- Public finance entities balanced budgets mostly through spending reductions just after the Great Recession of 2008;
- There seems to be a different climate now as the approach to balancing may need to be different this time;
- The Los Angeles County Metropolitan Transportation Authority will examine a proposal to eliminate fares for all riders on buses and trains;
- Also under consideration in California is Assembly Bill 2088, a net worth tax that would be assessed on former Californians for up to 10 years, even after they leave the state;
- We addressed tax proposals in New Jersey, California, and New York in our Aug. 14 commentary, [If Taxes Go Higher, Demand for Municipals Will Also Rise](#).

We Saw Mostly Public Finance Spending Cuts Just After the Great Recession of 2008

In the wake of the Great Recession most public finance entities were able to make budget adjustments on the spending side in order to balance their financial positions. The cutting varied, and some needed to go deeper and for a longer period of time than others. Some were never even able to return to the spending levels they experienced before the 2008 downturn. Overall, there really was not much instituted on the revenue side, meaning higher taxes were not considered nor implemented often in the early years just after the contraction. The American Recovery and Reinvestment Act of 2009 also went a long way in helping to smooth the financial uncertainty coming out of the 2008 Financial Crisis and resulting recession. [This Government Accountability Office report](#), for example, shows about 30% of the \$282 billion allocated to state and local governments was administered about a year after the 2009 Recover Act became law.

Changes to Tax Policy Approach

The variety of tax policies under consideration by policymakers and the potential outcome from this economic downturn could be different. Early on we are seeing many different strategies being considered by lawmakers.

This unprecedented time might usher in a novel approach to how it is that state and local government consider their tax policy. Different charges in the form of digital-related taxes, taxes on groceries, and sin taxes could soon be levied [writes Liz Farmer in Forbes](#). New Jersey Governor Phil Murphy [announced that he is "very seriously" considering a tax on high-volume electronic trading](#).

LA Mass Transit Could Be Free Next Year

Los Angeles County Metropolitan Transportation Authority (LA Metro) CEO Phil Washington announced a new internal task force will examine a proposal to eliminate fares for all riders on buses and trains. "LA Metro has a moral obligation to pursue a fare free system and help our region recover from both a once-in-a-lifetime pandemic and the devastating effects of the lack of affordability in the region," said Washington per a [Mass Transit Magazine article](#). LA Metro expects the task force will be able to

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report to the Board on the viability and potential funding scenarios by the end of this year.

Proposed: California's Assembly Bill 2088, State Wealth Tax

Songwriters Glenn Frey, Don Felder, and Don Henley of "The Eagles" perhaps understood more about Golden State public policy than they really knew back in 1977 when they released the title track "Hotel California." [The last two lines of the song](#) offered perhaps a premonition of what California tax policy could include in the latest tax proposal;

"You can check out any time you like,
But you can never leave."

This summer, California lawmakers amended [Assembly Bill 2088](#), which is basically a net worth tax that would continue to be assessed on Californians for up to 10 years even after they leave the state. Although AB 2088 is expected to raise more than \$7.5 billion annually, some legal experts and lawmakers expect it could be struck down in court if enacted, per this [Forbes article from Patrick Gleason](#). Other revenue enhancement measures are being considered in California as well. A November ballot initiative, [Proposition 15](#), would eliminate property tax limitations on commercial property. We addressed tax proposals in New Jersey, California, and New York in our Aug. 14 commentary, [If Taxes Go Higher, Demand for Municipals Will Also Rise](#).

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