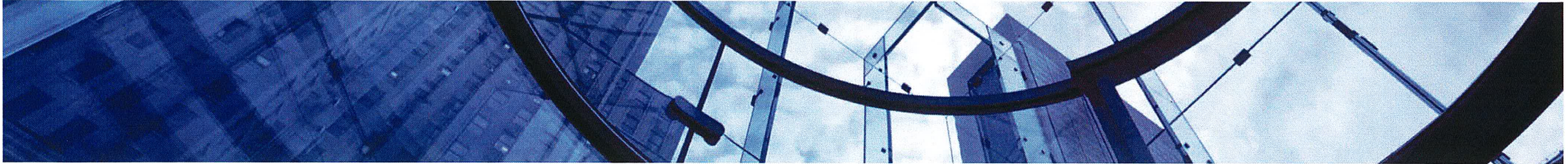


Morgan Stanley



# **CalHFA Board Workshop**

## **Tax Reform Considerations**

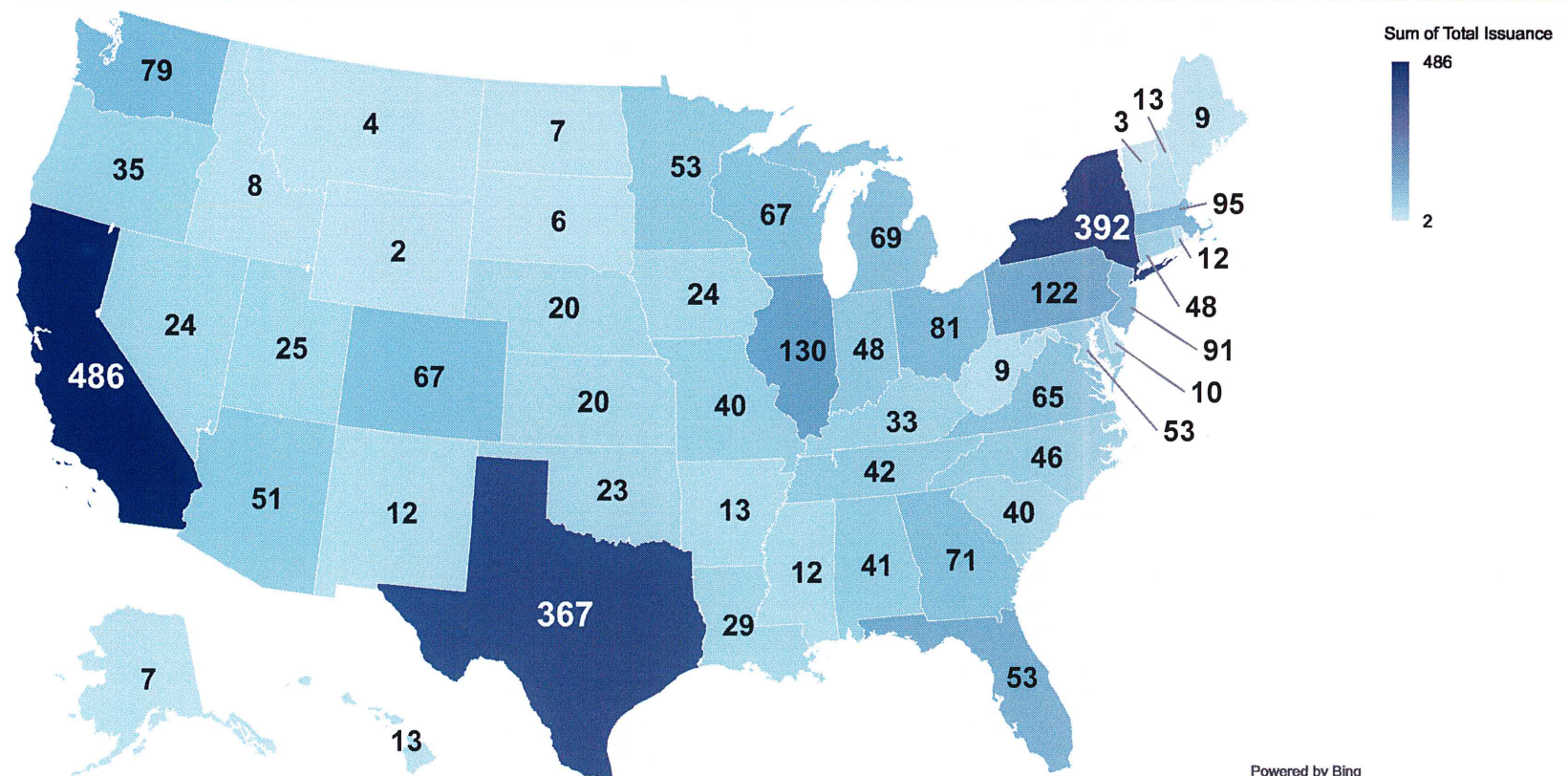
**March 19, 2025**



# The Value of Tax Exemption

Tax Exemption in All its “Munificence” Provides ~\$550+ Billion of Benefit

- Total non-AMT debt outstanding: **\$3.1 trillion**
  - Total estimated savings from tax exemption: **\$513 billion**
- Total AMT debt outstanding: **\$188 billion**
  - Total estimated savings from tax exemption: **\$42 billion**



## Notes and Assumptions

- Data per Bloomberg and Morgan Stanley Internal Data. State groupings based on primary tax-exempt state of the bond.
- Savings based on adjusting the sum of estimated debt service (coupon) payments to effective maturity up by an assumed UST/MMD ratio of 0.75

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## Negotiations on Tax Reform are in Process

### Timeline for Negotiations Could Take Almost a Year, Similar to 2017's Tax Reform Timeline

President Trump and Republicans generally want to extend/potentially expand the 2017 Tax Cuts and Jobs Act (“TCJA”)

- In January, the House Budget Committee released a reconciliation “menu” of over 200 items that may be used to offset reduced tax collections associated with the likely extension of the TCJA
- Within the document were a number of proposals that could impact the municipal bond market and its participants, including:
  1. **“Eliminate Exclusion of Interest on State and Local Bonds,”** estimated at \$250 billion in 10-year savings
  2. **“End Tax Preferences for Other Bonds,”** including “private activity bonds, Build America bonds, and other non-municipal bonds,” estimated at \$114 billion in 10-year savings
  3. **“Eliminate Nonprofit Status for Hospitals,”** estimated at \$260 billion in 10-year savings
- The tax-exempt municipal market has lost something material in every major round of tax reform since the 1980s
- Tax reform took almost a year in 2017; timeline for negotiations are likely to be similar with a House majority of fewer seats this year

#### Sources:

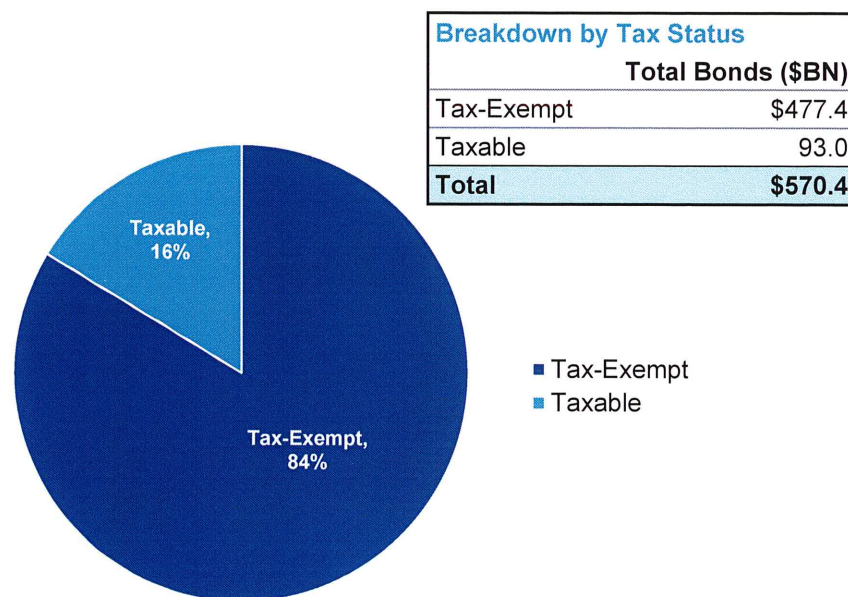
1. Morgan Stanley Research, “*Munis on the Reconciliation ‘Menu’*”
2. Morgan Stanley Research, “*Taxable Muni Outlook: Scarcity in '25; Abundance in '26?*”
3. Morgan Stanley Research, “*Day One: What to Watch For*”



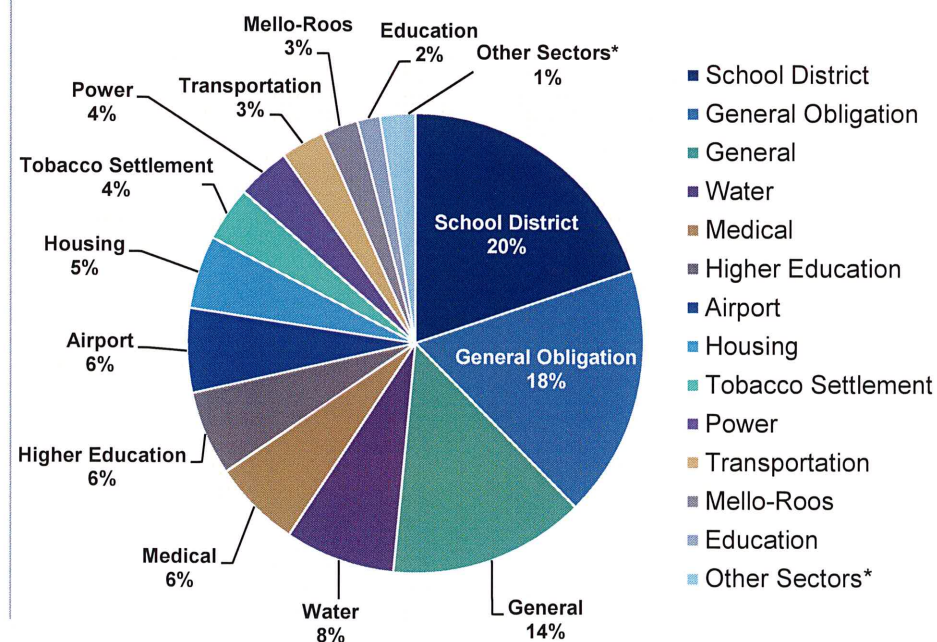
## Statistics on California Municipal CUSIPs

**The Muni Tax exemption provides \$101.9BN in savings in California across 39 million individuals, leading to \$2,577 in savings per resident, or \$7,371 in savings per household**

### 84% of Outstanding Municipal Bonds in California Are Tax-Exempt



### Benefits of Tax-Exemption Are Observed Across a Diverse Group of Sectors in California



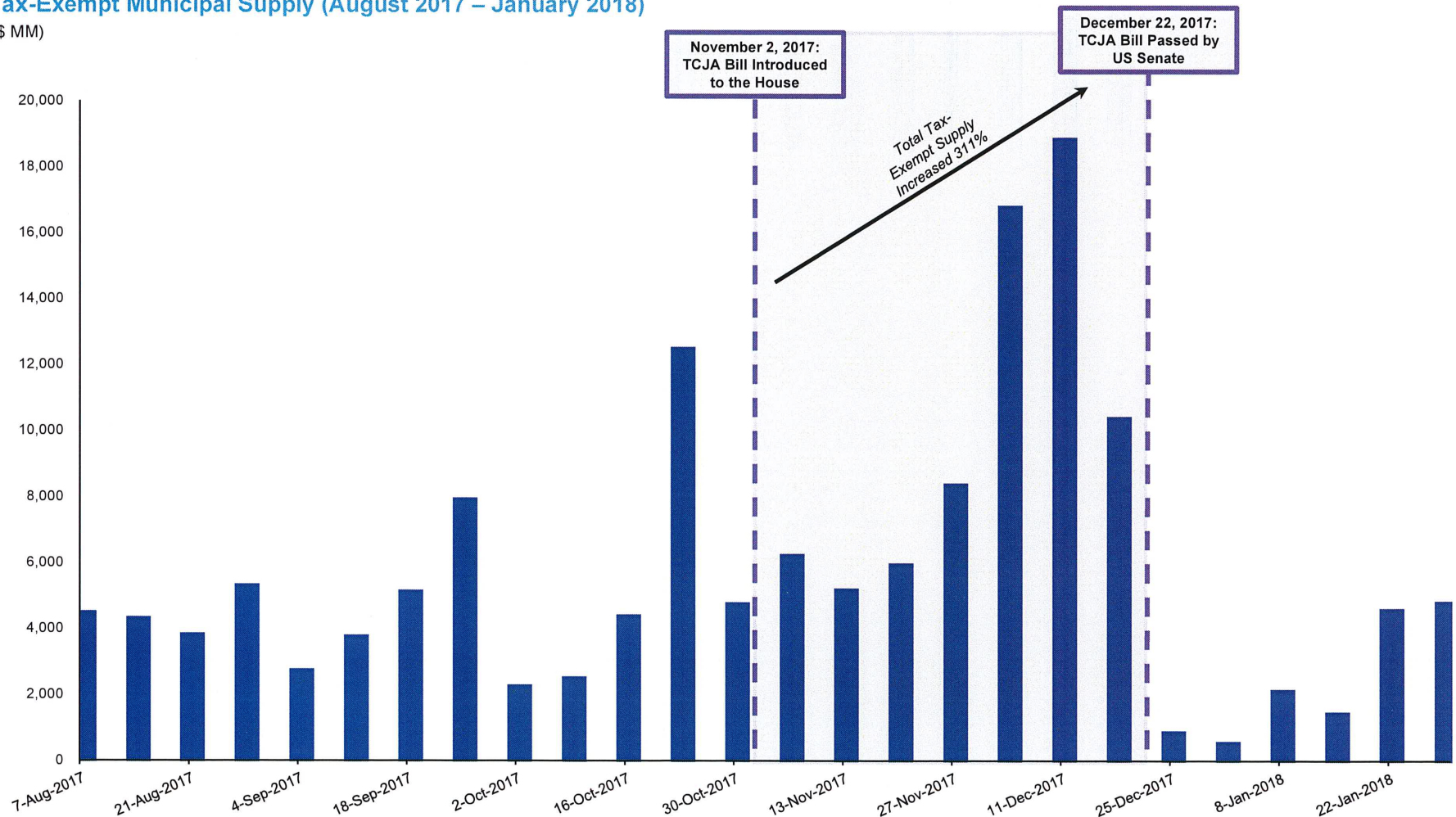
**Note:** Housing breakdown: 81% multifamily, 3% single family, 16% other housing. Other sectors includes development, nursing homes, utilities, pollution, facilities, and student loans. Savings assumes bonds are held to call and adjusted by current market ratios for California issued bonds. **Source:** Bloomberg as of March 11, 2025

## 2017 Revisited: Acceleration of Tax-Exempt Financings

Following the Introduction of the Tax Cuts and Jobs Act to the House Floor, Primary Municipal Issuance Rapidly Increased

Tax-Exempt Municipal Supply (August 2017 – January 2018)

(\$ MM)



Source: Bloomberg, Matrix; Rates as of May 6, 2021 as of 11:00am EST



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