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MUNINOTES FROM OUR CREDIT RESEARCH TEAM AUG 2026

Ballot measures and new laws reshape state tax policy

"Potential 2026 tax policy changes are affecting issuers, investors and credit risk."

Across the country, voters and legislatures are reshaping income, wealth and property tax policy in ways that will reverberate through municipal credit markets. Higher taxes on the wealthy may boost state revenues and muni demand, while property tax cuts affect the operating budgets of local governments. The uneven impacts of tax policy changes highlight the need for credit-specific fundamental research.

Highlights

- States are increasingly targeting high earners with new income and wealth taxes, boosting revenue potential and demand for tax-exempt munis.
- California voters face three competing wealth tax measures, with a trigger mechanism if they all pass.
- Up to 17 states have enacted or are considering property tax caps and exemptions, pressuring local government operating budgets.
- General obligation debt service is protected in nearly all cases, but issuers with limited revenue diversity face operating budget risk.
- Credit impacts should be localized and gradual — careful issuer-level analysis remains essential as these changes phase in.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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Competing pressures drive a national tax policy reckoning

Voters across the U.S. will consider ballot measures this November that will shape state tax policy and the municipal bond market. Many initiatives target high earners — California's proposed billionaire tax is the most prominent example. They follow recent legislative action in Maine, Washington and Rhode Island, where new income tax measures have already been signed into law.

Other states, like Florida, will vote on measures to lower property taxes in response to rising housing costs. Seventeen states have recently considered or enacted meaningful property tax reform through reductions, caps or exemptions. Iowa, Georgia, Ohio, Indiana and Texas have already acted.

The credit implications for issuers and investors are real but will take time to materialize and will vary widely across states. Most changes phase in gradually, and taxpayer behavior will adjust over time. Higher income taxes could boost state revenues and increase demand for tax-exempt municipal bonds, while also raising questions about whether wealthy individuals will relocate to lower-tax states.

Property tax cuts are politically popular but can carry significant budgetary consequences for local governments that depend on this revenue for daily operations.

Income and wealth taxes on the November ballot

California

California voters will weigh in on several competing measures.

Proposition 40, known as the Billionaire Tax Act, would impose a one-time 5% tax on the net worth of approximately 200 California taxpayers worth more than $1 billion as of 01 Jan 2026, excluding real estate, pensions and retirement accounts. Payments would be due in 2027, with an option to spread them over five years at additional cost. The measure is projected to generate roughly $20 billion annually, or $100 billion over five years.

The state's nonpartisan Legislative Analyst's Office (LAO) warns the tax would effectively trade future income tax revenue for a lump-sum payment today, assuming it drives billionaires out of state. If wealthy individuals relocate, ongoing income tax losses could reach hundreds of millions annually. In the worst case — all 200 billionaires leave — projected annual losses total $900 million, representing a modest 0.7% of fiscal year 2025 personal income tax collections.

Proposition 41 was designed specifically to counter Proposition 40. It would require state audits of any program funded by new taxes and route those revenues through California's existing spending cap, which mandates that surplus revenue be returned to taxpayers or directed to education. This would effectively neutralize Proposition 40 before it could take effect.

Proposition 42 would constitutionally prohibit new taxes after January 1, 2026 on retirement holdings, individually owned assets and personal savings, and would ban new taxes on personal property and any retroactively applied taxes. Its language is broad enough to cover the wealth categories targeted by Proposition 40, making the two measures fundamentally incompatible.

All three measures share a trigger mechanism: if Propositions 40, 41 and 42 all pass, only the one with the highest vote total takes effect; the other two are nullified.

Proposition 3 would extend an income tax currently set to expire in 2031. Households earning more than $721,000 jointly — or $360,000 individually — pay up to 12%, generating between $5 billion and $15 billion annually for K–12 schools and community colleges.

Colorado

Proposed Initiative 195 would amend the state constitution to remove the uniform tax rate requirement from the Taxpayer's Bill of Rights (TABOR) and would amend state statutes to replace Colorado's 4.4% flat income tax with a six-bracket graduated structure ranging from 3.7% to 8.4%.

Beginning in 2027, taxpayers earning more than $500,000 would face higher rates, with those earning $1 million or more paying the top rate of 8.4%. Supporters project up to $2.7 billion in additional annual revenue — a 27% increase over 2025 collections — to fund education, health care and early childhood programs.

A competing measure, Initiative 232, would amend state statutes to cap personal and corporate income tax rates at 4.4%. If both measures pass, the one with more affirmative votes determines the rate structure. However, if Initiative 232 receives more votes and prevails on the lower rate cap, the constitution would still be amended to remove TABOR's uniform tax rate requirement, as that provision would also have been approved with the passage of Initiative 195.

Because the resulting rate structure is set by statute rather than the constitution, the legislature could amend it later, though any future rate increases would still require voter approval under TABOR.

If the higher rates take effect, they would affect a narrow but significant group. Roughly 80,000 to 90,000 households — 3% to 4% of Colorado filers — earn more than $500,000.

Those earning above $1 million represent just 1.7% of filers but account for approximately one-third of total personal income tax collections. Meaningful increases are concentrated among filers above $1 million, while those between $500,001 and $1 million would see modest average increases.

Several states have already acted on high-earner taxes

Massachusetts set an early benchmark in 2022 with a 4% tax on income over $1 million that raised $6 billion in fiscal years 2023 through 2025 — more than twice the budgeted amount — demonstrating revenue potential that many states have since moved to replicate.

Washington enacted what it calls a "Millionaire's Tax" in March 2026, marking a historic break from the state's long tradition of levying no income tax. Beginning in 2028, households earning more than $1 million will pay a 9.9% income tax. Individuals subject to both the capital gains tax and the new rate may deduct capital gains taxes paid to avoid double taxation.

The state projects $3.6 billion in annual revenue — roughly 4.7% of fiscal year 2024 revenues — reducing Washington's heavy reliance on sales and excise taxes. Approximately 30,000 taxpayers, or 0.5% of the population, will be affected.

Maine enacted a 2% surcharge on incomes over $1 million, or $1.5 million for heads of household or joint filers, as part of its fiscal year 2027 supplemental budget. The measure is projected to generate approximately $100 million annually, equal to just 1.7% of tax revenues collected in fiscal year 2025. Less than 8% of income tax filers fell into the highest bracket (over $200,001) in the 2024 tax year.

Rhode Island enacted a 3% surtax on income over $1 million as part of its fiscal year 2027 budget, expected to yield an additional $140 million per year once fully phased in, representing a 7.1% increase in state personal income tax revenue.

What higher income taxes may mean for credit quality

Long-term credit implications for states pursuing additional revenue from high earners will take time to emerge. Income tax changes rarely trigger significant population shifts — personal ties, business relationships and quality-of-life factors tend to outweigh relocation incentives.

States facing greater uncertainty over federal support for programs like Medicaid may feel added pressure to bolster revenues. Combined with slower revenue growth, this makes targeted wealth and income taxes increasingly attractive — a trend likely to continue.

These market implications may surface sooner than expected, creating opportunities for agile investors. Washington State, for example, saw yield spreads widen

versus peers in the months leading up to its tax proposal — a good entry point for high-quality bonds that usually offer only slightly higher yields than the top-rated municipal bonds.

Over the longer term, higher tax rates could also boost in-state demand for bonds issued in Washington and other states raising income taxes.

Voters weigh in: property tax relief vs. issuer risk

Property taxes are the most important revenue source for local governments and school districts nationwide. Less sensitive to economic cycles than income or sales taxes, they have historically provided a reliable foundation for local government finance.

Rising home values and a broader affordability crisis have generated intense political pressure to reduce that burden on homeowners, making property tax reform a defining legislative issue across the country. Florida and Oklahoma voters will weigh in this fall; Texas, Georgia, Ohio and Indiana have already acted.

The collective effect of these reforms poses meaningful credit risk for municipal issuers whose operating budgets depend on this revenue. Importantly, these reforms generally do not affect debt service levies pledged to general obligation bonds, preserving the revenue streams that support debt repayment.

Credit implications are therefore most acute for operating budgets, where reduced property tax collections can force spending cuts, draw down reserves, or push issuers toward alternative revenue sources. In many cases, property tax cuts result in a tax shift as municipalities pursue other revenues to support operations.

Florida

Florida voters will consider a constitutional amendment that would dramatically expand homestead exemptions. The exemption would increase from $50,000 to $150,000 on 01 Jan 2027, and to $250,000 on 01 Jan 2028, for all non-school property tax levies. Homes valued at or below $250,000 would owe no property taxes outside of debt service and school levies. Higher-value homes would be taxed only on value exceeding $250,000.

The amendment would also reduce the annual assessment growth cap on non-homestead properties from 10% to 5% and restrict cities and counties to using property tax revenues only for public safety, infrastructure, debt service and a limited number of enumerated purposes.

Requiring 60% voter approval, the amendment would significantly limit local governments' ability to generate operating revenues, creating fiscal pressure across nearly all cities and counties in the state. Communities with predominantly residential property tax bases would face the steepest losses.

Oklahoma

Voters will consider a constitutional amendment lowering annual property value increase caps from 3% to 1.75% for homestead and agricultural properties and from 5% to 4% for commercial properties, with added protections for senior homeowners. School districts and counties face greater exposure given their dependence on property taxes; cities are relatively insulated by their heavier reliance on sales taxes.

North Carolina

North Carolina voters will decide whether to shift control over property tax limits from local governments to the state legislature. Local governments currently have considerable flexibility to raise property taxes, subject to a statutory rate cap that can be exceeded with voter approval. The proposed constitutional amendment would instead give the state legislature authority to limit how much property taxes may increase.

Wyoming

Wyoming's ballot includes an initiative to exempt 50% of the assessed value of primary residences from property taxation for qualifying homeowners. This would layer on

top of 2025 reforms that included a 25% tax cut and a 4% annual growth cap. Projected statewide revenue losses total an estimated $124.7 million annually beginning in fiscal year 2028.

Tennessee

Voters will consider a measure prohibiting the legislature from enacting property taxes. The provision is largely symbolic — Tennessee does not currently levy a state property tax — but approval would make Tennessee the first state to constitutionally remove the legislative authority to do so.

Utah

Utah voters will consider raising the approval threshold for citizen-initiated ballot measures that create or alter tax rates — from a simple majority to a 60% supermajority — making it structurally harder to enact tax increases through the initiative process.

Louisiana

Louisiana's November ballot includes structural reforms to how municipalities manage property tax rates, along with a new residential exemption for homeowners aged 65 and over. One measure would let local governments hold rates at a rolled-back level — keeping collections flat year over year — without forfeiting the ability to raise rates later. This flexibility is likely to reduce the frequency of property tax increases statewide.

Property tax reform is already reshaping local government finance

Several states have already enacted meaningful property tax relief, with budgetary consequences for local governments and school districts that will unfold over the coming years.

Ohio enacted sweeping reforms effective March 2026, primarily affecting school districts. Changes cap property tax revenue growth from reappraisal at the cumulative rate of inflation, significantly increase the owner-occupied home tax credit over four years, and limit revenue growth from the 20-mill floor to the rate of inflation.

School districts are now restricted to placing fixed-sum levies on the ballot, capping revenues at a set dollar amount. Many districts are projecting significant cumulative revenue losses and have begun reevaluating their local funding strategies.

Texas enacted several exemption increases in 2025. The school district homestead exemption rose from $100,000 to $140,000; the exemption for seniors and disabled individuals increased to $200,000; and the business personal property exemption jumped from $2,500 to $125,000. Homestead changes are projected to save the average homeowner approximately $500 annually.

Iowa capped annual property tax revenue growth for cities, counties, community colleges and most special districts at 2% net of new construction, beginning 01 Jul 2027, though debt service levies and school funding were excluded. The state also replaced its existing homestead credit with a permanent exemption of 10%, up to a maximum of $20,000, indexed to inflation.

A separate measure shifted education costs to the state, replacing local school property taxes with a 1% statewide sales tax distributed on a per-pupil basis. Because distributions are enrollment-based, declining enrollment will directly affect revenues available to districts.

Georgia enacted the "HOME" Act in May, limiting annual taxable assessed value growth on homestead properties to align with statewide inflation. The law affects cities, counties and school districts statewide, with no local opt-out. To help offset potential losses, cities and counties may pursue a 1% local sales tax subject to voter approval.

Indiana enacted comprehensive property tax changes in 2025, phased in over five years. The standard homestead deduction is being replaced with a 10% tax credit capped at $300. A new deduction for non-homestead residential and rental properties will reach 33.4% by 2030.

The depreciation floor for new business equipment was eliminated and the personal property tax exemption

threshold rose to $2 million. Operating fund levies are frozen at 2026 levels, with growth capped at 1% in 2027 and 2% in 2028.

Some municipalities anticipate revenue declines as steep as 20%. Schools are now restricted to general election ballots for referenda, tightening the path to voter-approved funding increases, and charter schools will begin receiving a share of property tax revenues in 2028, further constraining resources for public K–12 schools.

North Dakota imposed a 3% cap on annual property tax revenue growth for local governments in 2025, with unused capacity carried forward for up to five years. The state also increased annual residential property tax credits from $500 to $1,600, with the state funding the credits directly to shield local governments from the associated revenue losses.

The credits have provided meaningful homeowner relief — roughly 50,000 households paid no property taxes for the 2025 tax year — but the levy cap has created meaningful budget pressure for county governments.

Implications for investors: localized, gradual and issuer-specific

The wave of income, wealth and property tax changes across the country reflects a broader tension between the need for public revenue and the political demand for tax relief. For municipal bond investors, the implications are real but will emerge gradually.

Higher income and wealth taxes have the potential to expand state revenue bases and boost demand for tax-exempt bonds, though behavioral responses from high-income households will shape actual outcomes. Property tax reform poses a more direct challenge for local governments and school districts dependent on this revenue for daily operations, though general obligation debt service remains protected in nearly all cases.

Credit impacts should be highly localized — favoring issuers with diversified revenues, strong reserves and demonstrated fiscal flexibility. Issuer-level analysis will be essential as these changes take effect.

New York State budget: Aid for NYC, but no millionaire's tax

New York passed its $277 billion fiscal year 2027 budget in late May, six weeks past its 01 April deadline, with disagreements over tax increases and New York City aid driving the delay. Spending increases approximately 7%, largely due to growing Medicaid costs. General Fund spending — excluding health care — is projected at $129 billion, a more modest 3% increase. This reflects investment in education and childcare and $1.5 billion in direct aid to New York City.

Revenue growth is modest. Personal income taxes are forecast to grow 2.6% in fiscal 2027, down sharply from 10.1% actual growth in fiscal 2026. Policy changes include rollbacks to the state's 2030 carbon emissions mandate, auto insurance reform and a new pied-à-terre tax on New York City properties projected to generate between $340 million and $550 million annually.

Governor Hochul successfully resisted calls to raise personal or corporate income tax rates. General Fund reserves hold at $15 billion, supporting the state's Aa1/AA+/AA+ ratings. Federal Medicaid funding uncertainty remains the key watch item for fiscal 2028.

New York State municipal bond issuance totaled $27 billion from January through June 2026, down from $30 billion in the same period of 2025. Supply is expected to strengthen in the second half of the year as infrastructure needs drive issuance.

California's fiscal year 2027 budget: Record reserves offset Medicaid risk

California passed a $351.7 billion fiscal year 2027 budget, a 9.5% increase over the prior year driven primarily by growing Medi-Cal expenses and mandatory human services programs. General Fund spending totals $251.1 billion, a more modest 2% increase over the May Revision, reflecting investment in education, special education, homelessness and affordable housing.

A $2.9 billion deficit projected earlier in the year was eliminated after a $16.8 billion upward revision to General Fund revenues, driven by capital gains-related income tax receipts.

Key policy changes include over $5 billion in new ongoing revenues through a federally compliant Managed Care Organization tax, a new sales tax on electronically delivered software projected to generate $900 million annually, and a permanent cap on business tax credits for large corporations beginning in tax year 2030, projected to exceed $4.5 billion annually by 2029. Governor Newsom resisted calls to raise personal or corporate income tax rates.

General Fund reserves reached a record $35.2 billion — 12.3% of General Fund revenues — supported by a $3.6 billion transfer into the Budget Stabilization Fund. Federal Medi-Cal funding uncertainty, compounded by reduced federal matching funds, remains the key watch item for fiscal 2028.

California municipal bond issuance totaled $45 billion from January through June 2026, down 1.5% from the prior-year period. Second-half supply is expected to remain strong, supported by investor demand and ongoing issuance needs across sectors.

California ballot goes beyond taxes

Proposition 1 would authorize $11.3 billion in new General Obligation bonds for affordable housing programs.

Proposition 2 would raise the state's rainy day fund cap from 10% to 20% of General Fund revenue and exclude Budget Stabilization Account deposits from the Gann Limit, allowing the state to save more during strong revenue years without triggering mandatory tax rebates or supplemental school funding. The measure would also allow some tax revenue to be used to retire $20 billion in federal unemployment insurance debt.

For more information, please visit nuveen.com.

Endnotes

Sources

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