
California's Already-High Demand for Tax-Free Debt May Grow More.

- **Top earners have yet to see full results from December tax law**
- **California yields may continue to be less than that of market**

If you think there's a fight to score California bonds now, just wait until tax season.

Certified public accountants are reporting that the Internal Revenue Service continues to issue rulings "week after week" since the tax overhaul that passed in December, Kim Friedricks, managing director of fixed income at Kayne Anderson Rudnick, said at a Bond Buyer conference in Los Angeles.

As tax professionals pore over the new rules for their clients and as "the average high earner starts to see the results, I think we're going to see another big boost in demand through tax season," Friedricks said.

That would lead California yields to still hold below those seen in the rest of the municipal market, which will track the expected rise of Treasury rates, she said.

The law, which capped state and local tax deductions, has already heightened the allure of California bonds from state residents seeking tax shelters. It's led to some securities yielding less than AAA debt. And there's no relief from state government: Governor Jerry Brown vetoed a bill that would have achieved a way around the cap.

Indeed, Tom Lockard, head of investment banking at 280 CapMarkets, said the firm is "marketing" the delayed full impact of the law as he too hears that tax professionals are still working it out for their clients. "It's only going to create more demand," he said during the conference.

To be sure, some investors are already chafing at the skimpy yields on California debt and are sitting out some deals.

"We are not married to the tax-exempt municipal bond," said Ksenia Koban, a municipal-credit analyst at Payden & Rygel Investment Management. "Even for individuals in the top tax brackets, often times inside of five years, you're better off holding a Treasury than paying through the scale for a California tax-exempt."

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