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Taxable Munis? They’re Worth a Look.

Sound describes the credit quality. But it doesn’t do justice to the stellar performance.

To herald this new decade, I decree that we quit bemoaning the Great Recession and credit crisis of 2008–09 and its many calamities. It happened, it was costly, we learned something about defaults and diversification—and it’s old news. But before we lock the door on those dark days, I offer a shout-out to one of the meltdown’s few rewarding legacies: the taxable municipal bond.

Yes, there is such a thing. A handful are general obligation bonds, issued by municipalities, but the vast majority are construction or infrastructure bonds issued and backed by a public entity. Some 15% of fresh state and local debt today pays interest subject to federal income taxes, and the yields to maturity are considerably higher than Treasuries or regular municipals—often, over 3% for 15-year bonds or 5% for 20-year debt. In 2019, taxable muni issuance spiked amid high demand, and that has carried into 2020 because of the hunt for yield and these bonds’ powerful appeal for IRAs, pension funds and foreign buyers who would gain no advantage from tax-frees anyway.

Overseas demand is often the trigger for issuers to add a smaller taxable portion to a large tax-exempt offering. After all, a 3.2%, 15-year bond rated A+ and backed by, say, an international airport’s terminal and parking revenue is an easy sell in negative-yield Europe. Taxable muni issuers have recently included the Port Authority of New York and New Jersey, the Dallas–Fort Worth airport, the Multnomah County, Ore. (Portland-area) school district, and several state college and university systems.

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Kiplinger’s Personal Finance

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