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Yield-Starved Investors Snap Up Muni Bonds.

Investors have put $39 billion into municipal-debt funds so far this year, the most over that period since 2008

Investors in search of higher returns and lower taxes are scooping up debt sold by state and local governments, pushing borrowing costs to near-record lows and boosting coffers from California to Connecticut.

Investors have poured a net $39 billion into municipal-bond mutual funds this year through Thursday, according to data compiled by Municipal Market Analytics, the most over the same period since 2008. Returns on the debt, which local governments use to fund public works such as sewers or bridges, have beaten those of corporate bonds and Treasurys.

Demand is so intense that Illinois, the only state to tap the Federal Reserve's pandemic emergency-lending facility, recently sold three-year bonds at yields near 1%. Another boost is coming from the Biden administration's proposed tax changes, which potentially can make municipal debt more attractive to investors. Considered almost as safe as Treasurys because they are backed by taxes or payments on essential services like water, municipal bonds typically offer interest payments that are tax-free.

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