# After The Voting: Municipal Credit Perspectives November 2026

## Our Thoughts Concerning the Credit Implications of High-Profile State Ballot Measures and Election Results:

In the aftermath of a historic midterm election, media attention has largely focused on control of Congress and its implications for federal policy. Yet the balance of power at the state level was also on the ballot, alongside referendums with meaningful fiscal implications.

We will leave interpretations of the electorate to others and instead focus on the municipal credit developments most relevant to issuer fundamentals, security structures, and portfolio positioning.

- California
- Washington
- Colorado
- Massachusetts
- Florida
- Data Centers

## California

Referendum outcomes reduced wealth tax uncertainty and added transit funding support.

### Propositions 40 and 42

Proposition 40, the one-time 5% billionaire's wealth tax, was rejected by Golden State voters. The measure was pitched as a means of funding healthcare expenses compromised by last year's federal tax changes.

**CREDIT IMPLICATION**

Proposition 40's defeat, as well as voters passing Proposition 42 banning future wealth taxes, should modestly reduce outmigration risk as well as the likelihood of similar state or federal measures. Appleton Partners remains comfortable with our holdings of California GOs, as well as the bonds issued by certain other local governments.

### Measure RTM

Measure RTM, a 14-year sales tax levied in Alameda, Contra Costa, San Francisco, San Mateo and Santa Clara counties, was approved. It is expected to produce about $980 million in 2027 funding that will go to Bay Area Rapid Transit ("BART"), Alameda-Contra Costa Transit District, San Francisco Municipal Transportation Agency, and Peninsula Corridor Joint Powers Board (Caltrain).

**CREDIT IMPLICATION**

While the passage of sales and parcel taxes are positive for these entities, California-domiciled transit bonds owned by Appleton Partners are secured by separate tax levies that already offer strong coverage.

## Washington

Voters retained the state's incoming millionaire's tax and future income tax flexibility.

Washington voters soundly rejected a ballot initiative designed to repeal the state's recently enacted 9.9% tax on incomes above $1 million scheduled to take effect in 2028, as well as prohibiting state and local governments from imposing future taxes on individual income. The millionaire's tax will affect fewer than 1% of households and is projected to raise $3 – 3.5 billion in its first year of collections in 2029.

**CREDIT IMPLICATION**

The referendum's defeat is positive for State of Washington credit given the revenue and fiscal flexibility risks associated with passage. We see growing demand for in-state municipal bonds although there will likely be legal challenges and a long runway until implementation.

## Colorado

A graduated income tax structure adds revenue while increasing the value of in-state tax exemption.

### Amendment 87

By a narrow margin, Colorado voters approved Amendment 87, a measure changing the state's flat 4.4% income tax rate to a graduated tax system with a top tax rate of 8.4% for incomes above $1 million beginning 1/1/27. Funds are statutorily pledged to K-12 education, health care and childcare.

#### CREDIT IMPLICATION

The measure will cut taxes for those with incomes under $500,000, while raising an estimated $2 billion of additional tax revenue in its first year of implementation. Tax increases on those with very high incomes should spur demand for in-state municipal bonds.

## Massachusetts

The defeat of Question 5 preserves revenue flexibility and reserve-building capacity.

### Question 5

In a tight vote, Bay State voters defeated Question 5, a ballot measure that proposed tightening the Commonwealth's Chapter 62F revenue cap by tying annual allowable revenue growth to prior-year collections plus average wage and salary growth. The proposal would also have included revenue from the 4% surtax on incomes over $1 million when determining whether the state exceeded the revenue cap.

#### CREDIT IMPLICATION

We view the result as modestly credit positive, as it preserves the Commonwealth's revenue flexibility and reduces the potential for more frequent taxpayer refunds. The outcome also allows Massachusetts to retain revenue outperformance to support fiscal reserves and future spending needs.





## Florida

A larger homestead exemption creates significant local government revenue pressure.

### Amendment 3

Amendment 3 cleared the 60% supermajority threshold required for passage, the result being a significant expansion of the homestead exemption for non-school property taxes ($150,000 in 2027 and $250,000 in 2028, with future increases indexed to inflation). Any person moving to Florida after 2026 must wait five years to access the higher homestead exemption, although that element will likely face legal challenges.

From a credit perspective, Amendment 3 will create significant revenue pressure for cities and counties as local government revenue is projected to decline by $4.6 billion in FY2027-2028 and $8.4 billion in FY2028-2029.

| $150,000 | $250,000 | 5 years |
|---|---|---|
| 2027 exemption | 2028 exemption | Waiting period for post-2026 arrivals |

**PROJECTED LOCAL REVENUE DECLINE:**

**$4.6B** FY2027–2028 **$8.4B** FY2028–2029

Source: Florida Revenue Estimating Conference

### CREDIT IMPLICATION

Our issuer selection in Florida remains highly selective, although we are not overly concerned with the non-school local bonds we hold for these reasons:

- Cities and county credits approved by Appleton Partners have been working on this fiscal challenge for months and have already identified expense cuts and revenue enhancements.
- A long runway exists for local governments to adjust their budgets as homeowners will not see the benefit until taxes are paid in Spring 2028.
- Florida Local GOs also have an unlimited dedicated debt service millage that can be raised to pay debt service. Our credit preference lies with Florida GOs rather than Certificates of Participation (COPs), although significant differentiation among obligors speaks to the need for specific-security research.

## Data Centers and Municipal Credit

Election outcomes may increase regulatory scrutiny without materially changing state-level credit quality.

Even in a municipal market brief, one cannot escape the subject of AI and data centers. Political analysts have emphasized the importance voters placed on this issue when casting midterm ballots, and although most capex funding lies outside of the municipal market, state and local governments also play a significant role in the buildout.

While a host of other issues came into play, several high profile Democratic gubernatorial winners campaigned for tighter AI regulations and/or moratoriums on new data center construction.

| STATE | GOVERNOR-ELECT | POLICY STANCE |
|---|---|---|
| Texas | Hinojosa | Moratorium |
| Georgia | Bottoms | Moratorium |
| Pennsylvania | Shapiro (incumbent) | Increased regulation |
| Ohio | Acton | Increased regulation |



### CREDIT IMPLICATION

Data center development is expected to continue although the pace may moderate, particularly for hyperscale projects. Local approvals, ratepayer protections, and growing water and power demands are likely to face increased scrutiny. At the state level, we do not anticipate a material impact on credit quality but will carefully evaluate local governments and revenue bond issuers with meaningful exposure to data center development.

## Data centers and Municipal Credit

Election outcomes may increase regulatory scrutiny without materially changing state-level credit quality.

### LOCAL GOVERNMENTS

By and large, data centers are built in relatively remote areas where the cost of living is lower, and these communities could experience slower tax base growth in the years ahead. Concentrated tax revenue is a risk we seek to avoid, as our research team strongly prefers larger, well-established, economically diversified municipalities.

#### IMPLICATION

Bond issuers we own, or are likely to approve, that have data centers within their jurisdiction are expected to face only modest impact, as their tax bases, employment profile, and economic strengths are sufficiently broad to mitigate potential fiscal risks.

### WATER AND SEWER

Data centers use a great deal of water and tend to be in locations where supply is already pressured. A slowing of data center demand could alleviate a degree of system strain, although overall growth will still require additional capital investment.

#### IMPLICATION

Data center growth may increase capital and resource pressures for water and wastewater utilities, particularly in water-constrained markets. Higher infrastructure costs could also create affordability pressures if ultimately passed through to existing ratepayers. However, exposure within our preferred credit universe remains limited, with stronger systems generally better positioned to absorb incremental demand and investment needs.

### PUBLIC POWER

After decades of minimal load growth, the industry has enjoyed a surge in demand from hyper-scalers, although this is expected to slow or move to less heavily regulated states. In the face of this demand, sector issuance is up 17% YoY and +51% vs. the 5-year average.

#### IMPLICATION

On the margin, demand for public power will likely moderate with fewer data centers being built. Public power issuance should also decrease as less infrastructure and grid investment is required.

### PRE-PAID GAS

We do not expect new issue supply of Pre-Paid Gas paper to be meaningfully affected by a slowdown in data center construction, as the rates markets have far greater impact on issuance. Alphabet came to market twice over the past year with large Pre-Paid Gas deals, illustrating the extent to which big tech has joined a growing list of participants that include banks, insurance companies, REITS, and industrials.

#### IMPLICATION

We expect sustained robust issuance so long as the rate environment remains favorable. Pre-Paid Gas bonds have not to date been purchased in our core municipal disciplines, and when considering these issues for Municipal Value portfolios, credit approval is highly selective and focuses on the underlying corporate issuer.

Sources: Ballotpedia, San Francisco Metropolitan Transportation Commission, Washington Secretary of State, Colorado Department of Revenue, Secretary of the Commonwealth of Massachusetts, Florida Revenue Estimating Conference, Bloomberg Data



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