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The One Big Beautiful Act's Impact on the Municipal Bond Market

The One Big Beautiful Bill Act (OBBBA) has become an important topic in the financial markets, in part, because of its potential impact on federal borrowing as well as interest rates. The Act provides for major tax cuts of approximately $5 billion and spending reforms estimated at $1 trillion. Proponents of OBBA argue that the Act will ultimately boost GDP by about 1.2% over the long run; however, the Congressional Budget Office estimates that the Act will also add an additional $3.4 trillion to $4.7 trillion to the national deficit over the next decade requiring increased deficit financing through the sale of Treasury bonds.

Heavy federal borrowing pressure and deficit expansion suggest increased Treasury issuance and a continuance of elevated interest rates across markets. If the Treasury issues significantly more debt, investors will likely demand higher yields to absorb the increased supply, putting upward pressure on interest rates. With municipal bond yields typically moving in similar patterns as Treasury yields, the result would be higher borrowing costs for state and local government issuers as well.

As financial markets continue to evaluate the long-term effects of OBBBA, public officials would do well to monitor interest rate trends and consider how rising borrowing costs may affect the nature and timing of capital plans. Careful planning and prioritization of bond and note issuance can help to minimize the impact of higher interest rates on taxpayers and municipal budgets. Communities with planned debt issuances will want to evaluate whether project timelines or financing structures should be adjusted in response to changing market conditions. Municipal officials are encouraged to work closely with their financial advisors to understand market conditions and identify opportunities to reduce borrowing costs. While the full impact of OBBBA remains uncertain, its potential effect on interest rates and government borrowing makes it an important issue for municipal issuers to follow. As we move into the second half of 2026, staying informed on federal legislative developments will be crucial for maintaining fiscal stability. As borrowing conditions continue to evolve, CMA remains committed to helping its clients evaluate financing options, monitor market trends, and develop long-term capital strategies that minimize borrowing costs and protect taxpayer resources.

Recent CMA Client Sale Results

Issuer (Rating)	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
Bay Shore UFSD (Aa3)	BAN	$ 54,365,000	29-June	1 yr.	2.70%	Jefferies LLC
Franklin Square UFSD (Aa2)	BAN	19,000,000	25-June	1 yr.	2.79%	TD Financial Products LLC
Pelham UFSD (AAA)	BAN	30,500,000	24-June	1 yr.	2.64%	JP Morgan Securities LLC
Lewisboro Town (AA+)	BAN	1,266,000	18-June	9 mo.	2.98%	Oppenheimer & Co., Inc.
Monroe County (AA)	Bonds	94,330,000	17-June	20 yrs.	3.48%	Robert W. Baird & Co., Inc.
Island Trees UFSD (Aa2)	Bonds	17,300,000	3-June	15 yrs.	3.39%	Roosevelt & Cross, Inc.
Valhalla UFSD (Aa1)	BAN	6,155,071	2-June	1 yr.	2.70%	Truist Securities, Inc.

General Obligation Tax-Exempt Interest Rates

	July 1, 2026					June 1, 2026					1 Year Ago - June 2, 2025				
Term	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	2.29%	2.36%	2.32%	2.34%	2.69%	2.41%	2.46%	2.48%	2.48%	2.83%	2.77%	2.80%	2.88%	2.86%	3.24%
5	2.59	2.73	2.63	2.77	3.14	2.62	2.68	2.78	2.82	3.19	2.82	2.86	2.98	3.02	3.41
10	2.96	3.15	3.07	3.25	3.71	2.99	3.13	3.19	3.30	3.76	3.35	3.46	3.60	3.70	4.18
20	3.78	4.02	3.97	4.11	4.57	3.92	4.13	4.18	4.27	4.73	4.32	4.53	4.68	4.76	5.20
30	4.20	4.45	4.40	4.54	5.02	4.34	4.56	4.61	4.70	5.18	4.54	4.76	4.91	4.99	5.44

Changes In Store for Tier 6 Retirees

New York State recently enacted the most significant changes to Tier 6 retirees in the State's retirement system since that tier was established in 2012. The legislation is intended to improve recruitment and retention in the public workforce by expanding retirement benefits and reducing employee contribution requirements. In Moody's June 2026 review of the State's 2026-2027 budget and pension changes, the rating agency noted that a resultant rise in accrued pension liabilities and annual contribution requirements for the state and its local governments will be a credit negative moving forward.

Several provisions of the new legislation will have a direct impact on local governments and school districts. A key change affects how employee contribution rates are determined. Rather than contribution rates based on a member's salary during the first three years of employment, contribution rates will now be adjusted periodically to reflect current earnings. Eligible teachers with 30 or more years of service can now retire at age 58, lowered from 63, without an early retirement reduction. The legislation also increases the amount of overtime that may be included when calculating pension benefits for members of both the Police and Fire Retirement System (PFRS) and the Employees' Retirement System (ERS). Employer contribution rates are not expected to increase immediately, but pension costs are likely to rise over time. The Office of the State Comptroller will establish future employer contribution rates, with additional implementation guidance expected in the coming months. Although the financial impact of these changes will develop gradually, they will influence long-term pension costs and should be factored in by local governments and school districts as they do multi-year financial planning. Reviewing pension reserve balances and incorporating potential changes in employer retirement costs into multi-year plans may help as additional guidance and employer contribution rates become available. Employers with larger workforces or a significant number of employees nearing retirement should expect to experience a greater financial impact than smaller jurisdictions or those with a younger workforce.

While the financial impact will vary among employers, Tier 6 reform will undoubtedly become an important consideration in future budget development as well as bond credit ratings for municipalities and school districts.

Questions? Comments?

Please contact one of CMA's licensed, Municipal Advisors:

Name	Title	Email	Telephone Number
Richard Tortora	President & Principal	rtortora@capmark.org	516-487-9815
Rick Ganci	Executive Vice President & Principal	rganci@capmark.org	716-662-3910
Anthony Nash	Senior Vice President	anash@capmark,org	516-487-9817
Janey Morley	Senior Vice President	jmorley@capmark.org	516-570-0340
Alex Kerr	Vice President	akerr@capmark.org	516-274-4501
Diana Castañeda	Vice President	dcastaneda@capmark.org	516-274-4504
Tom Vouzakis	Vice President	tvouzakis@capmark.org	516-487-9818
Madeline Reid	Assistant Vice President	mreid@capmark.org	716-662-3910
Alex Locascio	Assistant Vice President	alocascio@capmark.org	516-274-4502
Morgan Reid	Associate	mreid1@capmark.org	716-662-3910
Evan Tortora	Associate	etortora@capmark.org	516-274-4503