

## U.S. Municipal Bond Market Infrastructure Rising to Top of Legislative Agendas

### Summary

- The White House announced it is developing a \$1 trillion infrastructure proposal.
- House Democrats are working on infrastructure legislation that could be ready for debate on the House floor by the end of June.
- It is possible that municipal bond-friendly elements like the restoration of advance refundings, expansion of private activity bonds, an increase in the bank-qualified limit, and the development of a new Build America Bond (BAB)-like program, exempt from sequestration will be included in potential legislation.
- Several elements still need to fall into place for these proposals to synchronize in a coherent and politically acceptable form. However, the existing timing and circumstances are a conceivable platform for a sizeable municipal bond-friendly infrastructure agreement that could boost the overall economy and provide jobs.

### Infrastructure Funding Checklist

Existing circumstances and timing may finally help lawmakers check all of the boxes below and agree on an infrastructure spending package.

Are interest rates low? Check.

Does the country need a boost in stimulus spending, infrastructure or otherwise? Check.

Is there related legislation like surface transportation funding that a broader package could be attached to by Sept. 30? Check.

Is it a presidential election year? Check.

Are political groups on board? Check.

### Pandemic Status, Financial Market, and Political Backdrop

COVID-19 cases have plateaued in the Northeast U.S., but cases are spiking in select states across the country. Normalcy may not return until as early as next year, according to Director of the National Institute of Allergy and Infectious Diseases Dr. Anthony Fauci.<sup>1</sup> Extreme volatility continued in the equity market on Monday as pre-market losses were recovered after the Federal Reserve began its Main Street Lending Facility and announced it would begin buying corporate bonds as previously planned. Yesterday afternoon, the White House announced it is busy preparing a \$1 trillion infrastructure plan, a message that bolstered market sentiment.

### White House Preparing a \$1 Trillion Infrastructure Plan

A report yesterday points to the White House development of a “nearly \$1 trillion infrastructure proposal as part of a push to spur the world’s largest economy back to life, according to people familiar with the plan.”<sup>2</sup> The specifics have not been released

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yet. However, the potential for a larger deal on infrastructure, considering the timing and circumstances, seems to be enough to energize observers.

### House Democrats to Propose a Comprehensive Infrastructure Plan

By the end of June, House Democrats are expected to provide an infrastructure proposal to the House floor for debate, according to Majority Leader Steny Hoyer (D-MD).<sup>3</sup> The package was authored by Transportation and Infrastructure Chairman Peter DeFazio (D-OR) and is set to be marked up this week, possibly on June 17th by the Transportation and Infrastructure Committee.<sup>4</sup> The framework for DeFazio's package is the [Invest in America Act](#), a \$500 billion, five year infrastructure proposal.

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### Proposals Could Include Municipal Bond Market Friendly Provisions

It's possible that potential infrastructure legislation could include provisions that would be considered friendly to state and local government finance considerations and specifically, the municipal bond market. The provisions that could be included are:

- The restoration of advance refundings
- An expansion of private activity bonds
- An increase in the bank-qualified limit
- The development of a new Build America Bond (BAB)-like program exempt from sequestration.

This is a very fluid environment, it's possible that priorities will shift, but the potential inclusion of these or other municipal bond-friendly features is something we continue to watch for closely.<sup>5</sup>

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<sup>1</sup> Silverman, Hollie; [Dr. Fauci says normalcy may not return until next year following COVID-19 case spikes](#); CNN; June 15, 2020.

<sup>2</sup> Leonard, Jenny and Josh Wingrove; [Trump team weighs \\$1 trillion for infrastructure to spur economy](#); Bloomberg; June 15, 2020.

<sup>3</sup> Wong, Scott; Hoyer; [Infrastructure package to hit floor this month](#); The Hill; June 11, 2020.

<sup>4</sup> Ibid.

<sup>5</sup> [Ways and Means continues work on surface transportation bill](#); Bond Dealers of America; June 9, 2020.

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