

U.S. Municipal Bond Market

Contemplating Infrastructure, Chances Bond-Friendly Elements are Included

Potential Legislative Priorities

Many themes are currently, and will continue to be, near the top of the legislative priority list for Washington, D.C. lawmakers. The fact that 2020 is a presidential election year absolutely plays into determining the priority. Sometimes unanticipated near-term pressures develop and add to the to-do list, like we saw this summer. Moving forward, we expect COVID-19 relief and/or stimulus to likely be near the top of the list in the near-term and even into next year, despite the fact that talks for a fifth phase of relief have stopped as of now. Other topics near the top of Washington legislative agendas likely include:

- Deregulation
- Expansion of 2017 tax cuts
- Green energy agenda
- Healthcare
- Immigration
- Police reform
- Trade

Infrastructure is also likely at the top of the list for many Washington politicians. How seriously infrastructure is considered, the exact details that will be deliberated, and if or when legislation actually passes and becomes law is going to be determined largely by the pandemic's course and Washington's post-election (Nov. 3, 2020) political landscape. Some of the municipal bond market-friendly items recently considered by lawmakers could also find their way into legislative agendas. These elements include items such as:

- Permanent reinstatement of a Build America Bond (BAB)-like bond program that's exempt from sequestration;
- Reinstatement of the use of tax-exempt bonds for advance refundings; and
- Increase in the bank-qualified limit.

The likelihood municipal bond-friendly elements are included, and then ultimately made into law, is also dependent upon the pandemic and political factors.

Lessons from the 2009 Recovery Act: The Politics of Infrastructure

The concept of infrastructure was always open to different political interpretations. After the 2009 Recovery Act, we saw this take another step and the notion of infrastructure became even more weighted politically. Toward the end of 2010, many municipal market observers thought the 2009 Recovery Act's subsidized taxable Build American Bond program would be extended. By most accounts it was considered a success and well used. Keep in mind this is before some negative opinions formed as a result of the Budget Reform Act of 2011 and the automatic sequestration of certain line items, including a small but recurring portion of the BAB subsidy flowing to issuers. Eventually, the BAB program was not extended at the end of 2010.

Infrastructure Means Different Things to Each Party

There is a near-term history of what infrastructure has meant to members of each side of the aisle. We have found that the term "infrastructure," and the likelihood of it being paid for both take on very different meanings depending upon the political party.

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The Trump White House on Infrastructure

President Donald Trump was advocating his \$1 trillion infrastructure plan since before and just after the 2016 election.¹ At the beginning of February 2018, the White House updated its infrastructure priorities, outlined in its [Legislative Outline for Rebuilding Infrastructure in America](#).²

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It was not until the spring of 2019 that the White House and Congressional Democrats began to seriously consider an infrastructure package. Infamously, a \$2 trillion number was agreed upon by the White House, Speaker Nancy Pelosi, and Senate Minority Leader Chuck Schumer, but the agreement lacked any specifics. At the time, the sides notably could not agree on what the plan should include, nor more importantly how it would be paid for.³

H.R. 2, the Democrats Moving Forward Act

In June of this year, the House of Representatives unveiled and later passed H.R. 2, or what is called the Moving Forward Act, which was a \$1.5 trillion infrastructure plan that included several municipal elements.⁴ However, this plan went nowhere in the Senate and was deemed by some as a Democratic Party wish list.

Biden Campaign's Infrastructure and Energy Plan

In July, former Vice President Joe Biden's campaign released details of a \$2 trillion infrastructure and green energy plan.⁵ The plan has a focus on some traditional infrastructure related items but also includes priorities for clean energy and green investments. The \$2 trillion price tag would be spent over just a four-year period.⁶

The Reality of the Near-Term Future of Infrastructure

Much of the near-term possibilities will be driven by the course of the pandemic and the political landscape. The financial focus is, and will continue to be, on relief and not stimulus-related measures for the labor market and the economy. At some point stimulus will be required and then infrastructure-related items will prove to be important.

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It is also imperative to consider the political landscape. The current Washington makeup has created gridlock on many fronts. If President Trump remains in the White House, and the Senate and House remains the same, we expect the congestion would continue, making it difficult to get anything meaningful accomplished generally and unlikely anything significant achieved on infrastructure. A similar stalemate on infrastructure could exist if Biden takes the White House and Congress remains unchanged. Although we expect that a Biden White House, along with Democrats in the House will push for infrastructure perhaps in the first part of 2021.

We believe the most support for infrastructure, and the highest likelihood of it becoming law (in one form or another), exists in the less likely combination of the Democrats taking both chambers of Congress and Biden taking the White House. In this scenario there is a strong possibility something infrastructure-focused occurs in the first 100 days of the Biden administration. This scenario would also be the one the municipal bond market-friendly elements probably have the best chance to be included post-election.

Sept. 30, 2020 marks the next time funding from the Fixing America's Surface Transportation (FAST) Act will need to be renewed.⁷ A short-term extension is most likely to occur that could carry into the beginning of next year. Additional speculation is likely to occur as it relates to other efforts that could be attached, but it is currently not clear how realistic they could be at this point.

Another possibility has emerged that could be tied to the FAST reauthorization because of the failure of Congress to agree on a fifth phase of COVID-19 relief. There could be some small-scale COVID-19 relief measures included in a larger funding bill that very well could include some infrastructure-related items as well. This is also a

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scenario where municipal bond market friendly items could be included. Timing will be important. Congress returns the Tuesday after Labor Day, Sept 8. The Sept. 30 “must-pass” deadline will come very quickly.

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¹ Bradley, Ryan; *What You Need to Know About Donald Trump's \$1 Trillion Infrastructure Plan*; Fortune; Dec 21, 2016.

² *Building a Stronger America: President Donald J. Trump's American Infrastructure Initiative*; The White House; Feb. 12, 2020.

³ Naylor, Brian; *Trump and Democrats Agree On \$2 Trillion For Infrastructure, But Not How To Pay*; NPR; April 30, 2019.

⁴ See more in: Kozlik, Tom; *\$1.5T for Infrastructure in Proposed “Moving Forward” Act, Municipal-Friendly Elements Included*; HilltopSecurities; June 22, 2020.

⁵ *The Biden Plan to Build Modern, Sustainable Infrastructure and Equitable Clean Energy Future*; Biden/Harris Campaign at www.joebiden.com; accessed on August 20, 2020.

⁶ Pramuk, Jacob; *Joe Biden unveils \$2 trillion green infrastructure and jobs plan*; CNBC; July 14, 2020.

⁷ See more in: *Fixing America's Surface Transportation Act*

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