

U.S. Municipal Bond Market

Democrats' Legislative Agenda Could Begin With \$2K Payments, Relief, & Infrastructure Totaling \$3 Trillion

Summary

- We expect the legislative agenda for the Democrats to move quickly and include substantial relief that could contain meaningful, direct, and unencumbered aid for state and local governments.
- There is a preliminary report noting that President-elect Joe Biden is considering a proposal that would follow through on the delivery of a \$2,000 payment to select individuals and include a \$3 trillion relief and infrastructure package. This is not a surprise.
- What is coming as a surprise is that Democrats are already facing inter-party disagreements about the legislative agenda. Senator Joe Manchin (D from West Virginia) has already voiced opposition to the idea of \$2,000 stimulus checks. The Democrats' "Blue Wave" is perhaps not as durable as initially expected.
- Additionally, we expect any of the items formerly included in the HEROES Act or Moving Forward Act could be included in the \$3 trillion package. This package could include municipal bond-friendly elements like the return of tax-exempt advance refundings and a sequester-proof BAB-like infrastructure bond program.
- We will update our \$375 billion 2021 issuance forecast. We now expect to see 2021 primary market municipal bond issuance that is between \$500 and \$600 billion. There is a small chance we could see just over \$600 billion. We expect to publish our updated forecast by the end of the month.

Expect Boost to Economy and Municipal Bond Market from Congress

The polls in the days leading up to the Jan. 5 Georgia runoff elections were close, and now the final results are in, with the outcome even closer than the polls indicated. The conclusion of the Jan. 5, 2021 runoff elections for both Georgia Senate seats were in favor of the Democratic challengers. Democratic control of the House, Senate, and White House paves the way for an active and pro-spend legislative program. The near-term consequence of the Democrats' legislative agenda, if executed, could provide a significant boost to the economy and the municipal bond market.

Democrats Won the Georgia Runoff Elections

Senator Kelly Loeffler (R) conceded to Reverend Raphael Warnock (D) two days after the Tuesday results were recorded. Senator David Perdue (R) has not conceded, but the incumbent remains down by 40,000 votes to Jon Ossoff (D) with 99% of the vote tabulated. If Ossoff's lead remains, a recount would be unlikely as the margin of victory is higher than what could allow the incumbent to request a recheck.

Democrats Control White House and the 117th Congress

There is now a 50-50 split in the U.S. Senate. Vice President-elect Kamala Harris, also the President of the Senate, would be the deciding vote if needed according to the Constitution. There have been 268 tiebreaking votes since 1789 by 36 different vice presidents.

Tom Kozlik

Head of Municipal Strategy & Credit
214.859.9439
tom.kozlik@hilltopsecurities.com

There is a preliminary report noting that President-elect Joe Biden is considering a proposal that would follow through on the delivery of a \$2,000 payment to select individuals and include a \$3 trillion relief and infrastructure package.

It does not happen very often that one party controls the White House and both chambers of Congress. The Republicans ran the table from 2017-2019 and from 2003-2005 and then again in 2005-2007. But you'd have to go back to the Eisenhower administration to find the last time before former President George W. Bush that Republicans controlled all three.

Democrats last controlled the House and Senate and boasted a sitting president from 2009 to 2011 under Barack Obama and then again under Bill Clinton in 1993-1995. Democrats also possessed control of both chambers during Jimmy Carter's four-year presidency, 1977-1979 and 1979-1981.

This is a unique opportunity.

Currently, Democratic control is vitally important in order to pass any substantial legislation. Anyone who has been watching the logjam in Washington since the summer related to COVID-19 relief can attest to that. Substantial legislation is what President-elect Biden, soon-to-be Senate Majority Leader Chuck Schumer and House Majority Leader Nancy Pelosi are likely to present in the weeks after the Jan. 20 inauguration.

Likely Democratic Legislative Agenda for the 117th Congress

What Biden proposed in his [Build Back Better](#) economic plan during his campaign was big. This plan proposes to spend \$7 trillion over 10 years. A [Moody's Analytics macroeconomic analysis](#) of the Biden policies project the economy would create 18.6 million jobs during Biden's term, and attain average growth of 4.2%.

For now, it seems that Biden and Congressional leaders are setting their sights on two major items, neither of which should be considered a surprise. To begin, the Democrats would like to:

1. Fulfill the \$2,000 coronavirus payment pledge that so many individuals want and some need;
2. Follow up individual payments with a \$3 trillion relief and infrastructure package.

The above two items are a combination of priorities [Axios reported](#) that Biden is reportedly considering to ask of Congress.

We Compare Next Round of \$3 Trillion of Relief With \$1.5 Trillion Spent for Financial Crisis

Before we get into the details of what could be included in the \$3 trillion package, let's first address the absolute amount. A \$3 trillion number is substantial. It should not be considered unneeded, as we are still in the midst of close to unprecedented times. The December 2020 [labor market data released today increases the urgency for additional federal aid](#). But, the only reason this \$3 trillion may not seem overwhelming is because lawmakers have already spent about \$4.5 trillion to combat the coronavirus.

In comparison, Congress spent about \$1.5 trillion countering the impact from the 2008 World Financial Crisis and mortgage market meltdown. Please see table (page 8) and content in [The Financial Crisis: Lessons for the Next One](#) by Alan Blinder and Mark Zandi via the Center for Budget and Policy Priorities.

Even though \$3 trillion is a large number for another round of relief and infrastructure stimulus, it is potentially not the last round of Congressional spending we may see or need.

Democratic control is vitally important in order to pass any substantial legislation. Anyone who has been watching the logjam in Washington since the summer related to COVID-19 relief can attest to that.

To begin, the Democrats would like to fulfill the \$2,000 coronavirus payment pledge and follow up individual payments with a \$3 trillion relief and infrastructure package.

Even though \$3 trillion is a large number for another round of relief and infrastructure stimulus, it is potentially not the last round of Congressional spending we may see or need.

What Could be Included in the Prospective \$3 Trillion Relief and Infrastructure Package?

In addition to completing the pledge to deliver \$2,000 payments, we think there is already a blueprint to what could be included in the Democrats upcoming proposal. Items already included in the HEROES Act or Moving Forward Act would be on the table and could be potentially included in the \$3 trillion relief and infrastructure package.

Items already included in the HEROES Act or Moving Forward Act would be on the table and could be potentially included in the \$3 trillion relief and infrastructure package.

To begin, the House Democrats already proposed and passed (May 2020) an outline for what relief could look like in the form of the HEROES Act. Almost \$1 trillion of direct, unencumbered aid for states and local governments, including cities, was included in the HEROES Act. This has been a priority for the Democrats and could be a centerpiece for upcoming legislation. This would go far to help manage state and municipal budget shortfalls.

Proposed HEROES Act Relief for States & Cities

Type	Amount (\$ in billions)
State Governments	\$500
Local Governments	375
U.S. Territories	20
Tribal Governments	20
Total State & Local Relief	\$915

Source: Summary of legislation and HilltopSecurities.

There were several municipal bond-friendly elements in H.R. 2, or the \$1.5 trillion Moving Forward Act that House Democrats approved back in June 2020. Any of these could be included in the upcoming \$3 trillion package proposal. Most notable would be the permanent reinstatement of tax-exempt advance refundings and a sequester-proof Build America Bond (BAB)-like infrastructure bond program.

We will absolutely be revising our 2021 issuance forecast higher sometime this month. We have not put a specific number on our forecast yet, we expect that the number will be in the range between \$500 and \$600 billion.

Preliminary Thoughts: Revising Issuance Forecast for 2021

We will absolutely be revising our 2021 issuance forecast higher sometime this month. On Nov. 19 we published that we expected to see about \$375 billion of municipal bond issuance in 2021. That forecast is outdated because of the fifth phase of COVID-19 relief and because of the significant relief and stimulative measures we expect to see as part of the Democrats’ legislative agenda. We have not put a specific number on our forecast yet. But, we expect that the number will be in the range between \$500 and \$600 billion. There is also a small chance that our 2021 forecast could be just over \$600 billion.

Recent HilltopSecurities Municipal Commentary

- [COVID-19 Spread Remains Out of Control to Begin 2021](#), January 6, 2021
- [Georgia Run-Offs Begin New Year, Important to Watch for Credit Quality](#), January 4, 2021
- [Fifth Phase of Fiscal COVID-19 Relief is No State and Local Government Windfall](#), December 23, 2020
- [Late and Limited is Better Than Nothing](#), December 21, 2020
- [D.C. Nears an Almost \\$1 Trillion Fifth Phase COVID-19 Relief Compromise](#), December 16, 2020
- [Leadership Working on Support for \\$908 Billion Bipartisan COVID-19 Relief Proposals](#), December 15, 2020
- [Gone to Texas, Land of Opportunity](#), December 14, 2020
- [Final Municipal Liquidity Facility Transactions, Most Likely](#), December 11, 2020
- [Optimistic Scenarios Related to Vaccines and COVID-19 Relief](#), December 10, 2020
- [Funding Deadline Pushed, Hope for COVID-19 Relief Remains](#), December 7, 2020

Readers may view all of the HilltopSecurities Municipal Commentary [here](#).

The paper/commentary was prepared by Hilltop Securities (HTS). It is intended for informational purposes only and does not constitute legal or investment advice, nor is it an offer or a solicitation of an offer to buy or sell any investment or other specific product. Information provided in this paper was obtained from sources that are believed to be reliable; however, it is not guaranteed to be correct, complete, or current, and is not intended to imply or establish standards of care applicable to any attorney or advisor in any particular circumstances. The statements within constitute the views of HTS as of the date of the document and may differ from the views of other divisions/departments of affiliate Hilltop Securities Inc. In addition, the views are subject to change without notice. This paper represents historical information only and is not an indication of future performance. This material has not been prepared in accordance with the guidelines or requirements to promote investment research, it is not a research report and is not intended as such. Sources available upon request.

Hilltop Securities Inc. is a registered broker-dealer, registered investment adviser and municipal advisor firm that does not provide tax or legal advice. HTS are wholly owned subsidiaries of Hilltop Holdings, Inc. (NYSE: HTH) located at 1201 Elm Street, Suite 3500, Dallas, Texas 75270, (214) 859-1800, 833-4HILLTOP