

## U.S. Municipal Bond Market

# Lawmakers Moved Closer on Infrastructure in August, Still No Clear Path

- Lawmakers took important steps in August regarding the potential for once-in-a-generation infrastructure legislation that could strengthen what we have referred to as a "Golden Age" of public finance.
- There is a key barrier between moderates and progressives in the Democratic party. Some believe moderates are bluffing, but even if they give in, it is possible progressives do not support the adjustments required to get the moderates on board.
- Even though the U.S. Senate passed the bipartisan infrastructure plan on Aug. 10, progressive Democrats will not vote for it unless the \$3.5 trillion Build Back Better package is passed by the Senate first.
- Even though the House began the process of formulating the details of the \$3.5 trillion Build Back Better plan, we do not see that there is enough current support in the Senate from moderate Democrats.

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## D.C. Moves Closer on Infrastructure

Lawmakers moved closer to an agreement on two iterations of what, especially if combined, could be described as a once-in-a-generation infrastructure investment for the United States. There were very important steps taken by both the U.S. Senate and House of Representatives in August on infrastructure legislation. However, there are still key obstacles that could make it difficult for either the \$1 trillion bipartisan plan or the \$3.5 trillion Build Back Better plan to become law in their current configuration and dollar amounts as we importantly describe below.

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## The Infrastructure Timeline

Senate passes (69-30) \$1 trillion bi-partisan infrastructure bill, Aug. 10, 2021

House is scheduled to vote on \$1 trillion bill passed by Senate Sept 27, 2021

Progressive Democrats in the House are unlikely to be in favor of this unless the \$3.5 trillion package is passed by the Senate.

### Track for \$1 trillion Bipartisan Infrastructure Plan to Become Law

House passes (220-212) budget framework that begins reconciliation process for \$3.5 trillion infrastructure plan, Aug. 24, 2021.

There is still not enough support in the Senate for this \$3.5 trillion package to become law. Some believe a few Senators are bluffing. This is still a key obstacle.

### Track for \$3.5 trillion Build Back Better Infrastructure Plan to Become Law

Source: HilltopSecurities.

## Two Important Steps

First, the U.S. Senate passed a \$1+ trillion infrastructure bill by a vote of 69-30 on Aug. 10, 2021. The bill includes about \$566 billion of new spending, but is referred to as being \$1+ trillion because it is expected that annual highway and related spending is likely to be included going forward as well. On the surface it seems this \$1 trillion bipartisan plan simply needs to be voted on in the House for it to become law, and that passage should be simple enough, but in Washington, D.C. and especially in the current political environment, the legislative process is never as easy as it seems. The truth is the \$1 trillion bipartisan legislation faces a very difficult path in the House. We describe the difficult path in more detail below.

The second important step taken by lawmakers in August occurred in the U.S. House. Members of the U.S. House of Representatives returned to Washington, D.C. during the week of Aug. 23 in order to take up infrastructure related matters. Members of the House had not been scheduled to return until Monday, Sept. 20, yet House Speaker Nancy Pelosi made some legislative ground that could set up September as a make-or-break period for the prospect of infrastructure legislation. The two most important results from the House last week were:

- The U.S. House is now set to vote, no later than Monday Sept. 27 on the \$1 trillion bipartisan infrastructure bill that was passed by the Senate (69-30) back on Aug 10, 2021.
- House passed (220-212) the budget framework that begins the budget reconciliation process for the \$3.5 trillion infrastructure plan on Aug. 24, 2021.

## Infinite Loop: The Reality of Infrastructure Negotiations

Even though these two important steps were prioritized, and the House finally took action, there is still no clear way forward for either of the packages to become law. Moderates and progressives in the Democratic party are going to continue to face off in coming weeks and this could be a key fault line to passage of anything infrastructure related. Progressive Democrats in the House still see the paths for infrastructure legislation to become law as linked (see our graphic). Therefore, we should not expect the House to vote on and pass the \$1 trillion bipartisan infrastructure plan until the Senate passes the \$3.5 trillion Build Back Better infrastructure plan. Rep. Alexandria Ocasio-Cortez (D-NY) reiterated this stance on Aug. 24 when she wrote, "Our position remains unchanged" in support of the Progressive Caucus' statement saying the paths' are tied.

It seems there may be an infinite loop in this relationship, because the votes for the \$3.5 trillion Build Back Better infrastructure plan do not exist in the Senate, at least not in its current form. Some believe that in-fighting in the Democratic party is not likely to lead to an infrastructure failure, and that Democratic progressives are bluffing. We believe that there is a much heavier lift in front of lawmakers than what most currently appreciate in order to get these both passed into law. More compromise is needed, and we are not certain the political will exists to make these infrastructure plans a reality. This is what the landscape currently looks like heading into Labor Day weekend.

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## Are the Moderates Bluffing?

There is a degree of accuracy in James Carville's April analysis when he said the Democrats "don't have the votes" to be "more liberal" than West Virginia Senator Joe Manchin. Sen. Manchin, a Democrat, finds himself representing a former blue state that transitioned to red in recent decades. In 1996, Bill Clinton carried West Virginia by 15 points and in 2020, President Donald Trump took the state by almost 40 points. For a Democrat, or Manchin specifically, to hold on in West Virginia he will have to not just appear to be bipartisan, but he will need to find a delicate balance between the goals of each party. See more in [To Understand Joe Manchin, Look at West Virginia's Transformation](#), via the *Wall Street Journal*.

This is how Sen. Manchin is finding that balance. Remember that Democrats need Manchin's vote to pass the procedural vote on the \$3.5 trillion plan in the Senate. On Aug. 11, [Sen. Manchin released a statement](#) saying he has "serious concerns" about Congress spending another \$3.5 trillion, even though he voted to allow the procedural vote to move forward on the budget reconciliation bill. It seems maybe Manchin could be persuaded to support some items in the \$3.5 trillion package, but he generally says that he is not going to support additional fiscal policy unless it is paid for. The senator has said, ["I think everything should be paid for. We've put enough free money out."](#) This stance goes back to the constituency he represents we believe.

The Senator could be facing negative voter reaction to the [\\$6.4 trillion of fiscal policy \(see table on page 4\)](#) lawmakers have approved since the beginning of COVID-19.

Another barrier to getting infrastructure completed in its current form is from moderate Arizona Senator Krysten Sinema, who provided strong support for the \$1 trillion bipartisan plan. She has made it clear she will not support \$3.5 trillion of spending in a reconciliation bill.

"Proceedings in the U.S. House will have no impact on Kyrsten's views about what is best for our country - including the fact that she will not support a budget reconciliation bill that costs \$3.5 trillion," [said a Sinema spokesperson](#).

Are moderates such as these listed above bluffing? Perhaps. Is it quite possible the moderates are going to move or give-in before the progressives in the Democratic party. However, the progressives likely see the \$3.5 trillion outline as a compromise. It is very possible that progressive support falls away if the \$3.5 trillion price tag falls by any meaningful number.

## Municipal Bond-Friendly Elements

One unanswered item is what municipal bond-friendly elements, if any, will be included in the \$1 trillion bipartisan infrastructure plan and/or the \$3.5 trillion Build Back Better plan? Overall, we were disappointed in the level of public finance-focused items in the \$1 trillion bipartisan plan. The details exist already and we are only seeing that [there would be a small expansion of some private activity bonds in](#)

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It is possible, if not likely, that more meaningful public finance-focused elements are included in the \$3.5 trillion Build Back Better plan because they remain a priority to lawmakers. On the table would be items that were included in the Moving Forward Act that passed the U.S. House in the beginning of the summer of 2020. The most prominent provisions could be the reinstatement of advance refundings with tax-exempt bonds, a new direct-pay financing tool similar to the Build America Bonds from the 2009 Recovery Act, and potentially a higher bank-qualified (BQ) limitation. We will have a better idea of the public finance-focused items that could be included when congressional committees begin to release details of the \$3.5 trillion plan up for consideration.

## The Debt Ceiling

The debt ceiling pressure point is still out there as well. We have considered it in What Could "Irreparable Harm" Look Like if Lawmakers Fail to Extend or Suspend the Debt Ceiling Limit? (Aug. 12) and Lawmakers May Exploit the Debt Ceiling Limit Again (July 22). On Aug. 10, most Republican U.S. Senators signed a pledge to not raise or suspend the debt ceiling limitation. More than 100 House Republicans signed a similar pledge on Aug 30. Therefore, theatrics about the debt ceiling may increase in September as a deadline for action is likely to come sometime in October or November.

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

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