U.S. Municipal Bond Market

Municipal Friendly Elements are Out

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- A new $1.75 trillion framework was released today with updated details about what could be included in the president's and progressive Democrats' Build Back Better Agenda.
- The municipal bond friendly elements, including the subsidized taxable infrastructure bond program and reinstatement of tax-exempts for advance refundings, were left out of today's framework.
- Nothing was included in the new $1.75 trillion framework related to the SALT cap.

Left Out: Infrastructure Bonds, Reinstatement of Tax-Exempts for Advance Refundings

The municipal bond friendly elements like the subsidized taxable infrastructure bond program and reinstatement of tax-exempts for advance refundings were left out of a $1.75 trillion framework that was circulated in Washington today. This framework, released by the White House, is being considered as the latest iteration of the Democrats' Build Back Better Agenda.

Highlights in the newest version of the framework include:
- $555 billion for Clean Energy and Climate Investments;
- $400 billion for Child Care and Preschool; and
- $200 billion for child Tax & Earned Income Tax Credits.

A description of the public finance friendly elements were nowhere to be found. They were dropped.

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Not a Surprise

It should not be considered a surprise that the package evolved this way, as lawmakers had a difficult task in front of them. They needed to reduce a $3.5 trillion proposal down to something between $1.5 to $2.0 trillion. The framework they proposed today is $1.75 trillion, but that total is also likely to be reduced if they want to have a chance at passing it at some point. Senator Joe Manchin has been staying true to his ceiling of $1.5 trillion.

Spending had to be prioritized and some of the progressive goals had to end up on the cutting room floor. On the one hand I thought there was a very slight chance the direct pay infrastructure program could at least be included, even if the other elements fell out. It was not a good sign for the municipal elements when spending line-items like community college began falling out of what lawmakers were aiming for. It was a strong possibility that the $40 billion or so of municipal elements could also get cut when so many priorities like community college and paid leave were being abandoned. These municipal friendly elements were not part of the progressives' agenda.

It is important to note that there was also nothing included in the $1.75 trillion framework related to getting rid of the $10,000 state and local government tax deduction cap or SALT cap.

Next up where the municipal market and federal government is concerned very well could be a theme that is important but could also be years in the making; We should be on the lookout for the threat to the municipal bond tax-exemption.

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