

U.S. Municipal Bond Market

Improvement in America's Infrastructure Endangered by the Threat to the Tax-Exemption

- America's infrastructure earned a "C" grade by the ASCE. This is a noticeable improvement especially since the ASCE scored U.S. infrastructure at a "D+" in 2017.
- Infrastructure funding for public entities at the state and local level rose in recent years as well. Since 2019 municipal bond issuance averaged almost \$450 billion annually. This plentiful level of bond issuance helped America's infrastructure earn the "C" grade from the ASCE.
- We expect that if the municipal bond tax-exemption is not preserved, costs for infrastructure would rise and the infrastructure funding gap could grow.

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ASCE Reports an Improvement in America's Infrastructure

Progress in the state of America's infrastructure earned a cumulative "C" grade by the American Society of Civil Engineers via their [2025 Infrastructure Report Card](#). Almost half of the 18 categories received increases this year compared to 2019. Both overall,

ASCE Infrastructure Report Card Grades

Categories	2025	2021	2017	2013
Cumulative Grade	C	C-	D+	D+
Aviation	D+	D+	D	D
Bridges	C	C-	C+	C+
Broadband	C+	NG	NG	NG
Dams	D+	D	D	D
Drinking Water	C-	C-	D	D
Energy	D+	C-	D+	D+
Hazardous Waste	C	D+	D+	D
Inland Waterways	C-	D+	D	D-
Levees	D+	D	D	D-
Public Parks	C-	D+	D+	C-
Ports	B	B-	C+	C
Rail	B-	B	B	C+
Roads	D+	D	D	D
Schools	D+	D+	D+	D
Solid Waste	C+	C+	C+	B-
Stormwater	D	D	NG	NG
Transit	D	D-	D-	D
Wastewater	D+	D+	D+	D

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Grades: A: Exceptional, B: Good, C: Mediocre, D: Poor, F: Failing.
Each category was evaluated on the basis of capacity, condition, funding, future need, operation and maintenance, public safety, resilience, and innovation.

Source: ASCE and HilltopSecurities.

Please see disclosure starting on page 3.

and in many sectors, this is a noticeable improvement especially since the ASCE scored U.S. infrastructure at a “D+” in 2017. This improvement was purposeful, and it occurred because lawmakers prioritized infrastructure investment in recent years.

Infrastructure funding for public entities at the state and local level rose in recent years as well.

Keys reasons for this improvement are because of a focus on infrastructure funding and investment at the federal, state and local levels in recent years. The 2021 Infrastructure Investment and Jobs Act provided over \$500 billion of new infrastructure investment. The 2022 Inflation Reduction Act also provided infrastructure support.

Infrastructure funding for public entities at the state and local level rose in recent years as well. Since 2019 municipal bond issuance averaged almost \$450 billion annually. This was capped off by a record year of issuance in 2024 of \$508 billion. We are almost through the first quarter of 2025, and 2025 issuance could beat 2024’s record year as well. This plentiful level of bond issuance helped America’s infrastructure earn the “C” grade from the ASCE.

Progress is important. However, the ASCE describes the “C” grade as only “Mediocre” and that the status of infrastructure investment still “requires attention.” America needs more infrastructure financing tools to close the infrastructure funding gap it calculated. The municipal bond tax-exemption can continue to play an integral role in financing U.S. infrastructure.

Threat to the Municipal Bond Tax-Exemption

The improvement in America’s infrastructure would be under threat if there are changes made to the municipal bond tax-exemption. This is strong argument for state and local governments and public entities to raise their collective voice toward D.C. lawmakers about the positive role the municipal bond tax-exemption has played as part of financing U.S. infrastructure.

The municipal bond tax-exemption can continue to play an integral role in financing U.S. infrastructure.

We have identified since the “Red Wave” results of the 2024 November elections that there is an unprecedented threat to the municipal bond tax-exemption because of tax policy that is likely to materialize in 2025. Many of the more impactful provisions of the 2017 Tax Cuts and Jobs Act are expiring at the end of this year. Various Republicans in Congress, and President Trump, have voiced their opinions about the need to extend these provisions and add some new provisions some of which were promised on last year’s campaign trail. This could include an increase to the SALT cap, for example.

The Infrastructure Funding Gap Could Grow, & Costs Rise Without the Tax-Exemption

In their recent report the ASCE calculates there is still a \$3.7 trillion infrastructure funding gap between 2024 and 2033. But this calculation assumes a pace of infrastructure investment like we have seen in recent years. This pace could be under threat.

It is very possible that state and local governments and other public entities lose their ability to sell tax-exempt municipal bonds in order for federal lawmakers to pay for 2025 tax policy. If state and local governments lose their ability to sell tax-exempt debt costs and the funding gap could rise. An elimination of the municipal bond tax-exemption

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would increase borrowing costs for state and local governments and other public entities by \$824 billion over the next ten years, according to a Government Finance Officers Association analysis.

Again, we expect that if the municipal bond tax-exemption is not preserved, costs for infrastructure would rise and the infrastructure funding gap could grow.

On an individual transaction level financing costs could rise by 20% to 40% in some cases. In other cases, especially where small issuers are concerned, we worry small issuers could be locked out of the capital markets entirely. Again, we expect that if the municipal bond tax-exemption is not preserved, costs for infrastructure would rise and the infrastructure funding gap could grow.

Much is at Stake for U.S. Infrastructure Financing in 2025

Progress has been made in the status of U.S. infrastructure from 2017 to 2025. This progress will be under a severe threat, and the infrastructure funding gap could grow if the municipal bond tax-exemption is curtailed or eliminated.

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- [The Municipal Market in 2025, Hilltop's Sector Credit Outlooks](#), Jan. 30, 2025
- [Growing Support for SALT Cap Expansion, Backing for Tax-Exemption Needed](#), Jan. 9, 2025
- [Building America's Infrastructure with Municipal Bonds: A 2024 Overview](#), Dec. 23, 2024

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