

U.S. Municipal Bond Market

Infrastructure Could Strengthen Golden Age of U.S. Public Finance, Prelim Talks to Begin

- Very preliminary planning discussions about an infrastructure and jobs package that could amount to as much as \$3 trillion are expected to begin this week.
- There was \$650 billion of public investment that covers U.S. public finance as part of the \$1.9 trillion American Rescue Plan Act of 2021 recently signed into law.
- It is possible a meaningful portion of an infrastructure package could also provide a boost to state and local governments and other public finance entities.
- This possibility reinforces the idea that we could be on the brink of a "Golden Age" for U.S. public finance.

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A Golden Age for U.S. Public Finance

At least \$650 billion is going to flow to public finance sectors by way of the \$1.9 Trillion American Rescue Plan Act of 2021. We wrote last week that a "Golden Age" for U.S. Public Finance could be upon us, especially if infrastructure follows. Just yesterday, reports out of Washington, D.C. indicate the Democrats' legislative agenda could include an infrastructure and jobs package that could amount to as much as \$3 trillion.

A Seventh Phase Could Bring Total COVID-19 Related Fiscal Policy to Nearly \$10 Trillion

Phase	Became Law	Legislation	Details	Amount (\$ billions)
Phase 1	March 6, 2020	Coronavirus Preparedness and Response Supplemental Appropriations Act	Research and development, healthcare services and supplies	\$8.30
Phase 2	March 18, 2020	Families First Coronavirus Response Act	Testing funds, paid leave, food stamp funding	192.00
Phase 3	March 27, 2020	Coronavirus Aid, Relief, and Economic Security (CARES) Act	Expanded unemployment, PPP, Fed Reserve & industry loans, payroll tax credits, created MLF, other	2,700.00
Phase (3.5 or 4)	April 24, 2020	Paycheck Protection Program and Healthcare Enhancement Act	Expanded PPP, hospital & testing funding	733.00
Phase 5	Dec. 27, 2020	The \$1.4 trillion Consolidated Appropriations Act, 2020 was a federal govt. funding measure & included \$910 billion of COVID-19 relief provisions	Unemployed. relief, PPP, funds for education, transportation, health care, vaccine distribution, etc., but no direct unencumbered state and local govt. relief	910.00
Phase 6	March 11, 2021	American Rescue Plan Act of 2021	\$1,400 payments, \$350B S&L aid, expanded unemployed relief	1,900.00
Phase 7	Unknown	Infrastructure and Jobs Stimulus	Details to come	1,000-3,000
Total U.S. COVID-19 Fiscal Policy Response Cost To Date				\$7,443.30 - \$9,443.30

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Source: HilltopSecurities.

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A seventh phase of this magnitude could bring the total amount of U.S. fiscal policy response to COVID-19 to almost \$10 trillion in just over a year's time. This is a massive amount of policy support. The sixth phase did include significant support for public finance. It is possible the seventh phase includes targeted stimulus for U.S. public finance.

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The Rescue Plan has been criticized for not including enough public investment. It is possible the forthcoming policy initiatives could be those needed to create a sustainable, multi-year growth scenario for the U.S. economy. But the devil, or shortcomings and potential roadblocks, all lie in the details. It is likely that in the coming weeks policymakers will unveil which specific policies are to be prioritized, how much in aggregate is likely to be spent, and how it is all going to be funded.

Subpar U.S. Infrastructure Report Card and Competing Priorities in D.C.

The status of infrastructure in the U.S. is still below average, according to America's Infrastructure 2021 GPA from the American Society of Civil Engineers (ASCE). ASCE released their 2021 Report Card for America's Infrastructure in early March, noting "For the first time in 20 years, our [ASCE] infrastructure GPA is a C-, up from a D+ in 2017." But, a C- is still below average.

The Washington Post's Fared Zakaria partially covered the topic of infrastructure in last week's commentary. He indicated a key reason why the U.S. has not allocated more to infrastructure is due to competing interests in Washington. An example Zakaria cited was comparing the \$1.7 trillion cost of the U.S. F-35 fighter jet program with a similar amount being spent by China on their Belt and Road infrastructure initiative. Zakaria asked rhetorically, "which is money better spent?"

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Very Preliminary Talks on Infrastructure

A preliminary presentation is expected to be made to President Joe Biden this week by his advisors about upcoming legislative strategy. The major items that are expected to be discussed as part of the talks include, according to the Washington Post:

- \$1 trillion for infrastructure
- Universal pre-k
- Free community college
- \$200 billion for housing
- \$100 billion for green and climate change related initiatives
- Expanded multi-year child benefit
- Affordable Care Act (ACA)

How Will These Initiatives Be Funded?

A key financial and political question, "How will lawmakers pay for this next phase?" remains. It has been contemplated that the first major tax hike since 1993 is likely soon to be proposed as part of the White House's next economic plan. Republicans have made it clear they do not favor tax increases. This impasse could present a major

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roadblock to the chances an infrastructure package becomes law on a bipartisan basis. There is the potential Democrats use the budget reconciliation path again, but this could present obstacles too.

If taxes do rise, we believe tax increases should increase the already steady demand for tax-exempt municipal bonds.

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Maybe Municipal Bond-Friendly Elements

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Recent HilltopSecurities Municipal Commentary

- American Rescue Plan Provides Massive Economic Boost, U.S. Public Finance Could Be on Brink of a Golden Age, Especially if Infrastructure Stimulus Follows, March 19, 2021
- America's Infrastructure GPA: C-, up from D+, March 3, 2021
- Continuing to Assess Cost and Liquidity Pressures for Texas Power Utilities, March 2, 2021
- Brazos Electric Power Files Ch. 11 Petition, S&P Places Six Texas Utilities on CreditWatch with Negative Implications, March 1, 2021
- Winter Storm Uri Costs Slowly Reported by Texas Local Governments, February 26, 2021
- Texas' ERCOT-Area Public Power Utilities on 'Rating Watch Negative,' per a Fitch Rating Action, February 24, 2021
- Pension Funding Not Improving From Stabilizing Fiscal Conditions, NJ Proposing Full Payment to Avoid Asset Depletion, February 24, 2021

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

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