

U.S. Municipal Bond Market

House Passed \$1.2 Trillion Infrastructure Plan on Friday, Boosting What We Deemed (in March) as the Golden Age of Public Finance

- The U.S. House passed the bipartisan Infrastructure Investment and Jobs Act (IIJA) of 2021 late Friday night (Nov. 5). This legislation formerly passed the Senate back on August 10. President Biden is expected to sign the IIJA into law.
- The IIJA is likely to support municipal credit quality and provide a further boost to the Golden Age of U.S. Public Finance, as we first wrote in March.
- The IIJA is commonly referred to as topping out at \$1.2 trillion but includes approximately \$550 billion of new spending that we summarized below and outlined in more detail on page 5.
- The new legislation does include a few small municipal bond market friendly elements, and these are expected to stay in the legislation. The IIJA slightly expands private activity bond authorization 1) for surface transportation transfer facilities; 2) for broadband in targeted areas; and 3) allows carbon capture and direct air capture technology deployment to be eligible for private activity bond financing.
- While the infrastructure spending in the IIJA is far-reaching, it is unlikely to close the U.S. infrastructure gap identified by the American Society of Civil Engineers in a meaningful way.

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IIJA Includes \$550 Billion in New Spending (\$ in billions)

Topic	Amount (\$)
Roads, Bridges and Major Projects	\$110.0
Passenger and Freight Rail	66.0
Public Transit	39.2
Safety & Research	10.5
Airports	25.0
Ports and Waterways	17.3
Broadband	65.0
Water Infrastructure	55.0
Power and Grid	73.0
Resiliency (cyber, waste management, climate)	46.0
Low-Carbon and Zero-Emission School Buses and Ferries	7.5
EV and EV Charging Network	7.5
Environmental and Superfund	21.0
Total	\$550.0

Source: Bipartisan Infrastructure Investment and Jobs Act Summary, U.S. Chamber of Commerce & HilltopSecurities.

Busy Friday Night in Washington, D.C.

On Friday night (Nov. 5, 2021), the U.S. House of Representatives finally passed the bipartisan Infrastructure Investment and Jobs Act of 2021 (IIJA or IJA) by a vote of 228-206 ([see bill text and status here](#)). This comes almost three months after the [Senate passed the measure](#) with Republican support. The IJA is said to total \$1.2 trillion over five to ten years and includes about \$550 billion of new spending. We included a summary of the major components above and a more detailed table on pages 5-6. President Joe Biden is expected to sign the IJA now that the legislation has passed through both chambers of Congress. This is the updated [fact sheet released by the White House](#) reviewing the bipartisan Infrastructure Investment and Jobs Act.

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We should note that lawmakers did not approve the [\\$1.75 trillion Build Back Better \(BBB\) social spending package](#) Friday even though many lawmakers have said the two pieces of legislation should be considered linked. This week (Nov. 8-12), Washington lawmakers have a recess but are scheduled to return to the beltway on Monday, Nov. 15 and could potentially vote on Build Back Better at that time. There are still some outstanding items where the BBB is concerned. A reminder that the Build Back Better agenda, as noted in our [Oct. 29 report](#), no longer includes the municipal bond market friendly elements like a reinstatement of tax-exempt advance refundings and the subsidized taxable infrastructure bond program included. We do not expect they will be folded back into the legislation in future drafts.

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Congress is Eyeing Almost \$10 Trillion of U.S. Fiscal Policy Since Beginning of COVID-19

Phase	Became Law (Status)	Legislation	Details	Amount (\$ billions)
Phase 1	March 6, 2020	Coronavirus Preparedness and Response Supplemental Appropriations Act	Research and development, health-care 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 state & local govt. aid, expanded unemployed relief	1,900.00
Infrastructure & Jobs	Sent to President	Infrastructure Investment & Jobs Act of 2021 (bipartisan)	Funding for roads, bridges, rail, mass transit, ports, airports, water, broadband, and more	1,200.00
Social Spending	Has not passed House, Senate yet	Build Back Better	Clean energy, climate invest, child care, pre-school, home care, housing, SALT cap repeal	1,750.00
Total				\$9,393.30

A reminder that the Build Back Better agenda, as noted in our Oct. 29 report, no longer includes the municipal bond market friendly elements like a reinstatement of tax-exempt advance refundings and the subsidized taxable infrastructure bond program included.

Source: HilltopSecurities.

IIJA of 2021 Slightly Expands Private Activity Bonds

The IIJA legislation that passed the House on Friday night does include a few small municipal bond market specific elements that mostly will expand private activity bond (PAB) authorization for three specific purposes.

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Municipal Bond Related Items in IIJA (\$ in billions)

Topic	Amount (\$)
Surface Transportation Private Activity Bonds (tax-exempt PABs)	0.5
Private Activity Bonds (PABS), based off of Rural Broadband Fin Flex Act (S.1676)	0.6
Carbon capture, private activity bond tax-exempt facility financing	0.3
Total	\$1.4

Source: Bipartisan Infrastructure Investment and Jobs Act Summary, U.S. Chamber of Commerce, and HilltopSecurities.

- First, the legislation increases the current cap of tax-exempt highway or surface freight transfer facility bonds from \$15 billion to \$30 billion as also proposed by the [bipartisan BUILD Act \(S.881\)](#). This amounts to about \$500 million.
- The second municipal friendly element amounts to about \$600 million and will allow states to issue private activity bonds for broadband in targeted rural areas and other areas based on the [Rural Broadband Financing Flexibility Act \(S.1676\)](#).
- The last and smallest municipal bond provision includes about \$266 million that allows carbon capture and direct air capture technology deployment to be eligible for private activity bond financing as also previously outlined in the [Carbon Capture Improvement Act \(S.1829\)](#).

The funding for these three provisions will occur over a multi-year period and are not likely to massively impact our 2022 issuance projections. While the majority of the non-municipal specific funds in the IIJA are grants, we expect this will supplement additional tax-exempt issuance, not replace it. In other words, we expect the overall funding to be additive and not replace tax-exempt and taxable municipal market financing for the most part in the coming years.

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Other Notable Items Included

- Extends Highway Trust Fund expenditure authority
- Extends various Highway related taxes

Does Not Fill the Infrastructure Gap, but Boosts the Golden Age of U.S. Public Finance

While this IIJA is being heralded as a generational investment in U.S. infrastructure, the year-to-year impact is not overwhelming. Infrastructure spending is increased (potentially) by anywhere from \$26 billion to \$89 billion a year, the high points being from 2025 to 2027, according to [recent analysis by Moody's Analytics](#). The majority of this will be focused on transportation, which is the category most will agree can be defined as hard infrastructure. [The American Society of Civil Engineers 2021 Infrastructure Report Card](#) gave U.S. infrastructure a "C-" overall grade and reported a \$2.59 trillion infrastructure gap exists over the next 10 years in the U.S. This IIJA funding will likely help improve that grade slightly, and close that gap a little, but there is still significant work to be done on U.S. infrastructure.

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After the American Rescue Plan Act of 2021 sent at least \$650 billion to public finance entities (see page 5) we indicated that the [American Rescue Plan Provides Massive Economic Boost, U.S. Public Finance Could Be on the Brink of a Golden Age, Especially is Infrastructure Stimulus Follows](#). Then we wrote (in March) that infrastructure-focused legislation [could strengthen the Golden Age of U.S. Public Finance](#), and we think the IIJA is likely to provide a slight boost to state and local governments and other public finance related entities. The funding will be especially important to those in the transportation, water, energy, and state and local government sectors. The IIJA will generally help support credit quality as well.

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Macro Impact from the IIJA of 2021

Economists are expecting only [a very modest, but positive impact to jobs and economic growth](#) from the IIJA. The IIJA legislation “adds modestly to U.S. budget deficits over the 10-year budget horizon on a static basis,” according to Moody’s Analytics who also cites the [August 2021 Congressional Budget Office analysis](#).

IIJA Static Budget cost (\$ in billions)

Topic	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022-26	2022-31
Static Budget Deficit	-\$5.3	\$24.8	\$44.2	\$65.3	\$78.6	\$70.7	\$52.9	\$38.0	\$23.6	\$6.1	\$207.7	\$398.9
Total infrastructure spending	\$27.2	\$50.5	\$68.0	\$81.9	\$89.0	\$81.4	\$64.2	\$47.6	\$35.4	\$26.8	\$316.7	\$572.0
Transportation	8.2	17.8	27.0	36.1	45.6	47.4	42.1	34.2	26.5	20.4	134.6	305.2
Environmental remediation and other authorizations	13.9	18.0	19.1	20.5	19.4	15.3	10.1	6.1	4.1	3.0	90.9	129.6
Energy and water	3.6	9.1	12.9	14.1	13.6	11.8	9.1	6.4	4.5	3.1	53.4	88.4
Broadband	1.5	5.7	8.9	11.1	10.3	6.7	2.7	0.6	0.1	0.0	37.5	47.6
Bond provisions	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3	1.2
Total pay-fors	-\$32.5	-\$25.7	-\$23.8	-\$16.6	-\$10.4	-\$10.7	-\$11.3	-\$9.6	-\$11.8	-\$20.7	-\$109.0	-\$173.1

Source: Moody's Analytics and HilltopSecurities.

IIJA Includes \$550 Billion in New Spending (\$ in billions)

Topic	Amount (\$)	Sub-Amount (\$)	Sub-Amount (\$)
Roads, Bridges and Major Projects (above baseline)	\$110.0	-	-
Increased contract authority	-	55.5	-
Supplemental appropriations	-	55.5	-
Bridge grant programs	-	-	36.7
RAISE grants	-	-	7.5
Nat. Infra Project Asst grant program	-	-	5.0
INFRA grant program	-	-	3.2
Appalachian Dev Highway System formula program	-	-	1.3
Surface Transportation Private Activity Bonds (tax-exempt PABs)	-	-	0.5
University Transportation Centers	-	-	0.1
Culvert Reoval, Replacement and Restoration (flow of water)	-	-	1.0
Passenger and Freight Rail	66.0		
Northeast Corridor grants	-	6.0	-
Fed-State Partnership Intercity Pass Rail	-	36.0	-
Amtrak National Network	-	16.0	-
Con Rail Infra Safety Improvement	-	5.0	-
Railroad Crossing Elimination Program (remove hazards)	-	3.0	-
Restoration and enhancement grants	-	0.1	-
Public Transit	39.2		
Increased contract authority	-	19.2	-
State of good repair	-	4.8	-
Capital investment grants program	-	8.0	-
Enhances mobility for seniors & disabilities	-	2.0	-
Low-no program	-	5.3	-
Safety & Research	10.5		
Increased contract authority for FMCSA and NHTSA	-	2.2	-
Supplemental appropriations	-	8.3	-
Safe Streets for All (reduce crashes for cyclists and pedestrians)	-	-	5.0
SMART Grant program (higher-ed)	-	-	0.5
NHTSA Highway Safety program	-	-	1.1
FMCSA Motor Carrier Safety Asst program (supports law enforcement)	-	-	0.5
High Priority grant program	-	-	0.2
PHMSA Modernization	-	-	1.0
Airports	25.0		
Airside projects (runways, taxiways) and terminal projects	-	20.0	-
Air Traffic Control infrastructure	-	5.0	-
Ports and Waterways	17.3		
Army Corps of Engineers (Army COE) Construction	-	5.2	-
Army COE Operations and Maintenance	-	4.0	-
Army COE Mississippi River and Tributary	-	0.3	-
Army COE General Expenses/Regulatory Needs	-	0.1	-
DOT Port Infra Dev Program	-	2.3	-
DOT Marine Highways Program	-	0.0	-
Us Coast Guard Unfunded Priority Infra	-	0.4	-
GSA/CBP Land Ports Entry Modernization & Const	-	3.9	-
Reduction in Truck Emissions at Ports	-	0.4	-

Source: Bipartisan Infrastructure Investment and Jobs Act Summary, U.S. Chamber of Commerce & HilltopSecurities.

IIJA Includes \$550 Billion in New Spending (\$ in billions) (continued)

Topic	Amount (\$)	Sub-Amount (\$)	Sub-Amount (\$)
Ferry Boat and Terminal Construction	-	0.9	-
Broadband	65.0		
Grants to states for deployment (must use for underserved before anchor inst.)	-	40.0	-
Private Activity Bonds (PABS), based off of Rural Broadband Fin Flex Act (S.1676)	-	0.6	-
Support fo rural areas	-	2.0	-
"Middle Mile"	-	-	-
Tribal grants	-	2.0	-
Inclusion, Digital Equity Act	-	2.8	-
Affordability (funds for FCC's Emergency Broadband Benefit program)	-	-	-
Water Infrastructure	55.0	-	-
Drinking Water State Revolving Funds Cap Grant Reauth	-	-	-
Cybersecurity support for public water systems	-	-	-
Power and Grid	73.0	-	-
Carbon capture, private activity bond tax-exempt facility financing	-	0.3	-
Resiliency (cyber, waste management, climate)	46.0	-	-
Low-Carbon and Zero-Emission School Buses and Ferries	7.5	-	-
Clean School Bus program	-	5.0	-
FTA Passenger Ferry grant program	-	1.3	-
Electric Ferry Pilot program	-	0.3	-
Ferry Operations for rural communities	-	1.0	-
EV Charging Network	7.5	-	-
Environmental and Superfund	21.0		
Total	\$550.0		

Source: Bipartisan Infrastructure Investment and Jobs Act Summary, U.S. Chamber of Commerce & HilltopSecurities.

Recent HilltopSecurities Municipal Commentary

- [Dems Step Closer to Finalizing Infrastructure & Build Back Better After White House Tactics, Public Finance Elements Dropped](#), Oct. 29, 2021
- [Municipal Friendly Elements are Out](#), Oct. 28, 2021
- [A New Decade & The Threat to the Municipal Bond Tax-Exemption](#), Oct. 22, 2021
- [Lawmakers Shift to Compromise, Some Spending Jettisoned, Municipal Elements Remain if Only For Now](#), Oct. 20, 2021

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

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