

U.S. Municipal Bond Market

## The Road to Getting Infrastructure Done in 2021

- The ball is in the Democrats' court right now. The holdup to finalizing infrastructure is being caused by progressive Democrats wanting the Senate to approve their \$3.5 trillion budget reconciliation package before the \$1+ trillion bi-partisan package is voted on by the House.
- It seems progressive Democrats are going to need to accept a total budget reconciliation package closer to \$1.5 trillion in order to get infrastructure negotiations completed.
- It is possible, but not a certainty, that the public finance friendly elements of the budget reconciliation package remain if spending falls by \$2 trillion.

Tom Kozlik

Head of Municipal Research & Analytics  
214.859.9439  
tom.kozlik@hilltopsecurities.com

### Is Infrastructure Too-Big-To-Fail, or Too-Big-NOT-To-Fail?

Some believe the once-in-a-generation infrastructure legislation is too-big-to-fail, while others are describing it as too-big-NOT-to-fail. We have written that the likelihood of passage remains challenging and have also indicated that there seems to be no clear path. What we have been referring to all along is the potential for a combination of the \$1+ trillion and the \$3.5 trillion together to pass both chambers of Congress, because after all, progressive Democrats still see them linked. Today, we are going to identify the road to getting infrastructure done in 2021. It will still amount to once-in-a-generation type programs, even though total spending will amount to less than the \$4.5+ trillion or sum of the above.

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All eyes will be on Congress, and especially the U.S. House of Representatives, as they return to Washington, D.C. this week. A Sept. 27, 2021 leader-imposed deadline exists for the House to vote on the \$1+ trillion bipartisan package. This deadline will likely need to get pushed back, which would upset House moderates. Other items on Congress' near-term to-do list include the need for a continuing resolution on a budget and a decision on the debt ceiling. This commentary will concentrate on what Democrats need to do to finally complete what many outside the beltway view as an impractical legislative bluff as a barrier to an agreement. Even without the entire \$3.5 trillion number that progressives appear to not be budging, an extraordinary amount of federal support will flow throughout the country.

### The Holdup is From Progressive Democrats

The infrastructure holdup is no longer a Republican-Democrat feud. Work by the Republicans on infrastructure is essentially over, already playing their part by helping the \$1+ trillion bipartisan plan pass through the Senate. The holdup also is not necessarily the result of the moderate Senate Democrats such as Joe Manchin or Kyrsten Sinema, although Manchin has written that he won't support another \$3.5 trillion. Manchin has indicated that something costing \$1.5 trillion or less over a 10-year period is possible. However, time may not be on the Democrats' side, because over the weekend a report surfaced revealing Manchin may want a strategic pause until 2022.

The holdup is from progressive House Democrats. The progressives still see each infrastructure package as being linked. They have said their support will not come for the \$1+ trillion bipartisan package unless the Senate passes the \$3.5 trillion Build Back Better plan that some see as being more related to social spending and less to hard infrastructure. Therefore, the details of the \$3.5 trillion budget reconciliation package are going to need to be scaled down prior to Senate approval. This is not what is happening, however. Something closer to the \$3.5 trillion package, or even more, is being constructed and pushed for by Congressional leaders. Some Democrats are also trying to find room in the package for other items such as a potential repeal to the \$10,000 state and local government (SALT) cap.

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So, the road to getting something done on infrastructure this year could lead to a combination of policies that includes the \$1+ trillion bipartisan plan already approved by the Senate and a budget reconciliation package that tops out around \$1.5 trillion. As expected, the budget reconciliation number (\$1.5 trillion) could rise or fall slightly depending upon the policymaking process. Now that House members are back in session, the question now is if this path of compromise is possible by the progressive Democrats and the rest of the Democratic party. Progressives have not given any indication they are even willing to come down to a number close to \$1.5 trillion. They feel they have already compromised to get to the \$3.5 trillion number. The problem is they may be overplaying their hand, and the potential to lose out on \$2.5 trillion of infrastructure investment is on the line.

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### What Happens to Public Finance Friendly Elements if Spending Falls to \$1.5 Trillion

The question then is whether the public finance friendly elements, like the new taxable, direct-pay bond program and advance refundings with tax-exempts, remain in the budget reconciliation package if it falls to a total spending amount of \$1.5 trillion from the current \$3.5 trillion. It is possible that these public finance elements stay because if lawmakers are searching for hard-infrastructure items to remain, these spending items would certainly fit that description more than many other line-items. However, policymakers may also determine that public finance was prioritized in the Rescue Plan Act and more support is not needed. There was at least \$650 billion that flowed to public finance entities in the Rescue Plan Act (see page 3). Some recent reports are indicating that this Rescue Plan Act money has been slow to be spent by state governments. We expect more to come on this over the next two weeks, and it is very possible that lawmakers punt infrastructure negotiating until the end of October in order to clear time for other legislative priorities.

*See charts on pages 3-5.*

## Comparison of Total Tax Breaks

Policy Category	Ways and Means Outlay	President's Budget Outlay
Extension of expanded Child Tax Credit (CTC)	\$556 billion	\$449 billion
Permanent extension of expanded Child and Dependent Care Tax Credit (CDCTC)	\$98 billion	\$104 billion
Permanent extension of expanded Earned Income Tax Credit (EITC)	\$135 billion	\$105 billion
Tax Benefits for Caregivers	\$36 billion	<\$1 billion
<b>Subtotal, Tax Cuts and Credits for Individuals</b>	<b>\$825 billion</b>	<b>\$659 billion</b>
Automatic retirement contributions	\$24 billion	n/a
Expanded Savers Credit	\$23 billion	n/a
<b>Subtotal, Retirement Provisions</b>	<b>\$47 billion</b>	<b>\$0</b>
Infrastructure financing subsidies	\$42 billion	\$12 billion
New Markets Tax Credit	\$2 billion	\$4 billion
Rehabilitation tax credits	\$26 billion	n/a
Disaster and resiliency tax relief	\$3 billion	\$4 billion
Housing tax credits	\$47 billion	\$45 billion
Credits for tribes and territories	\$11 billion	n/a
<b>Subtotal, Infrastructure Tax Breaks</b>	<b>\$131 billion</b>	<b>\$65 billion</b>
Renewable electricity and energy	\$134 billion	\$297 billion
Renewable fuels	\$43 billion	\$11 billion
Electric Vehicles (EV) and other green vehicles	\$42 billion	\$17 billion
Energy efficiency incentives	\$39 billion	\$35 billion
Green workforce and environmental justice	\$15 billion	n/a
<b>Subtotal, Climate-Related Tax Breaks</b>	<b>\$273 billion</b>	<b>\$360 billion</b>
Tax cuts for universities and college students	\$5 billion	n/a
Tax cuts for residents and medical students	\$5 billion	n/a
Delay of amortization of research and experimentation, other tax cuts	\$27 billion	n/a
<b>Subtotal, Other Tax Breaks</b>	<b>\$37 billion</b>	<b>\$0</b>
<b>Total</b>	<b>\$1,313 billion</b>	<b>\$1,084 billion</b>

Source: Committee for a Responsible Federal Budget and HilltopSecurities.

## Potential "True Cost" of Reconciliation Policies, if Made Permanent

Policy Category	Ten-Year Estimate
<b>Tax Credit Extensions</b>	
Extension of expanded Child Tax Credit (CTC)	\$1,100 billion
Extension of expanded Earned Income Tax Credit (EITC)	\$105 billion
Extension of expanded Child and Dependent Care Tax Credit (CDCTC)	\$105 billion
<b>Clean Energy Investments</b>	
Clean energy and vehicle tax incentives	\$330 billion
Climate-smart agriculture, wildfire prevention, and forestry	\$100 billion
Federal procurement of clean technologies	\$50 billion
Weatherization and electrification of buildings	\$40 billion
Clean energy accelerator	\$30 billion
Civilian Climate Corps	\$10 billion
Clean energy standard	N/A
<b>Education and Families</b>	
Funding for community colleges, HBCUs, and Pell Grants	\$285 billion
High-quality and affordable child care	\$250 billion
Paid family and medical leave	\$225 billion
Universal pre-kindergarten for all 3- and 4-year-olds	\$165 billion
Nutrition assistance	\$45 billion
<b>Manufacturing, Jobs, and Housing</b>	
Housing investments (including funding for affordable housing programs)	\$190 billion
Upgrades to Innovation and Research & Development	\$185 billion
American manufacturing and supply chains funding	\$180 billion
Investment in workers and communities	\$120 billion
Immigration and border management	\$100 billion
Small business support	\$30 billion
Pro-worker incentives and penalties	N/A
<b>Health Care</b>	
Expansions of home and community-based health care services	\$400 billion
New dental, vision, and hearing benefit in Medicare	\$370 billion
Closing the Medicaid "coverage gap" in non-expansion states	\$300 billion
Extension of expanded Affordable Care Act benefits from the American Rescue Plan	\$165 billion
Lower patient spending on prescription drugs	\$120 billion
<b>Total Cost of Permanent Policies</b>	<b>\$5,000 billion</b>
<b>Potential Additional Policies and Costs</b>	
Changes to State and Local Tax (SALT) deduction cap	\$120 billion
Investment in K-12 school infrastructure and upgrades federal hospitals and buildings	\$90 billion
Expansion of Graduate Medical Education	\$20 billion
Costs from potential estimating differences	\$250 billion
<b>Potential Total Cost with Additional Policies and Costs</b>	<b>\$5,480 billion</b>

Source: Committee for a Responsible Federal Budget and HilltopSecurities.

## Estimated Budgetary Effects of Select Revenue Proposals (\$ in billions)

Provision	FY 2022-2031
A. Bond Financing	
1. Credit to Issuer for certain infrastructure bonds	-\$22,539
2. Advance refunding bonds	-14,919
3. Permanent modification of small issuer exemption for financial institutions	-3,965
4. Other	-614
<b>Total of Infrastructure Financing</b>	<b>-\$42,037</b>

Source: Joint Committee on Taxation Sept. 11, 2021 and HilltopSecurities.

## Recent HilltopSecurities Municipal Commentary

- [Proposed Tax Increases Reinforce Tax-Exempt Municipal Bond Demand](#), Sept. 15, 2021
- [Mostly Constructive News for Public Finance in Ways and Means' Build Back Better Markup, However the Path for Passage Remains Challenging](#), Sept. 13, 2021
- [Lawmakers Moved Closer on Infrastructure in August, \[there is\] Still No Clear Path](#), Sept. 1, 2021
- [Economic Impact from Hurricane Ida Expected to be Modest, Municipal Credit Impact Likely to be Minimal](#), Aug. 30, 2021
- [Florida's Threats Cause Blowback to Municipals, Debt Service Not Currently at Risk](#), Aug. 23, 2021

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