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# Munis Set for 'Golden Decade' of Credit With Infrastructure Aid.

- · However, lack of certain muni provisions seen capping issuance
- Fresh flood of cash may also suppress borrowing needs

U.S. municipalities are set for another massive infusion of cash from the \$550 billion infrastructure package, leaving participants in the muni-bond market to assess the impact on the nation's states and local governments.

In a nutshell, the analysis boils down to a couple big takeaways: It's great for credit quality in the \$4 trillion market. Bank of America Corp., for example, sees a "golden decade" of credit ahead. But on the other hand, all that cash may even suppress bond sales.

The legislation will unleash spending in an array of areas: It allocates around \$110 billion for roads and bridges, \$66 billion for rail, and \$39 billion for public transit. Another \$65 billion is earmarked for connecting Americans to high-speed Internet, while \$65 billion will go to the power grid and \$55 billion for drinking-water systems.

The influx comes as municipalities have already collected a historic infusion of \$350 billion of federal cash from the American Rescue Plan. Here's how investors, bankers and analysts expect the new funding will affect the dynamics and borrowers in the muni market:

#### **Credit Boost**

"The passage of the Infrastructure Investment and Jobs Act is broadly credit positive for the muni market as the infrastructure investment will boost economic growth and revenues for market issuers," wrote Yingchen Li and Ian Rogow, co-heads of municipal research at Bank of America, the market's largest underwriter.

Granted, the aid is a fraction of the \$2.6 trillion U.S. infrastructure-funding gap estimated by the American Society of Civil Engineers. But the money "will likely still allow muni market issuers to address growing deferred maintenance costs," an issue that credit-rating companies have increasingly focused on over the past decade, according to Li and Rogow.

Ann Ferentino, a portfolio manager at Federated Hermes, also pointed to the funding as a "credit positive" given that municipalities typically assume the lion's share of public-infrastructure investment.

"Historically, a portion of those efforts would have gone unaddressed, delayed or been funded through additional debt issuance that strained cash flows and eroded credit quality," she said. The act will "take a load off states and municipalities by addressing decades of underinvestment in physical projects, a positive for investors in the broad muni securities market."

# **Supply Disappointment**

Some market observers initially expected the infrastructure plan and separate legislation would spur a flood of bond sales. Lobbying groups had advocated for the restoration of a debt-refinancing tool known as advance refunding as well as the revival of an Obama-era bond program. But those items didn't make the final bill, dousing expectations for a deluge of issuance.

The infrastructure plan "isn't likely to lead to a major increase in muni issuance," according to Cooper Howard, a fixed-income strategist at Schwab Center for Financial Research.

"The package contains a few muni-friendly elements that could lead to a modest increase in muni issuance, such as the expansion of private-activity bonds, but issuance is unlikely to surge," he wrote in an email.

State and local governments have sold about \$412 billion of long-term bonds this year, around 0.6% less than the same period in 2020, data compiled by Bloomberg show.

## **Issuance Decline Mulled**

There's even the prospect of a decline in borrowing ahead because of the aid.

Charles Peck, head of public finance at Wells Fargo & Co., estimates new muni sales will be "flat to slightly up" in 2022 compared with this year. But he also envision another scenario.

"We could see a decline in issuance because there is so much cash available and some governments have paused as they try to figure out how to best use the money," he said.

However, once issuers figure out those logistics, the infrastructure bill could spur more sales as larger projects get off the ground. He expects more borrowing for "ancillary infrastructure" projects like broadband and electric vehicles.

Mikhail Foux, head of municipal strategy at Barclays Plc, also anticipated a "capping effect" on new bond sales.

"Some of the funds municipalities will be using and would've been funded through the capital markets and now they won't have to bond for it," he said.

Some muni provisions could yet re-emerge in the Build Back Better Act, which is more focused on Democrats' social priorities, said Matt Fabian, a partner at Municipal Market Analytics.

"Since that bill has been sent back for more discussion that means that the muni provisions are not dead, things can always come back as the bill is rethought," Fabian said.

## **Bloomberg Markets**

By Danielle Moran

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— With assistance by Amanda Albright

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