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What Does President-Elect Joe Biden's Presidency Mean for Municipal Debt Markets?

In more ways than one, the 2020 American presidential election was a historic one: Joseph R. Biden, the 46th president of the U.S., will be the oldest president to take office and his VP will be the first female to hold the office of vice president in American history.

Aside from these historical measures, many investors are trying to decipher the president-elect Joe Biden's fiscal policies and their impact on the fixed income markets. Furthermore, given the rapid increase in COVID-19 cases throughout the world, how is he going to prioritize his efforts for local governments to ease their financial strains and revive the impaired revenue sources?

In this article, we will take a closer look at President-elect Biden's election promises and how they will likely materialize in the upcoming years.

Financially Strapped Local and State Governments

It is no secret that all local and state governments are faced with some serious liquidity challenges due to their impaired revenue sources due to COVID-19. These challenges are also worsened by the additional expenditures required by these government bodies to combat COVID-19 and provide testing in their respective jurisdictions – which they may not have been prepared or budgeted for.

President-elect Joe Biden will likely get the next stimulus bill passed; this bill has already gone through the House of Representatives, and the Senate has shown some interest in prioritizing this bill post-election. This will not only be a victory for President-elect Biden's camp, but also a piece of legislation that can provide over $436 million in funding for local and state governments. This bill mirrors the earlier tranches of COVID-19 financial help from the federal government, where the local governments submitted their respective claims for funding based on the lost revenues due to COVID-19.

Furthermore, the transportation agencies throughout the U.S. have been one the hardest hit local government agencies. This is strictly because these agencies rely heavily on the ridership volumes for the revenues. Since March, 2020, all – from small and midsize to large – transportation agencies have been severely impacted by the Coronavirus shutdowns and companies allowing their employees to work remotely. The inevitable shelter-in-place orders throughout the U.S. have delivered the hardest blow for these agencies. If passed, this new stimulus bill can be a life saver particularly for transportation agencies including light rail and bus systems.

Be sure to check out our previous article here on how the local government's fiscal resilience is going to be tested long after the COVID-19.

Infrastructure Push and Green Energy Promises

Almost every president in recent history has highlighted the dire need to fix and revamp America's infrastructure, including bridges, highways, airports and much more. President-elect Biden is no different in his promises.

The federal funding required to undertake these projects will be great for the municipal debt market, and local and state labor markets. It's also important to note that many of the infrastructure projects will require Public-Private Partnerships (PPPs) that will help infuse private and public capital into the markets. For example: airports, hospitals, water and sewerage systems and transportation projects, etc., are often built with a PPP, where the local government utilizes their ability to issue municipal debt and partner with a corporation to complete the project.

President-elect Biden also talked about the need to limit our dependency on oil and spend more on developing greener alternatives of energy. These efforts can potentially reignite the conversation about Green Debt issued by municipalities in order to fund projects that may include renewable and energy efficiency projects, pollution prevention and control, clean public transportation conservation, green buildings, and sustainable water and wastewater management.

Potential Changes to the Marginal Tax Rates

Although tough without the democratic control of the Senate, President-elect Joe Biden promised some sweeping changes to the tax-code structure based on the income levels where the marginal tax rates is likely to see a hike for the wealthiest Americans; in-turn, increasing the demand for municipal debt investments to capitalize on the tax-exempt income from local, state and federal taxes.

Under Biden's tax plan, individual taxpayers earning more than $400,000 annually would be taxed at 39.6%, up from 37% currently, and subject to an additional 12.4% Social Security tax on wages split equally with their employer. These changes to the marginal tax rates will make tax-exempt income more lucrative for individuals in higher tax brackets, in turn, driving up demand for local government debt.

President-elect Biden has also promised to restore the earlier corporate tax rates for corporations.

The Bottom Line

Although many things are still unclear about the control of the American Senate, which is the key for President-elect Biden to fulfil many of his campaign promises, American voters have chosen a leader who can work with both sides of the aisle on issues that transcend party lines – American infrastructure and reviving the American economy post COVID-19.

It's clear that the American economy has some challenging times ahead; but, with bi-partisan decision-making, these challenges can be overcome for the betterment of America.

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