

# Oroville and Beyond: Giving a Dam About Infrastructure

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- Complications at California's Oroville Dam highlight a larger, nationwide infrastructure concern.
- Many states are under financial strain to make the necessary repairs to failing infrastructure.
- President Donald Trump proposed public-private partnerships to repair and improve the nation's infrastructure.

Over the last few weeks, California's Oroville Dam has become the poster child for challenges presented by America's aging infrastructure. Following a five-year drought that resulted in the implementation of water conservation measures, the state was hit by a deluge of rain over the past two months — resulting in rising rivers, flooding and mudslides. This caused the Oroville Dam (the nation's tallest, at 770 feet) to suffer significant erosion of its emergency spillway, leading to the evacuation of some 200,000 area residents and causing President Trump to issue a federal disaster declaration.

## **Not Just One Dam**

The problems at the Oroville Dam are in danger of being repeated across the entire nation. California itself has 658 dams classified as "high hazard" by the National Dam Safety Program, which is led by the Federal Emergency Management Agency. According to the American Society of Civil Engineers, there are 85,225 dams in the U.S., with 15%, or 12,832, branded high hazard. More than 4,000 are deemed structurally deficient.

## **Not Just Dams**

Infrastructure challenges don't begin or end with dams. The American Road & Transportation Builders Association reports that there are 56,000 bridges in the U.S. judged as architecturally inadequate, with the highest number in Iowa, Pennsylvania, Oklahoma and Missouri.

Water pipes across the nation are in similar need of repair. News stories routinely report that the infrastructure delivering much of the water supply in major cities across the country hasn't been replaced in nearly 100 years.

## **Money Required**

In general, infrastructure spending is paid for with debt at the state and local levels. But as states come under financial pressure from pension costs and revenue imbalances, little

funding is left to address structural needs. Politicians in Washington, D.C., are therefore tasked with reaching common fiscal ground in order to avoid disasters like the one nearly occurring at the Oroville Dam.

While the need to repair and improve infrastructure throughout the U.S. is not a recent development, it was highlighted by both Trump and Democratic nominee Senator Hillary Clinton on the campaign trail leading up to the election in November. Trump reiterated this during his recent address to Congress, mentioning his plan to invest \$1 trillion in rebuilding the nation's crumbling infrastructure.

## **Investors Watching**

Uncertainty about infrastructure spending under the Trump Administration has weighed on the municipal market (the bonds typically used by states to pay for infrastructure), as have other unknowns such as rising interest rates and potential tax reform. Lower taxes could negatively impact the municipal market as the lure of tax-free income could wane. While net new issuance has flat-lined over recent years, even as taxes have remained elevated, a deluge of new issuance at the state and local levels could immediately change the landscape for municipal investors, weighing down prices and pushing yields higher in the near- to medium-term (prices and yields move inversely).

## **Our View**

Despite the intense speculation, at this point, it is still too early to tell for certain how everything will play out in the municipal market. As policy details are finalized and communicated, a clearer picture should be revealed.

In any event, active credit analysis will continue to be the cornerstone of our investment strategy and will play an important role in reviewing and evaluating market offerings. Our focus will remain on selecting high-quality issues that deliver predictable income streams.

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