

Bond Case Briefs

Municipal Finance Law Since 1971

How Zika Could Infect the Municipal Bond Market.

Even if an area has no cases of the virus, it could feel a financial impact.

When you walk through Atlanta's Hartsfield-Jackson International Airport, it's hard to ignore the solemn warnings that the city could be an entry point for the Zika virus into the United States.

Everywhere, large signs picturing a menacing mosquito warn travelers: "Don't let this bad bug bite you." Other signs warn pregnant travelers about a Zika health advisory. Last month, airport concessionaires began selling insect repellent with the recommended level of DEET to keep mosquitoes at bay.

But there are also financial implications of Atlanta's status as a gateway to Central and South American travel, and for other cities like it. According to a [new report](#) by the investment firm, Loop Capital Markets, the Zika virus could make it more expensive for some municipalities to borrow money.

That's because similar to natural disasters, a virus outbreak has the potential to overwhelm local and state health departments. Since Hurricane Katrina "demonstrated the enormous capacity of governments to botch disaster relief efforts," Chris Mier, the report's author, says previous research has shown that a region's susceptibility to disasters plays a role in their municipal interest rates. For example, a study of California's more earthquake-prone cities found that they paid a higher interest rate on their bonds following Hurricane Katrina.

That means the same consequences can apply to other disaster situations, including a Zika epidemic. Making matters worse now is the fact that public health resources have become more constrained, so states and localities could be limited in their ability to quickly contain the virus.

"While no one knows the extent of health problems Zika may cause in the U.S., the federal and state response may be underwhelming, resulting in greater health and economic damage than previously expected," wrote Mier.

Meanwhile, Congress has yet to agree on funding to fight the virus, despite warnings from health officials about the need to move quickly. The Senate has passed a bill freeing up \$1.1 billion in funding, far less than the White House's original request of \$1.9 billion. The House of Representatives, however, only wants to provide \$622 million.

So far, more than 1,500 cases have been reported in the U.S. and its territories. All 591 U.S. infections were acquired from travel, which means there's no proof yet that mosquitoes carrying the virus have made it to the states. But in the U.S. territories, all located in the Caribbean, all but four of the 939 cases were contracted locally.

U.S. cities most at risk for the Zika virus are primarily in the South but extend as far north as New York City and as far west as California's Central Valley. In particular, Mier says Zika may pose a greater financial risk to nine states that have fallen below the national average in public health

expenditures: Arizona, Florida, Georgia, Louisiana, Mississippi, North Carolina, Pennsylvania, South Carolina and Texas.

"Any credit-related impact should likely emerge in these states first," said Mier, noting that they're more likely to see interest rates increase than credit ratings downgraded.

Even without an outbreak in the U.S., Mier's report said the Zika virus could still have a negative financial impact. At-risk cities that rely on tourism could see economic activity slow if public health concerns fester. Florida and New York, where one-third of the U.S. cases have been reported, are most vulnerable. In particular, New York City, Orlando and Tampa have emerged as popular landing places for Puerto Rico residents looking to escape the economic recession on that island.

Carried by mosquitoes, the Zika virus started spreading extensively in the Caribbean, South and Central America last year. Prior to 2015, Zika had been found in parts of Africa, Southeast Asia and the Pacific Islands. The virus is thought to be mild, although it has been linked to serious birth defects such as microcephaly (shrunken head and brain) if contracted while pregnant.

GOVERNING.COM

BY LIZ FARMER | MAY 27, 2016

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com