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U.S. Municipal Disaster Plans Seen More Vital for Ratings: Report

NEW YORK (Reuters) – U.S. state and city governments' planning for natural disasters will become more critical to their credit quality as costs to deal with extreme weather events increase, S&P Global Ratings said in a report on Tuesday.

"What we do expect is the severity of. these storms – in terms of financial impacts and the human impact as population tends to move toward urban, coastal cities – will grow over time," Kurt Forsgren, public finance analyst at S&P, said in an interview.

Costs to build more resilient infrastructure will increase, while federal disaster relief could become less certain, according to the report on how climate change affects credit quality.

If extreme weather becomes more frequent, municipalities might be unable to count on the traditional level of federal disaster relief after an event, Forsgren said.

Climate change can hurt municipal issuers, for instance, if sea levels rise and damage properties and their values, or increase electricity loads because of higher average temperatures, the report said.

"Overall, we see some municipal issuers recognizing, measuring, and reporting their impact on the environment as well as documenting how operations and capital planning are changing in response, but this is not widespread," the report said, adding that California is leading the pack.

While relatively few credit downgrades have been prompted by natural disasters or climate risks, S&P said that number could rise if climate risks increase and are not mitigated.

The report came after hurricanes Harvey, Irma and Maria inflicted widespread damage on areas including Texas, Florida and the Caribbean.

On Tuesday S&P revised its outlooks on five Texas municipal utility districts to negative due to impacts of Hurricane Harvey.

Moody's Investors Service downgraded Puerto Rico's General Obligation bonds on Oct. 11 to Ca from Caa3, citing in a report protracted economic and revenue disruptions caused by Hurricane Maria.

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