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Fitch Rtgs: No Cali Blackout Near-Term Effect on Infrastructure, Municipals

Fitch Ratings-New York-11 October 2019: Blackouts in California as a precaution against conditions conducive to wildfires do not have an immediate effect on infrastructure or municipal credit, says Fitch Ratings. However, over the long term, energy infrastructure projects, municipalities and public power utilities may see revenue pressured due to curtailment and loss of customers and taxpayers. How common and long-lasting wildfires and associated blackouts are and how these conditions are managed in the future may affect credit over a longer period. We believe the financial flexibility of rated local governments, non-profits and utilities, along with the resumption of normal business operations, will mitigate the risk posed by lost revenue, but longer-term negative credit implications could emerge given the potential for economic slowdown.

In the past, Fitch noted that economic effects of natural disasters such as lost tourism income, crop damage and lost revenue due to school closures are likely to be temporary and followed by increases in economic activity as communities rebuild and go back online. However, wildfires are occurring with increased frequency in California due in part to environmental changes, such as drier conditions, leading to longer fire seasons, highlighting the need for state and local governments to maintain reserves for economic or capital emergencies. Businesses and residents may decide to relocate to areas less prone to severe weather and associated catastrophes, reducing the tax base and economic growth in areas viewed as more high risk. Development in fire prone areas contributed to the severity of the effects of disasters on the population, and further growth and development may be limited by practical and economic considerations.

If blackouts become more frequent, consumers may look more to alternative suppliers or self supply. Historically, individuals and businesses turned to diesel generators, but less costly and longer duration residential battery systems are an increasingly viable alternative. These developments could exacerbate the current trend of lower revenue requirements for municipal utilities. Likewise, if utilities increasingly respond to wildfire risk by exercising emergency generation curtailment, Fitch would expect to see lost revenue for independent power producers. Burying transmission lines is an obvious solution for these challenges but remains expensive.

While roads, tunnels, bridges and public transit continue to operate in northern California during the blackout, these entities may see brief volume declines if people decide to stay home during the blackout.

For more information on environmental risk considerations in Fitch's ratings, please see Environmental Risk in U.S. State and Local Government Ratings.

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