

Bond Case Briefs

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Lukewarm Bond Yields Belie Mayors' Climate Alarm.

If politicians believe what they say on the campaign trail, why don't their cities disclose it to borrowers?

Dire climate-change warnings have become a mainstay of politics. This is particularly true for state and local politicians whose coastal constituents stand to be most affected by rising sea levels. Mayors declare that impending eco-dangers represent an "existential threat," and that significant portions of their cities will be submerged without swift and dramatic action. But do municipalities disclose these perilous environmental risks to potential bond investors?

The Government Accountability Institute undertook a [yearlong study of 40 major cities](#) to find out if mayors' apocalyptic projections about climate risks are factored into the interest rates on the municipal bonds their cities issue. The results revealed a gulf between the words municipal leaders speak and the disclosures cities make. There was no statistically significant difference in the interest rates for bonds issued by cities in high-risk locations for climate-change devastation versus those issued by low-risk cities.

The study compiled 100 bond issuances for 20 cities at risk of climate-induced sea-level rises such as New York and New Orleans, as well as 100 issuances for 20 low-risk, inland cities such as Chicago and Kansas City. Greater risk to investors should produce a higher bond interest rate, or "coupon rate." But the average rate for at-risk cities was 4.21% versus 3.99% for low-risk cities, and our analysis found that this difference of 22 basis points was not statistically significant. The study controlled for factors like type of bond, maturity and purpose, which also affect interest-rate variation.

The study also found scant mention of climate change in bond disclosure documents. The disclosure statements of the 20 at-risk cities totaled 4,361 pages. Phrases like "climate change" and "sea-level rise" appeared fewer than 100 times across all 20 at-risk cities in the context of the issues addressed in this study. Further, 12 out of the 20 disclosures for at-risk cities did not mention climate language in the same context.

The contrast between what mayors say in public and what cities disclose in bond language is often stark. New York's Bill de Blasio has called climate change an "existential threat" and a "dagger aimed straight at the heart" of the city. Yet New York and the Port Authority of New York and New Jersey barely mentioned climate change or rising sea levels in their risk statements to investors.

The city's [official 297-page disclosure](#) for its April 2018 \$1.1 billion general-obligation bond issuance contains four paragraphs with generic mentions of rising sea levels and climate change. This issuance was composed of \$250 million in taxable bonds with an average coupon rate of 3.2% and \$850 million in tax-exempt bonds with an average coupon rate of 4.21%. These interest rates hardly reflect the "dagger to the heart" threat Mr. de Blasio says is imminent.

California municipalities evinced a similar pattern. In a 2017 lawsuit against Exxon Mobil Corp. and four other oil companies, the city of Oakland painted a dystopian portrait of looming environmental

calamities. “Global warming has caused and continues to cause accelerated sea level rise in San Francisco Bay and the adjacent ocean with severe, and potentially catastrophic, consequences for Oakland,” the city’s lawsuit stated. Worse, “by 2050, a ‘100-year flood’ in the Oakland vicinity is expected to occur on average once every 2.3 years and by 2100 to occur 44 times per year or almost once per week.” The lawsuit added that “Oakland is projected to have up to 66 inches of sea level rise by 2100.” The city alleged this would “imminently threaten Oakland’s sewer system” and harm property with a “total replacement cost of between \$22 and \$38 billion.”

Contrast that detailed, dramatic language with Oakland’s bland, measured 2017 bond risk disclosure to investors: “The City is unable to predict when seismic events, fires or other natural events, such as sea rise or other impacts of climate change or flooding from a major storm, could occur, when they may occur, and, if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the City or the local economy.”

Politicians can’t have it both ways. If climate change is the existential threat they claim, then why aren’t municipal-bond investors being rewarded with higher interest rates for taking greater risks? And why don’t bond disclosure statements contain the grave and granular data from climate-change projections those same municipalities tout elsewhere?

If mayors are serious about leading on climate change, they should align the rhetoric they speak on the campaign trail with the interest rates and disclosures they offer on municipal bonds. And if they need another motivation, there’s this: While campaign promises aren’t legally binding, bond disclosure statements are.

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