

# **Bond Case Briefs**

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## **Florida Hurricane Season Threatens Second Hit to State Finances.**

- **Hurricane season may see 'above normal' activity: CSU projects**
- **State's rainy day fund can be tapped for budget, hurricane aid**

As Florida begins to emerge from the coronavirus shutdown, another unseen threat lays in wait: hurricane season.

The virus has already thrown more than a million Floridians out of work and caused a massive blow to the tourism-driven state where sales taxes provide more than half of the government's revenue, with beaches, restaurants and amusement parks temporarily shuttered. Even as the state starts to re-open, Florida may see an \$8 billion to \$10 billion hit to its budget because of the virus, amounting to about a quarter of its general fund, according to analysis by Moody's Analytics.

"Hurricane season is right around the corner," said Florida Chief Financial Officer Jimmy Patronis, who also serves as the state's fire marshal, on a Wednesday call with fire chiefs. "Severe weather does not care that our communities are dealing with this pandemic."

The 2020 Atlantic hurricane season, which begins June 1, is projected to see "above normal" activity, according to Colorado State University researchers. And as hurricanes get more severe, they're also getting more costly in terms of physical and economic damage.

While the AAA rated state has \$3.7 billion in reserves that could be tapped for disaster relief, those funds are likely to be depleted to make up for lost sales-tax revenue from the virus, said Nick Johnson, a senior vice president for state fiscal policy at the Center on Budget and Policy Priorities. He said that Florida was particularly ill prepared for a recession even before the pandemic and the resulting budget cuts could leave state agencies unequipped for a disaster.

"That's the problem when you have states not well prepared for one disaster," he said. "If a hurricane were to hit, Florida would be in even more trouble."

The economic fallout from hurricanes can be sizable. Hurricane Michael, which devastated Florida's northern panhandle in 2018, caused an estimated \$25 billion in damage and spurred lawmakers to allocate more than \$1 billion in emergency funds. The state has tapped unspent general-fund reserves for disaster recovery expenses that it expects to get reimbursed for later. All five of the costliest hurricanes on record — Katrina, Harvey, Maria, Sandy and Irma — hit in the last 15 years, according to the National Hurricane Center's data.

"Hurricanes and hurricane seasons are getting worse and worse," Johnson said. "It would be a huge problem. I think you would see Florida really scrambling to find the resources to respond."

Historically, hurricanes and other major weather events haven't lead to drastic credit issues or lower prices for municipal bond issuers because the Federal Emergency Management Agency provided assistance and the resulting rebuilding led to new jobs and spurred economic development. Because

of that, climate change and the risks of weather events aren't priced into the market, said Cooper Howard, a director at Charles Schwab.

"I don't think many states, cities, or local governments have done an adequate job of preparing for an issue like this," Howard said in an interview, referring to climate readiness.

This hurricane season could be worse than prior years with major hurricanes making landfall along the continental U.S. and in the Caribbean, according to projections from the researchers in the CSU department of atmospheric science. The group said there is a 45% likelihood of a category 3, 4 or 5 storm hitting the U.S. east coast, including the Florida peninsula and a 44% chance of one hitting the Gulf Coast and the Florida panhandle. Both of those estimations are about 15 percentage points higher than the average for the last century.

"It's a pretty dire situation," said Eric Glass, a portfolio manager at AllianceBernstein. "So much more needs to be done from a mitigation, resilience, and adaptation perspective and now you have a larger than normal hurricane season bearing down on you with limited resources, that doesn't add up to sunshine and rainbows."

Glass, who runs the firm's municipal impact policy group, said as some investors grow wary of municipal credit amid the fiscal hit to many states and cities, the borrowing costs for governments will increase. It's already happening: this week, New York's Metropolitan Transportation Authority saw its borrowing penalty quadruple compared to its previous deal in January.

Some of Florida's beach towns are among the most exposed cities to climate change in the country, according to an analysis by advisory firm Four Twenty Seven that indexed cities and counties exposure to climate-related risks like sea level rise.

The pandemic is already wreaking havoc on state and municipal finances, spooking investors in the municipal bond market. And Florida's reliance on now-depleted sales taxes and the looming potential for a major storm may raise the price for the state's investment in infrastructure, Glass said.

"This will make it more expensive for Florida to borrow to fund any type of resilience to climate change," he said.

## **Bloomberg Politics**

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