

Bond Case Briefs

Municipal Finance Law Since 1971

PIMCO Expects No Disruption to LA Muni Bondholder Payments After Fires.

NEW YORK, Jan 29 (Reuters) – Los Angeles municipal bond issuers should be able to absorb losses caused by fires in the region without disrupting payments to investors, U.S. bond fund manager PIMCO said on Wednesday.

“While the situation is devastating, our baseline expectations are that the long-term credit impact of the Los Angeles wildfires will be manageable,” said the Newport Beach, California-based firm, which manages around \$2 trillion.

The Los Angeles region has been devastated by a series of wildfires since Jan. 7 that are still not fully contained.

Los Angeles city and county, along with nearby school districts and the state of California, are in a strong financial position to manage losses, ensuring bondholder payments remain unaffected, said PIMCO.

It highlighted the municipality’s broad tax base that, despite property damage and losses, will continue to generate sufficient revenues to meet debt obligations. Federal Emergency Management Agency (FEMA) funding for temporary assistance will also be key to ensure continued debt payments, it said.

“We believe all affected local governments entered this disaster with healthy liquidity and reserve funds, helping to provide near-term funding and a longer-term bridge to potential FEMA reimbursement for rebuilding,” said PIMCO.

In contrast to the city, county, state and school districts, the credit profile of the Los Angeles Department of Water and Power (LADWP) has deteriorated after it was sued for allegedly failing to properly manage water supplies critical to fighting the deadly Palisades Fire, PIMCO said.

Ratings agency S&P Global Ratings downgraded the U.S. largest utility’s water and power bonds by two notches earlier this month citing potential vulnerability to liability claims.

The risk of missed debt payments is low due to solid financials, said PIMCO, but investors may require higher returns to hold LADWP bonds to take into account the potential financial impact of litigations over the next few years, it said.

LADWP did not immediately respond to an email seeking comment outside of regular business hours.

By Davide Barbuscia

January 29, 2025

