

Bond Case Briefs

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Municipal Bond Deals Are Getting Flagged For Climate Risk.

ICE climate scores put several new muni offerings at 2.0 or higher on wildfire and flood exposure, including a 5.0 flood score for Ship Bottom, New Jersey.

What does this mean?

Municipal bonds are backed by local tax revenue, so anything that threatens homes, businesses, and infrastructure can weaken the long-term ability to pay. ICE Climate Data is trying to standardize that risk at the point of issuance with a 0.0-5.0 score that rolls up hazard models for threats like flood and wildfire; ICE says a component score of 2.0 or higher signals elevated exposure to acute weather events. Several recent deals clear that bar, including Dublin Unified School District, California with a 2.9 wildfire score and Western Beaver County School District, Pennsylvania with a 3.7 flood score, alongside Ship Bottom's 5.0 flood reading. The bigger shift is visibility: a single, widely distributed label gives underwriters and investors a common yardstick to compare very different places, which can matter even when the official credit rating stays the same.

Why should I care?

For markets: *Ship Bottom's 5.0 flood score makes climate exposure a pricing variable.*

When a standardized score shows up in the deal docs, climate risk stops being an abstract debate and becomes something investors can plug into how they price a bond. In practice, that often shows up as a wider "credit spread" – the extra yield a muni has to offer versus safer benchmarks – and thinner liquidity, meaning fewer buyers are willing to trade quickly without a discount. Smaller, more specialized deals can feel that effect most, because there's less data and fewer natural buyers. So an issuer that's flagged at 2.0 or higher, like Ship Bottom on flood risk or Dublin on wildfire exposure, may face higher borrowing costs and bigger price gaps versus similar munis with lower scores.

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