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Climate Change and Credit Ratings.

The growing intensity of natural disasters is a threat to state and local governments' fiscal stability. How can they protect their finances and the environment?

Patricia, the strongest hurricane ever recorded in the Western Hemisphere, slammed into the town of Emiliano Zapata in southern Mexico in October. Peak winds were 165 miles per hour. The National Oceanic and Atmospheric Administration predicts that the 2015/2016 El Niño — a causal factor in the ferocity of Patricia — could foreshadow an indeterminate frequency, number and intensity of such storms in the Northern Hemisphere.

Wildfires in the U.S. West — California, Colorado, Montana, New Mexico, Oregon and Washington — were more severe and widespread this summer than in the past, burning or threatening millions of acres of land and thousands of homes. As wildfires increasingly imperil urban areas, they are putting more homes, lives and infrastructure at risk.

Whatever the debate about climate change may be in Congress or on the presidential campaign trail, it is clear that natural disasters — from hurricanes and wildfires to snowstorms and tornados — are becoming more commonplace and severe throughout the country. For state and local leaders, this intensification is not only a threat to lives and personal property but also to the fiscal stability of their communities.

It should not come as a surprise that the credit rating agencies have taken notice, adding “resiliency” to their rating criteria. In a recent statement, Standard & Poor's noted that it regularly publishes extensive research on the implications of environmental and climate-related risks and that its evaluation of environmental, social and governance risks is a key part of its ratings methodology. “We continue to review,” S&P stated in a note, “the relevance of climate risk for creditworthiness and how we assess and present it as a risk factor in our analysis.”

When it comes to natural disasters, the task of protecting lives, property and the fiscal stability of a community falls disproportionately on states and localities — especially the latter because of the responsibilities they have, including zoning, emergency planning and the need to find the funding to undertake protective measures. In that regard, there are lessons to be learned from past events. Some regions or states that have suffered losses have taken relatively simple steps to protect against future destruction, such as changing building codes or rebuilding on higher ground.

A case in point is the Biloxi-Gulfport area in Mississippi. Ten years ago, the destructive winds of Hurricane Katrina hit the coastal region with full force, destroying everything from residential homes to the offshore gambling industry. Concerned that Biloxi's economic lifeblood — tourists — would not return, the Mississippi legislature mandated that casinos had to build up to 800 feet inland instead of along the coast. Local communities banded together to rebuild, and today the casinos and golf courses that relocated or built inland have paved the way for a surprising and vibrant growth in the area, as well as an overall improved resilience for the economic lifeblood of the local communities.

Some unharmed communities are forward-looking, too. In Virginia's Hampton Roads region, coastal cities are investing in research and planning ways to diminish the negative effects of rising seas. Norfolk, which is home to the world's largest naval base, has been developing initiatives to learn about the impact of recurrent flooding in coastal cities around the globe.

On a recent visit to Norfolk, Secretary of State John Kerry noted that these initiatives were not just critical to the city's economic and physical future but also to what he deemed "the importance of addressing resilience and national security." Kerry announced the formation of a task force to incorporate climate change into decision-making at every level of government. That is, city leaders' experiences in Norfolk could not only help keep its fiscal house in order but have applications for cities across America on the Gulf, Pacific and Atlantic coasts, as well as for others worldwide.

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