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Advocates Say Climate Right for Resilience Ratings.

BOSTON — Climate experts and municipal issuers see the capital markets — investors with more than \$70 trillion in assets under management — as valued financing streams for resilience and green projects.

Transparent carrot-and-stick bond rating criteria along resiliency lines would help, they say.

“Now is the time to be pushing infrastructure projects,” South Miami, Fla., Mayor Philip Stoddard, an aquatic scientist, said in an interview. “By the time sea levels are rising, no one’s going to loan us money.”

Quirky weather is in the national headlines more frequently. As August began, and just as President Obama unveiled a major climate-change plan, severe flooding hit Tampa, Fla.; wildfires struck Northern California; a tornado touched down in Michigan; and severe thunderstorms knocked out power in parts of southern New England.

Bond rating agencies are increasingly studying the ramifications of environmental and climate developments such as the far-reaching Obama proposal, earthquakes, and hydraulic fracturing to extract natural gas and oil deposits from shale rock.

Recently, climate experts met at Standard & Poor’s in New York to discuss rating incentives as proactive steps to obtain capital and insurance more cheaply, avoid downgrades and minimize the cost of debt service to taxpayers.

“We regularly publish extensive research on the implications of environmental and climate-related risks for entities that we rate, and our evaluation of environmental, social and governance risks is a key part of our ratings methodology,” S&P said in a statement. “We continue to review the relevance of climate risk for creditworthiness and how we assess and present it as a risk factor in our analysis.”

A spokesman said S&P welcomes feedback from market participants on climate change and their role in the ratings process, and that its current climate-change related research goes back 10 years but has intensified over the last three.

S&P on Wednesday issued a report on the increase of fracking-related earthquakes in the Midwest, and what it sees as potential credit consequences for municipalities in that region.

“Resilient financing projects need to be started now to protect public health and property,” said Alan Rubin, a storm financing expert and managing director at Tigress Financial Partners.

Rubin, nicknamed the “Hurricane Czar,” helped design and underwrite the catastrophe fund for hurricane relief in 1992, while working in Lehman Brothers’ investment banking division, after Hurricane Andrew caused more than \$30 billion in damage in South Florida.

Regions such as South Florida and the Gulf Coast are notably vulnerable, though not alone.

Hurricane Sandy struck the Northeast in October 2012, killing 185 people overall as it right-angled directly into the New York City region. Boston last winter received a record 109 inches of snowfall that forced repeated shutdowns of its mass transit system.

"In my city, it has become painfully obvious that we have to set difficult goals for ourselves. The extent of the climate crisis demands it," New York Mayor Bill de Blasio said in the Vatican last month at the Pontifical Academy of the Sciences.

According to the U.S. Climate Assessment Report, New York State must protect against a two- to six-foot mean sea level rise in New York Harbor and Long Island, and make properties resilient in much larger flood plains due to 71% more intense precipitation and a 12% rise in flood magnitude.

In the Southeast, Stoddard has been educating his citizens about rising sea levels.

"Capital market financing, reflecting our risk reduction with credit ratings and financial incentives, will be necessary throughout coastal regions of the country due to the magnitude of funds needed," he said. "Everyone I've talked to thinks it's a great idea. I haven't gotten any resistance. We need every kind of incentive to make things more resilient.

"They want to keep the government at arm's length for the time being," Stoddard said of the rating agencies. "But it's critical to set up rating guidelines and incentives a pretty clear picture. We need them to be more clear about carrots and sticks."

In June, Moody's Investors Service called on coastal cities in Virginia's Hampton Roads region — home to the world's largest naval base and second-largest U.S. east-coast port — to continue investing and planning to mitigate negative credit effects from weather-related and tidal flooding.

"Cost forecasts indicate a potential need for greater investment in this area by local governments across the region," Moody's said in a report. Moody's said Hampton Roads municipalities, which include Virginia Beach and Norfolk, generally have high credit ratings and budget flexibility.

In the last three years, the city of Hampton, which Moody's rates Aa1, has spent \$28.7 million on flood mitigation and has set aside funds in its 2016 budget for additional consultancy preparation.

Late in 2013, S&P issued its first surge-only rating, BB-minus to New York's Metropolitan Transportation Authority's \$200 million MetroCat Re Ltd. Series 2013-1, the first catastrophe bond that covered storm-surge risk arising from named storms.

"We anticipate that this deal represents the start of a long-term alternative reinsurance option that diversifies MTA's risk-management strategy," authority Chairman Thomas Prendergast said at the time.

S&P said its rating reflected the principal at-risk nature of the offering. MetroCat Re collateralized the reinsurance through a cat bond and had its own credit rating separate from mainstream MTA credits such as transportation revenue bonds and dedicated tax fund bonds.

Last month, the Port Authority of New York and New Jersey approved a series of street-level flood barriers across the 16-acre World Trade Center site, primarily around its transportation hub.

The Port Authority's board of commissioners approved \$113 million for flood mitigation and resiliency projects designed to prevent further Sandy-type damage. A grant through the Federal Transit Administration's emergency relief program is expected to cover about 75% of the cost, or about \$85 million.

Peter Ellsworth, senior manager for investor programs at Boston-based advocacy group Ceres, said members of its investor network on climate risk, whose total assets under management exceed \$13 trillion, are increasingly attentive to material climate-related risks and the opportunities for investing in related projects.

“We believe that credit rating agencies could send a strong signal about the value of effectively managing long-term sustainability risks, including those associated with climate change, by having credit ratings reflect the presence of such strategies and practices designed to reduce such risk,” he said.

Consensus resilience criteria, say Ellsworth and others, would be similar to the commercial mortgage-backed securities risk reduction criteria S&P uses and could be piloted to provide data for S&P use. They also say green and resilient bonds are more profitable, less risky and free up 30-year profitable business models.

Rubin said green bonds and resilience bonds weave common threads, though sometimes they are erroneously lumped together.

“If you have a coal-burning plant and you want to improve the environment with better technology, that’s green. If you have a system that protects the plant from disaster, that’s resilience. They can be symbiotic,” he said.

The Rockefeller Foundation is working with the Swiss nonprofit Global Infrastructure Basel and other organizations to integrate ratings with resilience as part of its 100 Resilient Cities initiative. “We’re starting to think about resilience more broadly,” said Elizabeth Yee, vice president for strategic partnerships and solutions at 100 Resilient Cities.

The project aims to help cities worldwide become more resilient to what it considers “shocks” — catastrophic events including hurricanes, fires, and floods — and “stresses,” including water shortages, homelessness and unemployment. “We’re helping cities become more resilient to physical and economic challenges,” said Yee.

The foundation, which has committed \$164 million to the program, has chosen 67 cities to date, including 16 in the U.S. Last month it began its push for the final 33. The foundation encourages collaboration: For instance, San Francisco, Oakland and Berkeley qualify as separate municipalities, but still work together on common Bay Area concerns.

“We know how integral the value of resilience is to many municipalities and we have a number of tools in our platform,” said Yee, who spent 14 years as a muni bond banker at Morgan Stanley, Lehman Brothers and Barclays in San Francisco and New York.

THE BOND BUYER

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