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Fitch: Natural Disaster Risk Varies for U.S. State & Local Government Ratings.

Fitch Ratings-New York-29 May 2018: Natural disasters have become increasingly acute and chronic, which is presenting operational and financial challenges to some U.S. state and local governments, according to Fitch Ratings. The rating agency considers environmental factors in its U.S. public finance credit ratings through the lens of fundamental credit risk, as detailed in a new report.

The federal government approved $130 billion in aid for natural disasters last year, a considerable 0.7% of the country's $19.7 trillion economy. That said, financial support from the federal government is not guaranteed. Additionally, proposals by current and past administrations have been presented to address the burden of disaster recovery assistance on the federal budget. And although Fitch does not currently anticipate this, a pullback in the level of federal government aid would be viewed as a negative credit factor for state and local governments.

"The federal government's role in disaster response is critical in mitigating natural disaster risk for ratings on state and local governments," said Senior Director Michael Rinaldi.

Rating actions directly linked to climate change or natural disasters have historically been limited, a notable anomaly being Hurricane Katrina and subsequent downgrades of the state of Louisiana and affected areas. However, the damage to vital infrastructure and widespread repopulation that was seen during Katrina has become more commonplace, most recently with Hurricanes Harvey, Maria and Irma last year.

State governments' exposure to environmental risk is limited thanks in large part to the sovereign powers bestowed on states under the U.S. government framework along with ample economic resources that ensure fiscal flexibility and resilience to event risks and systemic challenges. Local government ratings, by contrast, are more vulnerable to climate risk, particularly governments that encompass a small geographic territory or feature a concentrated revenue base. In response, local governments are incorporating environmental risk mitigation and adaptation strategies within long-term financial and capital plans more broadly than in the past.

"Local governments have history on their side in terms of showing financial resilience and prioritizing spending where needed, which in concert with federal and state recovery aid can mitigate credit risk to natural disasters," said Rinaldi.

'Environmental Risks in U.S. State & Local Government Ratings' is available at www.fitchratings.com.

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