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The California Wildfires' Financial Toll.

In every disaster, natural or man-made, a price is exacted first in human terms. From the relative safety of where I write this, I can recall the damage from superstorm Sandy that crippled the Northeast six years ago, and from which many in the area have yet to recover. Yet that pales next to the wildfires that have engulfed California, which follows this year's crop of hurricanes in the East. The toll isn't only human, either; our foster dog rescued after Hurricane Florence just left for her permanent home on Thursday.

Even though it might be unseemly to consider the economic costs while the wildfires are still burning in California and the fatalities are still climbing, they can't be ignored. A price is already being exacted in the declines in the prices of securities of the entities affected. There will also be costs for insurers and property owners, as well as for state and local government budgets. Finally, there is an as-yet incalculable hit to property values, not just from the current damage, but also the concerns of potential buyers who may be reluctant to bear the environmental risk that has become increasingly apparent.

The most dramatic, immediate impact has been on the stock of utility PG&E (ticker: PCG), which plunged 31% on Thursday, pushing its loss past 62% in the five trading sessions to that point. But the shares jumped in after-hours trading Thursday and were up 38% in Friday trading. That bounce came after Bloomberg reported that, in a conference call for investors organized by Bank of America Merrill Lynch, the California Public Utilities Commission indicated that it didn't want PG&E to enter bankruptcy.

The utility conceivably could have embraced Plan B—meaning bankruptcy—wrote Carol Levenson, who heads Gimme Credit, the very independent credit analysis firm. That was especially clear after a filing with the Securities and Exchange Commission last week disclosed that PG&E had fully drawn down its $3.3 billion revolving credit facility and had made an "electric incident report" the day California's fire began.

A PG&E spokesperson wrote in an email that the borrowing was "to provide greater financial flexibility, including to pay down coming debt maturities and for general business purposes."

Moody's Investors Service also late Thursday downgraded PG&E's debt to Baa3, the rating firm's absolute lowest rating before crossing into junk territory, where the power company's bonds already trade, based on the prices they're fetching. Standard & Poor's took the equivalent step of cutting its rating to BBB-minus, its lowest investment grade. While Levenson wrote that the ratings firms' actions weren't financially crippling, she warned that the potential liability warrants a junk rating, and she recommends selling the bonds.

The PG&E 6.05% bonds due March 1, 2034, traded at 97 Friday, for a yield to maturity of 6.36%, or 3.03 percentage points over the comparable Treasury.

For California's finances, there is good news, along with bad news. Natalie Cohen, formerly head of municipal research at Wells Fargo Securities and now in charge of National Municipal Research, an independent public-finance analysis firm, notes that the Golden State's finances were in tiptop shape as of Sept. 30. But they surely suffered in the fourth quarter, owing to the record-breaking fires.

There are other factors to consider, she continues in an email. At the local level, hits to property values may hurt the municipalities affected by the fires. Insurance often doesn't cover the full property and casualty losses for schools, public hospitals, and infrastructure. So local governments may strain to pay for rebuilding.

On the other hand, Cohen continues, spending and employment to put things back together generates a surge in income and sales tax revenues. Hotel taxes should also benefit as occupancy jumps from stays by residents who have lost their homes. But tourism is certain to suffer.

Finally, California's state revenues depend heavily on capital-gains taxes, so she posits that the recent stock-market setback may be costly. Yet despite the seemingly annual hits from fires (2017's had been thought to be the worst ever, with insured losses of $12.6 billion, according to Moody's estimates for property and casualty insurers), Cohen remains impressed by California's resilience.

One has to wonder, though, what effect the seemingly annual wildfires will have on the perceived livability of California and on the state's population trends, Patricia Healy of Cumberland Advisors writes in a client note.

If California were a sovereign nation, its gross domestic product would be the fifth largest in the world, ahead of Britain's. Given that, California's strengths and resilience are formidable. Even so, Healy points out, municipal-bond investors should diversify among credits within the state—something the wild fires have emphasized again.

Taxes are a powerful incentive for California muni investors to stick with in-state credits, which are exempt from state and federal taxes. The top state income tax bracket is 13.3%, and under the new tax laws, the federal deduction for state and local taxes is capped at $10,000. Diversification among various types of credits and sectors, from tax-supported general obligations to revenue bonds for water and health-care systems, can mitigate risk for investors sticking to their home state, she adds.

There are considerations other than dollars and cents, however. Philippa Dunne of the Liscio Report, who grew up in Malibu, writes that the fires were a central part of her childhood. Dragging panicked horses from their stalls for the safety of the beach when fires raced through her area was her job, which provided a unique perspective.

She writes that she spoke recently with a real estate agent friend from Montecito, which she describes as "one of the most idyllic places on earth." He said he couldn't tell if business was slow because of the rise in mortgage rates or maybe "because buyers are afraid to invest in multimillion-dollar properties threatened by fires and rushing mud." (Mudslides are a problem in the Golden State, too.)

For now, investors are trying to come to terms with the immediate losses from the California fires. Once the damage is repaired, the question will remain: Who will want to face the seemingly annual onslaught of fires and their aftermath? A similar question may be asked of Florida and the rest of the Gulf and Atlantic coastal regions beset by seemingly worsening hurricanes. Regardless of whether one accepts the scientific evidence of climate change, the economic risks appear to be increasing. And increased risk inevitably is reflected in asset prices.

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