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More Than Half of the U.S.'s Largest Cities are Issuing Bonds to Protect Against Climate Change.

Less federal and state assistance could lead to more cities turning to debt issuance to fund climate change protection

A majority of the U.S.'s biggest cities are now selling debt specifically to mitigate the impact of climate change as flooding from rising sea levels, extreme heat and natural disasters threaten to hurt the credit ratings of municipalities.

In a survey of the U.S.'s largest cities based on total debt outstanding, 54% of the respondents said they would issue bonds for funding projects on building up resilience against climate change, according to Moody's Investors Services, in a Thursday report.

"Cities are increasingly adopting plans that detail specific projects designed to strengthen infrastructure and minimize economic disruption from natural disasters and long-term climate change. The increased focus on climate risks is a credit positive, particularly as climate change is forecast to increase the frequency and severity of extreme weather events," said Michael Wertz, senior analyst for Moody's.

Climate change bonds could benefit from the growing shift among money managers to include environmental, social and governance, known as ESG, criteria when making investment decisions, prompting more municipal bond issuers to label their debt as "green" to draw demand from socially conscious investors.

More participants in the municipal bond market have also called for credit ratings firms to acknowledge the growing risks from extreme weather events induced by climate change. They point to examples of S&P and Moody's slapping gold-plated credit ratings on flooding-afflicted municipalities like Charleston County, S.C., and Palm Beach, Fla.

Moreover, efforts to limit the impact from climate change have gained urgency after several natural disasters in recent years.

The vulnerabilities of low-lying areas to climate change were brutally exposed after Hurricane Harvey and Hurricane Florence devastated the Eastern coastline in 2017, inflicting around $175 billion of damage. The five most expensive hurricanes in U.S. history have all taken place since 2005, according to the National Hurricane Center.

As a result, most of the climate-mitigation efforts undertaken by cities were focused on flooding, with such measures accounting for nearly 60% of the efforts. The Fourth National Climate Assessment found that counties near the coastline held more than 40% of the U.S. population.

Last November, voters in Miami approved $400 million of bonds, with $192 million set to be diverted for spending on protection against rising sea levels and flooding.

Moody’s recognized that climate change projects, though beneficial in the long term, were expensive and could present a strain on a city’s spending. The surveyed cities reported that around $47 billion of projects were either in planning or in progress, with New York City contributing to the brunt of the amount.

The financial burden will be eased by assistance from federal and state governments, leaving only $21 billion of this total costs to be borne by city authorities. With less coming out of the pockets of city governments, many could avoid resorting to selling bonds for climate change projects.

“However, if the level of federal aid were to wane, cities would be more reliant upon state funds and their own money to finance substantial project costs and be more likely to turn to debt issuance to finance climate mitigation plans,” the Moody’s analysts wrote.

MarketWatch

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