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Illinois's Risk to Bond Buyers Is Getting Hotter - Literally

- **Temperatures on the rise in western Illinois and the Midwest**
- **Moody's says warmer temperatures could harm local economies**

Wall Street has a number of reasons to be concerned about the credit quality of Illinois, the lowest-rated U.S. state: mounting pension obligations, billions of dollars in unpaid bills and a shrinking population. Now investors can add climate change to that list.

Western Illinois and Missouri are two areas that are expected to experience the greatest rise in extreme temperatures by 2040, according to a report Tuesday by Moody's Investors Service. Rising temperatures threaten to curb agricultural production and labor productivity, increase the costs for infrastructure and heighten energy demand as residents struggle to cool their homes and businesses.

"If significant enough, now and over ensuing decades, these difficulties have the potential to lower revenue, increase expenses, impair assets and increase liabilities and debt," along with other effects, Moody's said in the report. Data was provided from climate intelligence firm Four Twenty Seven Inc., which Moody's acquired a majority stake in earlier this year.

Climate change has become an increasingly prevalent risk factor in the municipal bond market, where the security of the debt is often based on the health and economic ability of a local tax-base. The destructive nature of extreme weather events exasperated by climate change and the long-dated nature of municipal bonds has driven investors to weigh such risks in their portfolios.

The amount of outstanding debt of local governments that face high projected heat stress is concentrated in the Southeast, particularly Florida, and the Midwest, with nearly half in Illinois, Moody's said. About 21% of \$895 billion of outstanding local government debt rated by Moody's is exposed to high or very high heat stress, according to the report. About \$78 billion of that is from the Southeast, and \$69 billion is from the Midwest, Moody's said.

"Heat stress threatens to cause local governments to pay unanticipated costs for emergency response, infrastructure repair and adaptive strategies," the report said.

The Midwest will undergo an especially high percentage change in extreme temperatures, according to Four Twenty Seven projections, cited in Moody's report. Some areas will see the hottest average day in 2030-2040 be about 7% higher than the hottest average day during the 1975-2005 period, according to the report.

Credit is affected as rising temperatures threaten to damage local economies and local government operations, according to Moody's. "Heat stress will result in both rising temperatures and contribute to a greater frequency and severity of extreme climate events, such as heat waves, droughts or wildfires," Moody's said in the report. "Many local governments will face costs from financing adaptation and climate change plans."

Bloomberg

By Danielle Moran

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