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Climate Change Disasters And Your Municipal Bonds.

There are numerous details for municipal bond investors to stress over: unfunded pensions, other post-employment benefits (OPEBs) owed, cyberattacks and their ransom demands. But the big headlines consuming municipal bond investors today is climate change and man-made disasters—flooding, droughts, hurricanes, tornadoes, and wildfires. Even the conflicted bond rating agencies are writing about this dilemma and their financial impact on states, cities and counties that lay in the path of mother nature's wrath. You can add to this list the huge man-made blunders causing California's wildfires.

Most do-it-yourself municipal bond investors haven't thought about or begun to reject issuers that can be affected by fires, climate change and other natural disasters. They should.

You may already own municipal bonds where the issuer has suffered from cyclones, hurricanes and flooding and you've come out fine. But that doesn't mean you'll still be fine going forward. Granted, a catastrophe doesn't mean a bond will default but the numbers and frequency continue to mount.

These disasters will eventually impact municipal bond ratings, debt service coverage, and in some cases may actually cause defaults.

When you analyze your municipal bond portfolio you must consider location (coastal or inland). Study enhanced infrastructure projects like flood systems, levee systems, storm drains, brush clearings, emergency preparedness to access if the city, school district, or hospital can survive and continue making interest and principal bond payments in the wake of a disaster. Stay away from areas that constantly are in a state of drought such as California's Central Valley. Risks are now everywhere. This isn't an apocalyptic warning, it's reality.

Today In: Money
I'm no tree-hugger. But as a native Californian having lived through multiple earthquakes, I expect the big one will happen someday as will other multibillion-dollar climate events that are increasing in frequency.

The collateral damage for municipalities suffering such events can be overwhelming: economic disruption, citizens leaving and taking with them the sales taxes, property taxes and personal income tax revenues the cities and states rely on. Each is essential to pay the interest on their municipal bonds.

If you invest in essential projects, you'll be better off if a disaster occurs. Los Angeles County can survive without Long Beach Airport. But it cannot survive without Los Angeles International Airport—it's the heart of the economy and the arterial system for commerce. Los Angeles International Airport is essential and one of the main reasons I love the top ten large U.S. airport municipal bonds.

In the past, assistance programs from the federal and state governments have been the climate and wildfire disaster safety nets. But those safety nets cannot coax residents into staying as time and

time again floods, fires, hurricanes and tornadoes wreck lives and damage property.

Is having insured municipal bonds a safety net? Only if the insurer runs the business properly, doesn't over-commit and is profitable. We saw little of the above during the man-made financial disaster of 2008-2009.

Eventually all these factors appear in the Official Statements when newly issued municipal bonds come to market. Still, after 40 years of dealing with bonds and individual investors, I've met only a handful of people who have ever read such offering documents.

Bottom line: Geographic diversification is helpful as is investing in multiple different issuers. Make sure your issuers aren't in harm's way when a disaster hits. Remember, stadiums, aquariums, museums, hockey rinks, libraries and concert halls are not essential and don't deserve your bond investment dollars. But airports, municipal water districts and sewers are indispensable and worthy of investment. Just use common sense.

If you own municipal bond funds, you'll need to read their quarterly reports for climate change and disaster commentary. If the bond mutual funds aren't commenting, then they aren't being prudent with your money. You might need to change horses to one that doesn't just value yield and total return—but equally values preservation of your capital.

Forbes

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Nov 17, 2019

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