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Climate Change Is Coming to Your Hometown Bonds.

Startup risQ wants to be the go-to tool to assess natural-disaster risk in the municipal market.

In some corners of finance, climate-change risks are only starting to appear on investors' radars. By contrast, in the $3.8 trillion U.S. municipal-bond market, natural disasters have been a nagging concern for decades.

In the wake of Hurricane Katrina in 2005, Moody's Investors Service slashed New Orleans's credit rating by three levels to junk. It didn't win back its investment grade until May 2007. Joplin, Missouri, suffered the deadliest U.S. tornado in almost six decades in May 2011. Two years later, almost half of its 7,500 students were still in temporary classrooms, but construction progressed on new schools thanks in part to voters approving the largest bond sale in city history. In August 2014, the strongest earthquake in 25 years hit Napa County, California, and traders exchanged a record amount of its debt in the following days amid concern that it could halt payments because of the damage. The list goes on.

Yet for all the examples, pinning down the risk has always been elusive for the muni market, which is known for its dispersion. The U.S. has more than 90,000 "local government units," according to the most recent Census data, and although not all of them issue bonds, those that do tend to borrow across a range of maturities and with varying revenue streams. While many deal documents now include some language about climate change, and investment banks and legal counsels are more thoroughly conducting due diligence around the issue, ultimately there's little evidence that the risks are baked into bond prices.

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By Brian Chappatta

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