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Fitch Rtgs: States Increasingly Budget for Climate, Environment Initiatives

Fitch Ratings-New York-20 February 2020: Long-term costs to states of environmental mitigation, recovery projects and climate initiatives are expected to rise, says Fitch Ratings, particularly as an increasing number of states include environmental considerations in enacted or recent executive budget proposals. These programs are also expected to become a more prominent part of future state budgets amid greater attention to environmental, social and governance (ESG) concerns.

Boosting environmental resilience is a long-term commitment that many states are expected to address in incremental steps, with immediate attention given to life-saving measures, such as fire and flood prevention, followed by more aggressive moves to reach zero-carbon emissions or tackle sea level rise. States believe that investing in capacity building programs will help reduce the costs of future climate or weather related events, but Fitch expects identifying recurring funding sources will be challenging, particularly as spending pressures continue, especially Medicaid and pensions.

New York's governor proposed the largest amount by far in his fiscal 2021 $178 billion budget: a $33 billion five-year plan to tackle climate and environmental concerns and build resiliency. The proposal includes a $3 billion environmental bond program that would invest in coastline resiliency projects, supplemented with an additional $740 million in state funding, $28 billion for green energy projects and $1.5 billion for carbon-free transportation. This proposal follows the 2019 Climate Leadership and Community Protection Act, which targets reductions in state-wide greenhouse gas emissions and renewable energy gains.

California's governor proposed $12.5 billion in spending over five years in his fiscal 2021 $222 billion budget for a climate resilience plan that includes $4.8 billion in bonds for investments in resiliency and protection, most of which will address immediate vulnerabilities to floods and fires, improve groundwater and farm water systems, and protect drinking water and fish habitats. The proposal furthers investment in fire protection by dedicating $100 million to make homes resistant to fires and creating a four-year, $1 billion revolving loan program to promote recycling, low-carbon transportation, and environmentally conscious agriculture programs. In addition to the bond program, $965 million in funding would come from the state's existing cap-and-trade program.

Fitch notes some states that have not traditionally provisioned for environmental concerns in their budgets have recently enacted measures to apply funds for these purposes. Texas made flood resiliency and hazard mitigation a key priority in its 2019 legislative session, appropriating about $2 billion from the state's then $12.6 billion rainy day fund for flood mitigation and resiliency projects, and to provide funds to cover damages from Hurricane Harvey. The Texas Water Development Board's responsibilities for flood planning and financing were expanded, and the legislature made a one-time transfer of $793 million from the state's economic stabilization fund to create a new flood financial assistance program.

Similarly, in 2019, Florida ramped up its investment in environmental protection, with the governor dedicating $2.5 billion in spending over four years for Everglades restoration, protection of water

resources, and establishing a state resiliency office. Massachusetts enacted legislation in 2018 authorizing more than $2.4 billion for a municipal vulnerability preparedness grant program and a state-wide hazard mitigation and adaptation plan. Oregon’s governor recently proposed a bill to spend $200 million per year over the next 20 years on wildfire prevention and mitigation.

Many other states have not taken action in their budgets on environmental protection and conservation initiatives, and this may result in greater costs in the long run. States that have not invested in mitigation and prevention efforts up front may face rising costs to address weather-related disasters in the future.

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