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S&P ESG U.S. Public Finance Report Card: California Governments And Not-For-Profit Enterprises

Key Takeaways

E (elevated): The state is broadly exposed to a wide range of environmental risks. Acute physical risks stemming from wildfires and droughts, as well as chronic issues resulting from hydrological volatility and sea level rise; energy transition risk; other hazards such as seismic events and mudslides; and natural capital stress related to water scarcity are heightened risks for some entities absent adaptation measures.

S (elevated): Housing affordability has resulted in demographic shifts and elevated social risks. In addition, the future cost of municipal services is expected to rise significantly given required infrastructure investment to meet demand and asset deficiencies including grid reliability associated with ambitious energy transition requirements.

G (neutral): The state has a long history of policy making aimed at preserving natural capital that mitigates or reduces climate risks, and improves socioeconomic inequities. While these policies advance ESG principles, there are also limitations on key revenue streams that have hindered infrastructure investment, creating meaningful challenges to adaptation efforts. Furthermore, the state provides limited oversight for distressed municipalities as represented in our local government institutional framework, while providing school districts with a high degree of state oversight and significant equalization funding, which we believe benefits the portfolio.

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