Bond Case Briefs

Municipal Finance Law Since 1971

Flooding Could Leave Billions of US Municipal Debt Under Water.

Approximately a quarter of the entire U.S. infrastructure is at risk of severe flooding, hitting the $ 4 trillion municipal bond market price and crediting city and state issuers, according to a new study. It can jeopardize your strength.

New York-based climate research firm First Street Foundation has issued a report finding that US infrastructure, such as roads, hospitals, and power plants, shows a higher risk of flooding than previously estimated. This has serious implications for state and city financial resources, asset value, mortgage-backed securities and municipal bonds.

Louisiana, Florida, and West Virginia have the potential for the worst floods in the continental United States, First Street Foundation data show. In Louisiana, 45% of all critical infrastructure facilities, including hospitals, fire departments, airports and power plants, are at risk of failing due to this year's floods.

In addition, 39% of roads and 44% of social infrastructure (schools, government buildings, places of worship) are at risk of closure. In some cities in Louisiana, such as Metairie and New Orleans, the risk for all these categories is almost 100%.

Municipal bonds have long been a shelter asset class and are popular with long-term investors such as pension funds and insurance companies. Municipal bond default rates have historically been low, but can rise as underfunded cities struggle to keep up with the costs of extreme weather damage.

Municipal bonds also tend to mature between 15 and 30 years. According to the Securities and Financial Markets Association, the average maturity issued last month was 18.6 years. Climate change is so fast that there is a lot of time left before a disaster strikes.

Investors also face the risk of geographical concentration. Owning a munis issued by the state in which you live gives investors certain tax incentives, so muni investors tend to be highly exposed to certain areas. Therefore, in the event of bad weather, the vast value of the municipal bond portfolio can quickly be lost.

"It's clear that (climate) is a risk factor in the municipal bond market," said Peter DeGlute, head of municipal bond research at JP Morgan. "Increasing the frequency and intensity of meteorological events is a costly and complex issue for the federal government, as well as for state and local governments."

Floods can affect municipal debt in a variety of ways. It has a direct impact. Municipal bonds issued to fund the construction of hospitals are at risk of depreciation or default if their source of income is abruptly terminated when the hospital is destroyed by a storm.

Natural disasters can also alienate people and businesses, reduce the value of existing assets, and reduce the tax base of a state or city. This is another way for municipal bonds to be repaid.

Extensive floods are also very expensive. Between 1980 and 2020, natural disasters caused $ 1.8 trillion worth of damage. About half of them were associated with hurricanes and tropical storms. Municipalities must borrow more to pay for reconstruction and to build new climate-adapted infrastructure. This increases the credit risk of existing bonds and the cost of borrowing new funds.

Led by Paul Goldsmith Pinkham of Yale University, the municipal bond market is already beginning to price the risk of rising sea levels.

The federal government has traditionally intervened to help rebuild cities after a catastrophe. However, as these events become more frequent, resources can be under pressure and local governments may be more responsible for funding recovery efforts.

Of the top 10 states with the highest risk of infrastructure floods, Connecticut and New York are also the most helpful. Connecticut has the highest per capita net tax support debt of all 50 states, the second highest net tax support debt as a percentage of personal income, and the second highest net tax support as a percentage of state gross domestic product. I have debt. According to credit rating agency Moody's. New York is also in the top 10 in each of these categories.

California News Times