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Why Municipal Bonds Might Not Be Protected From Climate Risk Forever.

Three months ago, the redevelopment agency of Paradise, California—the town nearly wiped out by wildfires in 2018—missed payments for its municipal bonds issued in 2009. The funds were raised to develop the city's commercial neighborhood and backed by incremental tax revenue from the areas. As economic losses from the fire drained the agency's cash reserves and no new revenue came in, a default had been expected.

Debt default is uncommon for muni bonds, which are often viewed as a haven with steady, tax-exempt yields. Paradise's example, however, is ringing alarms for a looming long-term risk from climate change: with more frequent and severe natural disasters, municipalities in vulnerable areas could see their economy disrupted, their asset values fall, and their tax base shrink—along with a deteriorating credit outlook.

While corporations can move their supply chains to safer grounds, cities and towns are tethered to their specific locations. Extreme weather events like hurricanes and wildfires not only incur immediate property damage, they could also greatly disrupt economic activities if power outages, road closures, and other infrastructure damage drag on.

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