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Public Finance Impact of Hurricanes' One-Two Punch is Still Taking Shape.

As the people in the path of Hurricanes Helene and Milton continue to dig out from the damage, the municipal bond market continues to assess the storms' impact on public finance in the Southeast.

Hurricane Helene made landfall on the Florida Panhandle Sept. 26 and tracked north, where it did its worst damage in the Appalachian Mountains of western North Carolina and eastern Tennessee.

Milton hit Florida Oct. 9 in Sarasota County on Florida's Gulf coast, moving east across the peninsula. It spawned tornadoes far from the center of the storm itself, doing extensive damage on the state's Atlantic seaboard.

S&P Global Ratings put three utilities' ratings on credit watch negative Tuesday citing Helene's impact. The action affects Asheville, North Carolina's AA-plus-rated water system bonds; Greeneville, Tennessee's A-rated water system revenue and sewer system revenue bonds; and Erwin Utilities Authority, Tennessee's A-rated water and sewer system revenue bonds.

"We will resolve the CreditWatch placement when there is greater clarity regarding the extent of the utilities' infrastructure damage, how federal and state support is deployed, the projected pace of the rebuild, and the influence of these factors on each utility's operational integrity and financial health," said S&P Global Ratings Credit Analyst Jenny Poree.

"While FEMA and other agencies are doing the best they can with the resources they have, multiple co-occurring disasters are straining resources and increasing program debt," said Sadie Frank, co-founder and CEO of ENES, which develops and uses prediction models for solutions to climate risks to supply.

"Local governments in Hurricane Milton's path, despite having considerable financial resources, will face significant credit challenges because of the heavy reliance on state and federal disaster recovery assistance and the high costs of public infrastructure repairs," said Moody's Senior Analyst Valentina Gomez.

"The issue of flooding becomes even more prominent," said Joseph Krist, publisher of Muni Credit News. "The lack of flood insurance in the case of these storms is likely the biggest obstacle to rebuilding ? Will it drive people away?"

"Clearly there will be short term pressures but much of the work done to clear roads and remove debris will be reimbursable," Krist said.

"I would anticipate that few ratings will change barring some catastrophic impacts from the events," said John Hallacy, president of John Hallacy Consulting LLC, in a LinkedIn post.

In a just-released report, S&P said the North Carolina state government had set aside \$273 million to help recovery from Helene. The agency says the government, which it rates AAA, had been

projected to increase its rainy-day fund to \$4.88 billion in fiscal 2025. The state has a “consistent record of replenishing reserves after one-time use.”

Asheville and the surrounding area still feel the impacts of Helene almost three weeks later. The city utility is still working to restore water to its entire service area, and most customers who are getting water are under orders or advisories to boil it before drinking.

“In the short term, ironically, the hurricanes will generate some economic boosts – from rebuilding and the flood of disaster relief funds,” said David Victor, professor of innovation and public policy at the University of California, San Diego.

The inflow of federal and private relief funds after disasters can cause municipal revenues to spike, Frank said.

Moody’s RMS Event Response, a catastrophe modeling firm, estimated U.S. private market insured losses from the two hurricanes to be \$35 billion to \$55 billion. Morningstar DBRS said insured losses range from \$45 billion to \$60 billion and Fitch Ratings put Milton’s insured losses alone from \$30 billion to \$50 billion.

These impacts would make the combined storms’ insured property damage somewhere from the seventh, if \$35 billion, to the second, if \$60 billion, largest in U.S. hurricane history, adjusted for inflation, according to Insurance Business and J.P.Morgan.

The inflow of “private relief funds” means private insurance money, and this can have negative as well as positive impacts on local municipal bonds in the short and long term.

In the short term some of these losses will be picked up by reinsurers, Morningstar (MORN) said. Since one of those reinsurers is Florida Hurricane Catastrophe Fund, which is partly funded through municipal catastrophe bonds, this could hypothetically hit bondholders in the near term. However, Florida Division of Bond Finance Director Ben Watkins said Oct. 10 the fund was in a “very good position.”

Watkins said he thought Helene might cost the fund about \$100 million. He expects to have a preliminary estimate of Milton’s draw on the fund in the next few days. But the hurricanes’ impact on the fund would have to exceed \$6 billion before any municipal bondholders would lose any money and as of last week, he thought that very unlikely.

“Extensive damage to transportation and utility infrastructure from Hurricane Helene could complicate local government’s recovery efforts in some of the hardest-hit area, potentially delaying the restoration of services and recovery of economic activity. This creates uncertainty about the storm’s impact on long-term credit quality for some local governments,” S&P said in a report.

“Helene and Milton are another wake-up call for Southeast states that climate change is and will radically reshape individual lives and the economy of the entire region,” Frank said. “We’re currently seeing the impacts of this most acutely on insurance markets.”

Victor said the storms’ most important long-term impact on Florida would be their potentially negative impact on property values, particularly because of increasing property and casualty insurance costs. These insurance “markets are already driving costs higher; a big loss year will amplify that trend.”

Such a prospective decline in property values, and/or declines in the tax base and emigration from

the state potentially “adds up to a public finance problem since debt repayment is variously linked to tax revenue potential,” Victor said.

As yet that has not materialized; Florida’s population rose 4.7% from 2020 to 2023, reaching 22.6 million according to the U.S. Census, as the nation’s population grew 1%.

“Stress in the home insurance market ? which is particularly acute in Florida, is already becoming a national issue,” Frank said. “If insurance markets are forced to full price risk, which the National Flood Insurance Program has made baby steps towards, this will likely lead to (1) individuals dropping coverage and therefore requiring additional post-hoc assistance and/or (2) negative impacts to city and county finances as tax bases are hollowed out from climate mitigation.”

S&P said less than 1% of households in path of Helene had flood insurance through the National Flood Insurance Program.

In the long run, climate change means Florida communities will face higher costs, which will lead residents to debate whether money should be used for infrastructure or operating expenses, Victor said.

The hurricanes will convince participants in the municipal bond market to pay closer attention to climate change, Victor said.

Helene was unusual in wreaking substantial damage well away from the Atlantic Ocean or the Gulf of Mexico, S&P said in a report. “A shift to inland damage from where the storms make landfall could require greater storm preparedness in such areas, adding to the region’s need for storm hardening.” That could bring additional debt and pressure issuers’ fixed costs, the rating agency said.

“Where damage to infrastructure and core services is catastrophic, or where property insurance becomes unaffordable or unavailable, some entities could see lasting declines in population and economic activity that impact revenue generation,” S&P continued in the report.

While FEMA has historically provided 75% to 90% of the coverage for disaster-related costs, this may change in the future because of the federal government’s “ongoing budget issues and the escalating costs of disaster relief,” S&P said.

FEMA’s post-disaster aid is one of the factors that “prevent municipal bond markets from fully internalizing the impacts of climate change on cities and counties, which can ? leave communities actually more vulnerable to future risk,” Frank said.

“Over the long term, this pattern of destroy, rebuild, repeat will become unsustainable, from a human and a financial cost perspective. We’re already seeing cracks that indicate this cycle is breaking,” Frank said.

“Over the course of the past 50 years, the tendency of Americans to move from the coldest places (“snow belt”), which have become warmer, to the hottest places (“sun belt”), which have become hotter, has steadily declined,” the Federal Reserve Bank of San Francisco said in a working paper published in July.

“The first question that needs to be asked is whether building should be permitted in flood zones or in areas where natural hazards are likely to have a greater incidence of adverse events,” Hallacy said.

“Changes in the composition of the municipal market, the more modest use of bond insurance, and more frequent and severe climate related events suggest that climate-related bond impairments and defaults are likely to rise,” Municipal Market Analytics said in its Weekly Outlook Monday. “In the near-to-medium term, bonds reliant upon the revenues of a single-site project or a narrow revenue stream are more likely to face longer lasting stress and an increase in impairments and defaults.”

Issuance of debt backed by single-site projects and other complex structures has increased in 2024 compared to 2005, MMA said.

By Robert Slavin

BY SourceMedia | MUNICIPAL | 10/17/24 08:27 AM EDT

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