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S&P CreditWeek: How Could U.S. Public Finance And Insurance Issuers Be Affected Post-L.A. Wildfires?

One month after the Los Angeles County wildfires began, the catastrophic event that burned thousands of acres, caused millions in damages, and devastated communities, they are nearly 100% contained. But in their aftermath (and as smaller, adjacent fires have sparked), the near- and long-term credit implications could pose significant financial and operational risks for U.S. public finance issuers—alongside implications for insurers.

What We're Watching

Given California's arid conditions and Santa Ana winds, wildfire conditions have become more frequent and severe, which could pose significant credit risk for the state's local governments and not-for-profit and investor-owned utilities. Legal liabilities, damage to infrastructure, and lower long-term population and economic trends following physical climate risks could weaken credit fundamentals.

As the L.A. County wildfires are poised to become the largest insured wildfire event in history (with loss estimates of $20 billion-$50 billion), total economic damages could surpass $250 billion. Looking forward, the shift in wildfires to urbanized from rural areas in California will require local governments and utilities to **meet a higher standard of risk resilience** for infrastructure, services, and financial preparedness. As wildfire risks increase—many of them caused, at least in part, by climate change—we are reassessing whether utilities' liquidity, insurance, asset adequacy, resilience, and emergency preparedness are insufficient or outdated.

Many U.S. public finance and regulated utility entities we rate—including not-for-profit public power and water and sewer utilities; investor-owned utilities; local governments; and school districts—have assets and tax bases in the fire-affected areas. While more insight on the Palisades, Eaton, Sunset, Hurst, and Kennedy fires is available, final determination on what led to the L.A. County wildfires' ignition remains an open question.

Ultimately, the potential for litigation, particularly brought against not-for-profit and investor-owned utilities , could pose substantial financial liabilities that may outpace costs required for infrastructure repair. For example, the 2018 Camp Fire resulted in $30 billion in wildfire liabilities for Pacific Gas & Electric and it eventually made a $13.5 billion settlement.

What We Think And Why

As physical climate risks have increased, the California insurance market has evolved and in recent years resulted in an exodus of commercial insurers. The state's insurance regulator recently made changes in hopes of retaining and luring providers back—allowing insurers to use a catastrophe model to justify premium increases and giving providers the ability to pass reinsurance costs to policyholders.

In our view, insurance in California will be more costly post-event as remaining property insurance

carriers are likely to **raise premiums or deductibles and/or reduce coverage options**, which help insurers maintain profitability. However, wildfire-related claims, including those in connection with property damage and business interruption, have contributed to a **broader trend of insurers' reconsidering risk exposure** in catastrophe-prone regions. We believe limited availability for insurance and higher premium costs contribute to a wide swath of affordability issues we've observed in the U.S., including food inflation and higher utility rates.

Reinsurers are expected to **carry a meaningful portion** of associated costs, which are mostly expected to originate from personal lines (about 80%-85% of the total insured losses) rather than commercial lines (about 15%-20%). These early losses associated with the California wildfires are likely to be absorbed within the reinsurance industry players' annual earnings, albeit leaving less catastrophe budget for the remainder of 2025. The impact from the wildfires is, in our view, manageable for our rated global reinsurers, with no significant effect on earnings due to the event's magnitude and timing.

What Could Change

We continue monitoring new information to inform our credit rating analysis and potential rating actions. Because utilities have unique exposures and specific mitigation approaches, our ratings are reviewed case-by-case.

S&P Global Ratings lowered its long-term and underlying ratings on the Los Angeles Department of Water and Power on Jan. 14 (with both ratings placed on CreditWatch with negative implications) due to our view of heightened risk for both systems. We placed our 'AA' long-term rating on the City of Los Angeles' bonds on CreditWatch with negative implications on Jan. 15, to account for the city's weakening financial trends and the introduction of additional credit risk tied to the wildfires. On Jan. 16, we placed our 'AA-' underlying rating (SPUR) on Altadena Library District Community Facilities District No. 2020-1, Calif.'s 2022 special tax bonds on CreditWatch with negative implications. The placement reflects our view of potential acute credit risk tied to the Eaton Fire that began on Jan. 7, 2025.

On Jan. 28, we revised our outlook on Pasadena Water & Power to negative from stable and affirmed its 'AA' long-term rating, reflecting our view that the credit risks posed by California wildfires are increasing. We revised our outlook on Edison International to negative from stable on Feb. 3 to reflect the possibility of material depletion of the California Wildfire Fund, which is a fundamental aspect of how we assess credit ratings for all investor-owned utilities in the state. We rate local governments and water and sewer utilities within the wildfire boundaries, and are evaluating potential near-term effects on associated service areas and longer-term implications for underlying infrastructure.

In our view, the state of California and Los Angeles County have a notably strong economic and tax base, and as such will be resilient through this disaster. We maintain our 'AA-' credit rating with a stable outlook on the state of California, which is slightly below average for U.S. states (with our median rating for the state sector being 'AA+'). However, the City of Los Angeles and/or the county may need to help cover recovery costs depending upon the pace and amount of reimbursement from FEMA. In addition, any permanent and meaningful outmigration, coupled with rising insurance costs and mounting affordability challenges, could weigh on the regional entities' and state's creditworthiness over time.

Writer: Molly Mintz

This report does not constitute a rating action.

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