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Not Even Municipal Bonds are Safe from Climate.

The nation's municipal bond market is waking up to the accelerating risks of climate change, a sign of potential economic instability for a \$4 trillion market long seen as a safe investment for ordinary people.

S&P Global downgraded the credit rating of the Los Angeles Department of Water and Power last month as devastating wildfires spread across the city, [writes Thomas Frank](#).

The financial ratings company cited "the increasing frequency and severity" of wildfires as its reason for the downgrade. Then S&P announced last week that it would begin assessing the [threat of wildfires](#) on the creditworthiness of all bond sellers in California.

That's a big deal.

Ratings firms have previously penalized major municipal bond issuers in areas struck by disasters based on property damage, the cost of rebuilding and the potential loss of tax revenue.

But this may be the first time the decision was tied to future climate risks. Experts say the municipal market has long ignored the potential for a disaster to wipe out a city's property tax base and force a bond default.

"It is a tipping point in the marketplace," Thomas Doe of Municipal Market Analytics told Tom.

The Trump factor

President Donald Trump's efforts to gut the federal government may also be forcing the municipal bond market to wake up to the realities of climate change.

After natural disasters, the price of bonds tends to drop. Then the nation's disaster response apparatus hits the scene, provides technical and financial support for rebuilding, and "everybody's made whole, and the world goes on," Doe said.

But Trump has threatened to [dismantle the Federal Emergency Management Agency](#), which would put states solely in charge of disaster recovery.

Without federal disaster money as a backstop, investors might look more closely at climate risks — and state and local governments may be compelled to undertake their own climate adaptation with projects to reduce their exposure to disaster damage.

"In a backhanded way, [Trump's] policies are going to end up generating a wave of adaptation investment," Doe said.

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