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The Impact of Natural Disasters on Municipal Financing and Disclosure: Pullman & Comley

The wildfires in Southern California earlier this year were another sobering reminder of the devastating impact of natural disasters on local communities, and Connecticut is certainly not immune. Evidence suggests that both the frequency and severity of severe weather events in southern New England are on the rise, with recent examples including:

- August 2024's extreme rainfall event in southwestern Connecticut, where more than 10 inches of rain fell in a 24-hour period;
- Fall 2024's historic drought (the state's driest two-month period in 120 years), which sparked brush fires across Connecticut; and
- Summer 2023's Connecticut River flooding, which devastated riverfront agriculture just as harvest season was beginning.

Connecticut's estimated flood-related losses were $469 million in 2020, and studies project that number to increase by 18 percent by the year 2050. A growing number of extreme weather events, coupled with rising sea levels, wetland loss, and coastal flooding, puts municipalities across the state at risk of significant damage to local infrastructure and economies. Damage from natural disasters can lead to long-term financial strain and disruption to municipalities as evidenced by:

- Decreased assessed value for property tax,
- Losses due to outflow of population,
- Direct damage to physical infrastructure,
- Higher costs related to providing emergency services,
- Higher insurance and claim costs, and
- Increased capital costs to build community resilience.

The financial strain can ultimately result in rating downgrades and increased bond yields because investors perceive higher risk in areas prone to such events and demand greater returns to compensate for potential losses. Although federal and state aid along with insurance proceeds often mitigate the financial impacts of natural disasters, many municipalities are taking steps to address the increasing risk, including developing climate resiliency plans and implementing measures to protect infrastructure and communities. While the development and execution of these plans are important for municipal issuers, disclosure of such plans during a municipal financing is equally important for transparency, informed investment decisions, and ensuring the long-term financial stability of municipalities, as investors are increasingly demanding such data.

As stated in a recently released report by Ceres, a nonprofit organization that inspires companies and municipalities to advocate for policy solutions to global challenges: "[g]ood climate risk disclosure may become the 'price of admission' to capital market access. Strong disclosure is an opportunity for municipal governments to own the narrative on their preparedness as well as a means to be better prepared organizationally to meet these risks." The report recommends that adequate disclosure of climate related risks for municipal issuers may include:

- description of past weather events that had a material financial impact,
- statement of how climate risks could impact payment of debt service,
- identification of how planning for risk management and mitigation are organized and governed, and
- status and discussion of resiliency planning and description of current and future steps being taken to mitigate risks.

The National Federation of Municipal Analysts has made natural disasters and climate-related risks a major focus for 2025. A newly formed committee has been tasked with making additional recommendations in connection with both pre-event and post-event disclosure. Once the report is published and recommendations are available, municipal issuers can evaluate and adjust their disclosure practices, if necessary.

Pullman & Comley, LLC

by Daniel Barrack & Jessica Grossarth Kennedy

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