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Brookings: Measuring the Impact of Climate Change on State and Local Governments' Fiscal Health

The increasing frequency and severity of weather events caused by climate change is affecting municipal bond markets and state and local finances. Four papers presented at the 14th Annual Municipal Finance Conference, co-hosted by the Hutchins Center on Fiscal and Monetary Policy in July 2025, detailed the consequences of wildfires, floods, and the transition away from coal. We summarize those four papers below.

With wildfire property damage reaching record levels, and the risk associated with such events projected to grow over time, quantifying the economic impact of wildfires is increasingly important. Woongchan Jeon, Lint Barrage, and Kieran James Walsh analyze the effect of rising wildfire risk on U.S. bond markets. They find that a one standard deviation increase in future wildfire risk leads to a 14 basis point increase in school district bond spreads, reflecting higher borrowing costs for local governments as a result of climate change. These effects are larger in districts with a higher minority population, as well as in districts that are relatively more dependent on local revenue for funding public services. The authors suggest that increased wildfire risk and the resulting rise in borrowing costs could reduce municipalities' future fiscal space, which in turn could further increase borrowing costs in the most vulnerable communities.

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The Brookings Institution

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