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Nature: Physical Climate Risk Creates Challenges and Opportunities in US Municipal Finance

Abstract

The US $4.2 trillion US municipal debt market finances over 70% of essential infrastructure, but escalating physical climate risks, such as flooding and wildfires, are exposing the market's emerging vulnerabilities. Rising disaster costs and insurance retreat threaten property values, and hence municipal tax bases that secure debt repayment. Despite these signals, municipal bond prices have been slow to reflect climate risk adequately. Well-resourced municipalities may use bonds for adaptation, but those facing constrained credit access may struggle to access capital. This US-focused Review identifies three challenges: (1) climate risk is underpriced in municipal bonds; (2) abrupt repricing could affect high-risk and under-resourced cities most by increasing borrowing costs and limiting capital access; (3) misalignment between adaptation planning and municipal finance weakens long-term resilience and affects creditworthiness. Together, these challenges contribute to a climate-debt doom loop that can be triggered by climate shocks. This synthesis offers actionable strategies for cities' adaptation plans and governance frameworks to disrupt this loop and strengthen municipalities' financial resilience.

Access pdf.

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