MOODY'S
INVESTORS SERVICE

Announcement: Moody's: Climate change is forecast to heighten US exposure to economic loss placing short- and long-term credit pressure on US states and local governments

Global Credit Research - 28 Nov 2017

New York, November 28, 2017 -- The growing effects of climate change, including climbing global temperatures, and rising sea levels, are forecast to have an increasing economic impact on US state and local issuers. This will be a growing negative credit factor for issuers without sufficient adaptation and mitigation strategies, Moody's Investors Service says in a new report.

The report differentiates between climate trends, which are a longer-term shift in the climate over several decades, versus climate shock, defined as extreme weather events like natural disasters, floods, and droughts which are exacerbated by climate trends. Our credit analysis considers the effects of climate change when we believe a meaningful credit impact is highly likely to occur and not be mitigated by issuer actions, even if this is a number of years in the future.

Climate shocks or extreme weather events have sharp, immediate and observable impacts on an issuer's infrastructure, economy and revenue base, and environment. As such, we factor these impacts into our analysis of an issuer's economy, fiscal position and capital infrastructure, as well as management's ability to marshal resources and implement strategies to drive recovery.

Extreme weather patterns exacerbated by changing climate trends include higher rates of coastal storm damage, more frequent droughts, and severe heat waves. These events can also cause economic challenges like smaller crop yields, infrastructure damage, higher energy demands, and escalated recovery costs.

"While we anticipate states and municipalities will adopt mitigation strategies for these events, costs to employ them could also become an ongoing credit challenge," Michael Wertz, a Moody's Vice President says. "Our analysis of economic strength and diversity, access to liquidity and levers to raise additional revenue are also key to our assessment of climate risks as is evaluating asset management and governance."

One example of climate shock driving rating change was when Hurricane Katrina struck the City of New Orleans (A3 stable). In addition to widespread infrastructure damage, the city's revenue declined significantly and a large percentage of its population permanently left New Orleans.

"US issuer resilience to extreme climate events is enhanced by a variety of local, state and federal tools to improve immediate response and long-term recovery from climate shocks," Wertz says.

For issuers, the availability of state and federal resources is an important element that broadens the response capabilities of local governments and their ability to mitigate credit impacts. As well, all municipalities can benefit from the deployment of broader state and federal aid, particularly disaster aid from the Federal Emergency Management Agency (FEMA) to help with economic recovery.

Moody's analysts weigh the impact of climate risks with states and municipalities' preparedness and planning for these changes when we are analyzing credit ratings. Analysts for municipal issuers with higher exposure to climate risks will also focus on current and future mitigation steps and how these steps will impact the issuer's overall profile when assigning ratings.

The report "Environmental Risks -- Evaluating the impact of climate change on US state and local issuers," is available to Moody's subscribers at http://www.moodys.com/researchdocumentcontentpage.aspx? docid=PBM_1071949.