THE PEW CHARITABLE TRUSTS

The impact of extreme weather events on state credit ratings

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About Pew

- The Pew Charitable Trusts is a non-partisan, nonprofit, research and policy organization.

- Pew projects provide research and technical assistance on issues pertaining to environment, health, fiscal and economic policies, and safety and justice.

- Pew projects aim to help leaders understand and address issues in a research-based, data-driven way.

About Pew

- Pew's fiscal policy teams focus on long-term fiscal stability for states, including:

  – Addressing **persistent budget imbalances**
  – Preparing for **economic downturns**
  – Identifying **emerging fiscal risks**

- Pew aims to help improve the overall fiscal health of states.

Factors that impact credit ratings

- General factors
  - Economic strength
  - Fiscal strength
  - Institutional strength
  - Debt/liabilities

- ESG factors
  - Environmental, social, and governance factors

Emerging fiscal risks: Environment

- Lower credit ratings increase the cost of borrowing for states.

- The factors that impact credit ratings also impact states' long-term fiscal health.

Physical risks posed by extreme weather events

- People, places, assets or income can suffer negative impacts caused by natural disasters or long-term weather changes.

- These can appear as short-term shocks or longer-term trends.

Physical risks posed by extreme weather events

- Spending on disasters and emergency management has increased.
  - Frequency + cost of natural disasters has increased: FEMA's Public Assistance Grant Program increased by 23% decade over decade.
- Low frequency, high-cost events can create volatility in funding needs.
- Significant support is currently being provided by the federal government

Physical risks posed by extreme weather events

- Risks to state assets and infrastructure
  - Increased costs to repair, rebuild, and strengthen
  - Shortened asset lifespans
  - Unfunded liabilities could affect credit, weaken fiscal strength in future

- Mitigation activities have shown a 6:1 return on investment.

Transition risks posed by reactions to extreme weather events

- Economic disruption
  - Disruptions to key industries or shifts in consumption patterns can impact available revenue.
  - Economic concentration can increase vulnerability.

- Population shifts
  - Temporary: Driven by disaster shocks
  - Long-term: Driven by more persistent changes, can impact long-term fiscal stability

Important questions to consider

- How and when will ratings be affected?
  - How material are these risks for state credit rating purposes at this point?
  - How does federal financial support fit into these risk considerations?
- How do these risks affect access to credit for local governments?

How are states responding?

- **North Carolina**: Produced a comprehensive Climate Risk Assessment Plan in 2020.

- **California**: Simulated the likelihood and magnitude of wildfires across the Sierra Nevada forest through 2099.

- **Maryland**: Commissioned a public pension risk assessment that considered different climate scenarios.

Federal activity to watch

- Recent announcement of new SEC rules on private sector ESG disclosures of both emissions and climate risk.

- MSRB is seeking input from municipal bond market participate on disclosure of ESG information.

- US Department of Treasury plans to publish a study of climate-related risk in the insurance industry at the end of this year.

Key takeaways

- Assessing and analyzing risks is key.
- Environmental risks should be part of, not separate from, broader considerations of state long-term fiscal health.
- State and local governments are beginning to take action in recognition of these risks.

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