

THE BOND BUYER

Why localities must fend for themselves on climate resilience

By

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While Hurricane Florence battered the Carolinas over the past week, talk of clean energy and climate resilience merged at several points across the country.

San Francisco hosted the Global Climate Action Summit, the Principles for Responsible Investment Conference and other related events. The Rhode Island Infrastructure Bank staged its annual convention in Providence. New York Mayor Bill de Blasio and Comptroller Scott Stringer announced an initiative to double the city's five pension funds' investments in green initiatives to \$4 billion over three years.

Throughout the year, amid hurricanes, wildfires and even a deep freeze and remelting that had dumpsters floating down Boston streets last winter, a recurring theme is that municipalities and states are increasingly on their own.

"This is a do-it-yourself movement," de Blasio said, citing the more than 300 American cities that reaffirmed their commitments to the 2015 Paris climate agreement goals after President Trump withdrew the U.S. from the accord.

"Even when the United States government pulled out, localities stepped up," de Blasio said.

New York, starting Monday, will host a six-day Climate Week, ahead of the sixth anniversary of Hurricane Sandy. The Oct. 29, 2012 megastorm killed 44 persons and caused \$19 billion of damage in the city alone.

London-based nonprofit Climate Group is organizing the 10th iteration of Climate Week NYC, which will gather international leaders from across the public, private and government sectors to discuss global climate action. Organizers expect to draw 10,000 people from more than 40 countries to attend 150 events.

Florence caused widespread flooding and at least 37 deaths in North Carolina, South Carolina and Virginia, with an estimated \$17 billion to \$22 billion worth of damage.

Its remnants swung to the Northeast, flooding major cities and even parts of New York's subways, creating "waterfalls" in some stations.

“Hurricane Florence is a wakeup call. But there have been so many wakeup calls before this,” Alan Rubin, a principal in the government relations practice of Blank Rome LLP in New York, said in his keynote speech Monday at the Rhode Island summit.

Rubin, while working with the bond underwriting team at Lehman Brothers in 1992, helped design a catastrophe fund to reconstruct South Florida after Hurricane Andrew inflicted \$27 billion worth of damage.

“No one back then could have imagined how commonplace this kind of catastrophe would become,” Rubin said.

Kurt Forsgren, a managing director in S&P Global Ratings’ public finance group, said the San Francisco events he attended “demonstrate how pervasive and impactful efforts to address climate change and resilience really are in the United States and across the globe.

“Tangible steps are being taken in almost every sector and across supply chains, from fashion and clothing to food production and consumer products,” he added.

Federal funding levels are uncertain and the Federal Emergency Management Agency is running ragged. The National Flood Insurance Program is more than \$20 billion in debt to the Treasury Department and needed a \$16 billion debt cancellation last year.

Efforts to establish a national infrastructure bank have stalled over 20 years.

“It’s very unlikely to happen, because Congress can’t agree on it,” Rubin told 300 public finance professionals in Providence. “The disaster issues we face are too regional. They’re not the same in Kansas as they are in Florida or California. It’s up to local officials like the people in this room to solve this problem.”

Green bonds, which resemble conventional municipal bonds but have a stated “green” use of proceeds, have surged over the past few years. Green bonds last year raised \$155.5 billion worldwide, up 78% from 2016, according to London-based Climate Bonds Initiative. Activists want the market to spike to \$250 billion to \$300 billion by year’s end.

Credit rating agencies have begun to weigh in. S&P considers environmental key performance indicators on carbon, water and waste and issues final scores that range from 0 to 100. Moody’s Investors Service rates green bonds from GB1 down to GB5, based on use of proceeds and other factors.

The bonds also support a wider variety of projects, beyond wastewater treatment plants and solar projects. Green bonds, for instance, are financing Florida’s high-speed rail project, All Aboard Florida.

New York, meanwhile, has undertaken several resilience measures.

The city launched a \$106 million heat mitigation and adaptation program to offset extreme heat; initiated new climate resiliency design guidelines will institutionalize climate-smart construction citywide; secured a commitment from FEMA to redraw flood maps; and met major project milestones in its \$20 billion resiliency program, including completion of the Rockaway boardwalk, interim flood protection measures, and hundreds of home elevations.

On Thursday, the city's Waterfront Management Advisory Board held its first meeting today launched planning for a comprehensive waterfront plan, due for release in 2020. New York has roughly 520 miles of waterfront, ranging from the Jamaica Bay wetlands to the port facilities on the North Shore of Staten Island and the urbanized waterfronts of the Bronx, Queens and lower Manhattan.

The city publishes the plan every 10 years.

De Blasio and Stringer said Sept. 13 that their goal to earmark 2% of investments in the \$195 billion pension funds could establish a precedent nationally. The boards of the city's five pension funds must sign off.

The city also sued fossil-fuel behemoths BP, Chevron ExxonMobil, ConocoPhillips and Royal Dutch Shell in January over the damage from Hurricane Sandy, although federal judge John Keenan dismissed the claim two months ago.

De Blasio and London Mayor Sadiq Kahn called on cities worldwide to divest assets from fossil-fuel companies.

According to S&P's Forsgren, many public-finance enterprises such as utilities, transportation, hospitals and healthcare, are factoring resilience into operations and long-term planning "because they provide critical services that cannot experience prolonged interruption.

"For general governments, it's still in the early days," Forsgren said, "but physical or climate resiliency is increasingly becoming part of the dialogue."

Boston's deep freeze and reflooding in January prompted Mayor Marty Walsh to call for a seawall around Boston Harbor. Such a barrier could cost upwards of \$10 billion. How to fund it, of course, is a large variable.

Meanwhile, the state-run Massachusetts Bay Transportation Authority recently contributed to the commonwealth's hazard mitigation and climate resiliency plan that the Executive Office of Energy and Environmental Affairs and the Massachusetts Emergency Management Agency are coordinating.

Initiatives include a system-wide power and communications vulnerability assessment; a system-wide pump room assessment; a resiliency study for the authority's Orient

Heights car house along the subway Blue Line; and vulnerability assessments from Aquarium to Maverick stations on the Blue Line and the entire Red Line.

The MBTA also has plethora of resiliency projects in its capital investment plan.