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What the Property Insurance Crisis Means for Municipal Bond Analysts

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Climate Risk Is Here and Now

- The current property insurance crisis is the first sign that climate risk is starting to impact local property values and eventually, local government tax bases
- Politically-expedient efforts to artificially keep premiums down are distorting risk pricing mechanisms
- The "Insurance Gap" is growing
- Not just in Florida & California: Southwestern states as well as the entire Gulf Coast
- New data resources such as Risk Factor may be a game-changer by providing climate data to individual home buyers & sellers
- Need to invest in the right Zip Code!

FEMA Cannot Be the Answer

- Historically, natural disasters have stimulated local economies through massive injections of federal aid
- This may no longer be the case going forward:
  - ✓ Exploding Federal deficit, as well as political polarization in the US Congress, will continue to create pressure on FEMA funding
  - ✓ FEMA resources may be diverted to other social issues, such as the immigrant crisis
  - ✓ FEMA assistance payments are usually tangled up in red tape

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Municipal Credits Most at Risk

- Local Governments in Extreme Hazard Areas
- States that act as Property Insurers Of Last Resort
- Special Purpose Districts with Narrow Ad Valorem Tax Base
  - ✓ Single Purpose Districts
  - ✓ Development Districts, including Tax Increment Districts
  - ✓ Dedicated Ad Valorem Tax Credits
- Healthcare Credits in Exposed Areas
- Senior Living Facilities
- Stand-Alone Multi-Family Projects

Note: Dedicated Transactions-Based Revenue Credits (e.g., Sales & Use Tax) could actually benefit in the short term. Longer term, will be affected by climate-induced population shifts.

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Addressing the Risk – Disclosure & Mitigation

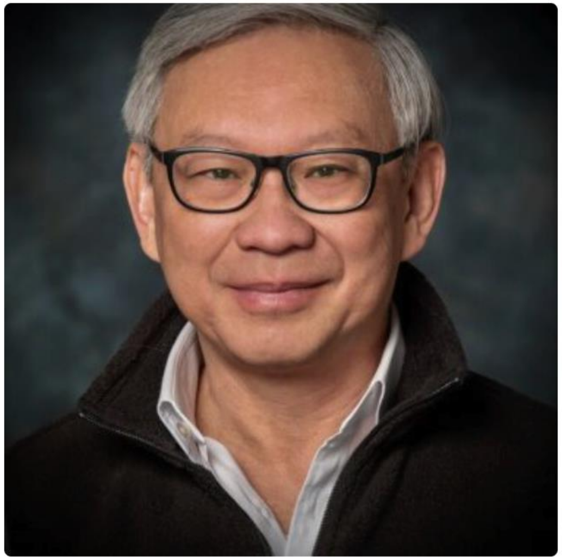
Issuers need to:

- ✓ Recognize their climate risk exposure through best practice disclosure standards
- ✓ Pair such disclosure with a clear, actionable mitigation and resiliency plan (with and without Federal assistance)

Investors need to:

- ✓ Explicitly incorporate climate risk data into their credit research and risk management processes
- ✓ Focus on exposure at the Obligor level, not at the Bond Issue level (“labelled bonds”)
- ✓ Focus on both Acute (e.g., hurricanes, tornadoes) and Chronic Risks (e.g., flood, heat, drought)
- ✓ Start re-positioning their portfolios to minimize climate risk exposure, without sacrificing much yield under current market conditions

Thank You



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