Opening Statement of Chairman Sheldon Whitehouse
Senate Committee on the Budget
Investing in the Future: Safeguarding Municipal Bonds from Climate Risk
January 10, 2024

Welcome to the first hearing of the Senate Budget Committee in 2024 and our twelfth hearing on the looming fiscal dangers of climate change. In the year since we started, climate economic warnings have just gotten worse. We are barreling past warning sign after warning sign.

The facts are bad: last year was the hottest year on record; it set a new record for billion-dollar disasters, including the deadliest wildfire in modern U.S. history, and a new worst for global fossil fuel emissions.

Climate change disrupted global food markets with flooding, persistent drought, and shipping bottlenecks that raised sugar, cocoa, and olive oil prices, as just a few examples, causing climate inflation around the world.

Shattered weather records battered insurance markets: Vermont and New York's once-in-a-thousand-year storms triggered deadly floods. California saw its first-ever Tropical Storm Warning. El Paso had 44 consecutive days at or above 100 degrees, topped by Phoenix's 55 days at or above 110 degrees. The Dallas Fed estimated that the summer heat wave cost Texas $24 billion. Insurance companies are already cutting their losses and exiting markets on the frontline of climate change in Louisiana, Florida, and California.

Follow the real estate economics here: without insurance, it's hard to get a mortgage; and if you can't get mortgages, property markets suffer, causing pain to families, communities, and ultimately the entire U.S. financial system. Look at when 2008's mortgage crisis cascaded into the Great Recession. As this current insurance crisis spirals into a mortgage crisis, and then spills over into housing markets, property values will suffer. The former chief economist at Freddie Mac warned this Committee that in this mortgage crisis, "unlike during the experience of 2007-2008, these homeowners will have no expectation that the values of their homes will ever recover." End quote.

I share my colleagues' debt-and-deficit concern about the "impending budgetary and fiscal crisis facing our nation." One front of that impending crisis is climate change's economic threat — a threat to families, neighborhoods, banks, federal housing lenders, real estate developers, insurers, investors, and to state and local tax bases.

Which brings us to the topic of today's hearing: the $4 trillion municipal bond market.

Municipal bonds—much like the 30-year mortgage—are a bedrock of our American economic system, enabling local governments to make investments that are essential for their communities: basic public services like water service, sewage treatment, electricity, and roads. Local government bonds finance more than 70 percent of U.S. infrastructure, including airports, bridges, railways, and seaports. Climate change now threatens that bond market.

Historically, municipal bonds have a sterling reputation among investors, with default rates of less than one percent. Investors lend their dollars to build a new school or highway and typically receive a tax-exempt stream of interest for the next fifteen or even thirty years. These bonds, secured by government revenues, are among our most stable investments.

Climate change undermines this stability in two ways. More intense storms, wildfires, droughts, heatwaves, and floods impose higher costs on state and local governments, putting pressure on the spending side. And on the revenue side, storm damage and insurance risk can undermine the municipal tax base. Already, climate change is making it harder for municipalities to service their bond payments and making it harder for governments to raise new capital for needed climate investments.

After a disaster, communities' local tax bases can be devastated. Five years after the Camp Wildfire, only a third of the population has returned to Paradise, California. Hurricane Matthew undermined tax bases across small towns in North Carolina. After a disaster, population declines mean revenues decline.

And bond markets are watching; fifteen- or thirty-year municipal bonds start to look less safe. Moody's has already given notice to coastal communities.

This risk comes home to roost in the federal budget. Over 40 percent of our national debt relates back to crises we did not prepare for, like the mortgage meltdown and the covid pandemic. Today, we'll hear more evidence that climate change is just such a crisis — an "impending budgetary and fiscal crisis facing our nation." It could well be the worst yet. We've heard warnings about a coastal property values crash, a similar collapse in wildfire-adjacent areas, a bursting of the "carbon bubble," of turmoil in insurance markets, climate inflation, and now danger to a pillar of American investment. Nothing says this all doesn't come to pass. Ignoring it is akin to financial negligence. If there's one thing we should be able to agree on, it's that we can't afford to be negligent.