

**From:** Richard Kahn <[REDACTED]>  
**To:** "jeffrey E." <jeevacation@gmail.com>  
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gap of fema reimbursement (75%?) for USVI and Puerto Rico vs their own funding unfortunately looks scary...

**Flowing Federal Aid.** Local governments will be eligible for aid from FEMA. FEMA reimburses at least 75% of emergency costs for disaster areas and as much as 75% of infrastructure projects to increase resiliency against future climate events. So far, federal aid for designated counties has been approved at that 75% level. We expect additional federal aid will be forthcoming and that insurance payments, state support and private charitable donations will also aid the rebuilding process.

Without question, there are challenges ahead. But the city, county and state are well-positioned as municipal credits to survive the impact of Harvey, without much risk of default.

### **Smaller Municipal Credits Could Fare Worse**

Harvey and storms like it do bring investment risks along with real human catastrophe. As was the case with Katrina, the hardest hit municipalities will be those that had thin liquidity heading into the storm. Governments that were already facing tough credit conditions may see their situations worsen in the storm's wake. In the case of Harvey, that means smaller, more remote municipalities.

In addition, bonds issued by municipal utility districts to fund roads, plumbing and other infrastructure necessary for new development may find themselves challenged. These bonds carry the risks associated with filling these new developments, because repayment comes from a portion of property taxes eventually received. The problem isn't a decline in demand for new development in and around Houston. Rather, it's construction delays that may result from resources getting prioritized for the rebuilding effort.

One solution is for investors to maintain a well-diversified portfolio. And given the increasing frequency of climate events such as Harvey, it's also important to consider the three factors that affect a credit's resilience to natural disasters—among other features—when selecting municipal bonds.

As Hurricane Irma, currently rated a Category 5, races toward Florida's shores, our thoughts are with those bracing for landfall, with the survivors of Harvey, and with those assisting in recovery and rebuilding efforts in southeast Texas.

<https://blog.abglobal.com/post/en/2017/09/do-natural-disasters-portend-defaults?mid=bmi>

<http://www.cnn.com/2017/09/07/politics/fema-funding-disaster-relief/index.html>

Richard Kahn  
HBRK Associates Inc.  
575 Lexington Avenue 4th Floor  
New York, NY 10022

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