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Moody's Proposes More Focus on Public Pension Obligations in Bond Ratings.

Moody’s Investors Service is seeking public comment on proposed methodology changes that would increase the weight of debt and pension obligations to 20% from 10% in its ratings of local government general obligation bonds while decreasing other economic factors.

The proposed change “would recognize the potential for large pension liabilities to constrict local governments’ financial flexibility. Because pension liabilities and debt each represent enforceable claims … the current methodology should be weighted more heavily to capture the combined effect of both debt and pensions,” Moody’s said in a news release Wednesday.

In April, Moody’s revised its approach to state and local government pension data to address what officials there considered underreporting of pension liabilities on government balance sheets, and to increase comparability among plans by investors and credit analysts. It also placed the general obligation bond ratings of Chicago, Cincinnati, Minneapolis, Portland and 25 other governmental units on review for possible downgrade because of relatively large net pension liabilities.

Government pension and finance officials worry that further changes by Moody’s will create additional confusion. “The data Moody’s uses does not align with the financial data that local governments report on their financial statements,” said Elizabeth Kellar, president and CEO of the Center for State and Local Government Excellence. “Giving greater weight to data that may be flawed is a concern.”

If the proposed methodology is adopted, Moody’s officials predict some bond ratings would change, but “the vast majority would not,” according to the news release. Comments are due by Oct. 14.