Bond Case Briefs

Municipal Finance Law Since 1971

Moody's: Local Government Pension Liabilities Soar in Fiscal Year 2016.

Adjusted net pension liabilities for the 50 largest local governments totaled $456 billion in at the end of fiscal year 2016, up from $390 billion the previous year, said a report from Moody's Investors Service.

The $456 billion is more than double the size of debt and reported other post-employment benefit liabilities for the local governments combined, Moody's said in the report.

On an individual basis, only 14 of the 50 municipal entities reviewed had less pension debt than bonded debt in fiscal year 2016.

Moody's uses a market interest rate to calculate pension liabilities rather than a discount rate. Often times, Moody's adjusted net pension liabilities are higher because it's using an interest rate closer to 4% than the 7% or 7.5% that pension funds use.

The five entities with the highest adjusted net pension liabilities as a percentage of operating revenue were Chicago at 703%, followed by Dallas at 609%; Houston, 606%; Phoenix, 494%; and Los Angeles, 432%. That ranking remains unchanged from last year's report, with the exception of Phoenix and Houston, which switched places.

On the flip side, local governments reporting the lowest adjusted net pension liabilities as a percentage of operating revenue were Wake County, N.C., at 24%; Houston Independent School District, 46%; and Washington D.C., 50%.

Regarding pension contributions, only 16 of the 50 entities surveyed contributed enough to stem unfunded pension liability growth, down from 26 in fiscal year 2015.

Moody's noted in the report that 42 of the 50 entities reported pension funding information that lagged their fiscal-year end. Under GASB 68, governments are permitted to report net pension liabilities up to one year prior to their fiscal-year end, said Timothy Blake, managing director, public finance at Moody's.

As a result, the rating agency predicts that adjusted net pension liabilities for the 42 entities will increase an additional 33% in their fiscal year 2017 reporting due to their "lagged recognition" of weak investment returns and declining discount rates in calendar year 2016. Moderate declines in adjusted net pension liabilities are expected in fiscal 2018, however, due to stronger returns in 2017.

Moody's report also looked at the probability of pension investment losses in a given year amounting to 25% or more of a government's operating revenue. For seven of the 50 entities reviewed, the probability of this happening was 10% or greater in fiscal year 2016 due to the size and estimated volatility of their pension assets, the report said. Houston and Los Angeles faced the highest probability.

PENSIONS & INVESTMENTS

BY MEAGHAN KILROY · DECEMBER 19, 2017