Here's the Top Concern for Many Municipal Bond Market Analysts.

Public pensions are one of the top issues confronting the municipal bond market, according to the vast majority of credit analysts responding to a survey released on Monday.

The survey asked 162 municipal bond credit analysts to name the five most important issues or trends currently facing the market. Of the respondents, 86 percent included matters related to pensions, such as funding levels and pension obligation bonds, on their top five list.

The second most-noted topic was Puerto Rico, which 50 percent of the analysts included as one of their top five issues or trends. The island commonwealth is currently mired in a debt crisis.

Tom Kozlik, a sell-side municipal credit analyst at the Philadelphia-based financial services firm Janney Montgomery Scott, LLC, conducted the survey.

While he emphasized that he was not speaking for all of the respondents, Kozlik said that, for him, public pensions are a key source of concern.

"It's 2015, we're multiple years out of the recession and there are still several state and local governments that are experiencing structural imbalances and their pension funding levels are still inadequate, or I'd say very inadequate," Kozlik said during an interview on Tuesday.

Following the onset of the Great Recession in late 2007, contributions to public pension plans in cities and states around the U.S. saw declines. As a credit analyst, Kozlik said he is looking ahead, considering how the already lagging levels of pension funding in some jurisdictions would affect their finances when another economic downturn hits.

"They're dragging down credit quality for several state and local governments now," he said, referring to pension funding levels. "It's going to be even worse after the next recession."

As for whether the quality of state and local government credit has recovered from the Great Recession, 61 percent of analysts responding to the survey said "yes," while 22 percent said "no." Another 17 percent were either undecided or said some variation of "not yet."

The survey was conducted between March 20 and March 31. Of the municipal bond credit analysts that responded, 59 percent identified themselves as generalists and 63 percent said they were on the buy-side of the market.

The other issues and trends that the analysts most commonly included on their top five lists were: infrastructure (44 percent), the proliferation of chapter 9 municipal bankruptcies (38 percent) and disclosure (35 percent).

Kozlik said that a common reason analysts pay attention to infrastructure is that deferring maintenance or new projects can affect the creditworthiness of a state or local government.

As for disclosure, he said there tends to be broad agreement among municipal credit analysts that governments should issue information about their finances more regularly. He noted that companies release quarterly financial reports. Municipalities, he said, might not issue financial statements until a year, or 18 months, after the close of a fiscal year.

Another survey result that Kozlik found interesting had to do with ratings agencies. Over half of the surveyed analysts expressed a neutral or favorable view of Fitch, Moody's and Standard & Poor's.

But the results were distinctly different when they were asked about Kroll Bond Rating Agency, a relative upstart established in 2010. Sixty-six percent of analysts either don't consider, or have an "unfavorable" or "undecided" opinion of Kroll's municipal bond ratings.

Government Executive

By Bill Lucia April 7, 2015