Bond Case Briefs

Municipal Finance Law Since 1971

What's Going on With Muni Credits?

The trend of local governments only seeking out one credit rating for bonds is growing. Now, one in five bonds issued in the municipal market has just a single credit rating assigned to it, according to data from Municipal Market Analytics (MMA).

This can be attributed to several factors. For one, fewer individual investors — the biggest users of credit ratings information — are directly purchasing muni bonds, so the demand for multiple ratings has lessened. Also, agencies are increasingly giving different ratings to the same bond, which "undermines the notch-by-notch value of individual rating assignments," said MMA analyst Matt Fabian.

Along with this trend is another one: A significant portion of municipal issuers are worse off than they were at the end of the Great Recession. By the measure of PNC Capital Markets analyst Tom Kozlik, 20 percent of state and local governments have seen their underlying credit quality decline — some significantly so.

Kozlik blames this on one key fact: governments' inability to balance their revenue and spending to live within their means. "Also," Kozlik adds, "some state and local governments still have not grasped the scale, costs and risk that pension liabilities and other post-employment benefits still pose to credit quality and fiscal balance."

The Takeaway: These two trends contribute to the mysterious reputation the municipal market has with outsiders. When even the credit rating experts can't agree (note Chicago's three different ratings from four agencies), it's tougher than ever to generalize about the overall health of state and local governments. But if more of them continue to falter, it will undoubtedly invite assumptions about unsustainable governments everywhere.

GOVERNING.COM

BY LIZ FARMER | MAY 20, 2016