wgrz.com 2 On Your Side Buffalo, NY

State, Local Governments Concerned About Federal Fiscal Woes

5:17 PM, Aug 8, 2011 | comments

Written by
a a

FILED UNDER

Top Story

By JOSEPH SPECTOR
Gannett Albany Bureau Chief

ALBANY -- Local governments are raising concerns over Standard & Poor's downgrade to the nation's credit rating and the potential for federal-aid cuts.

The specific impact of the federal government's fiscal troubles on NewYork and its municipalities remain unclear. But some officials fear it could lead local governments and the state to pay higher interest rates to borrow money and hurt taxpayers already struggling with among the highest taxes in the nation.

"It has a potential ripple effect back into every community in New York state, every county in New York state and every taxpayer in New York state because of the reliance on federal funding," said Stephen Acquario, executive director for the state Association of Counties.

About one third of the state budget -- $43 billion of the $132 billion spending plan -- comes from the federal government. That's on par with the national average of about 35 percent, according to the National Association of State Budget Officers.

In New York, counties have been warning for months that ongoing mandated costs by the state coupled with a property-tax cap in January will squeeze their budgets. Now they face uncertainty over their bond ratings because of the downgrade by S&P to the federal credit rating, some officials said.

Pension costs for state and local governments have also soared in recent years because of the troubles on Wall Street. So a second national recession or a sustained decline in pension fund returns could prompt higher costs for local governments.

Already, pension expenses for state and local governments will increase by 37 percent in 2012, according to the state

Comptroller's Office. The costs for 2013 will be released this fall.

"The pension system has to deal with the ebb and flow of Wall Street," said Ron Levine, spokesman for Rockland County. "As Wall Street goes, the responsibility of the taxpayers of counties also go. In Rockland County, we are concerned."

Comptroller Thomas DiNapoli said in a statement that the state's pension fund, one of the largest in the country, is resilient. Stocks plunged Monday.

"Today's news is of concern," DiNapoli said. "However, we are a long-term global investor and have long term confidence in the global marketplace."

There was no immediate comment from Gov. Andrew Cuomo's office.
Some fiscal experts said state and local governments are unlikely to face any new troubles because of the S&P decision, citing that it was the only one of three credit agencies to downgrade the nation's credit rating.

"It brings an increased awareness, but is there going to be any consequential downgrading of various state and local government debt securities as a result? I guess I don't understand why that would be the case," said Tad DeHaven, a budget analyst for the Washington D.C.-based Cato Institute.

Joseph Stefko, director of public finance for the Center For Governmental Research in Rochester, said the federal credit downgrade is another challenge for state and local governments.

County governments administer a wide variety of federal programs, particularly Medicaid.

"The federal credit downgrade is just one more piece to the puzzle here that is affecting states and locals. I don't think it stands out more than any other," he said.

State officials said that while they are closing monitoring the federal situation, there isn't any immediate worry. Credit agencies recently applauded the state budget adopted in April, which closed a $10 billion budget gap without increases in spending or taxes.

Fitch and S&P give the state an AA credit rating for its general obligation bonds, and Fitch in May moved the state's outlook to "positive from stable."

The S&P federal downgrade puts many counties' credit rating at the same level as

wgrz.com 2 On Your Side Buffalo, NY

the federal government, perhaps making local bonds more attractive, some officials said.

The federal credit rating was lowered by S&P by one level to AA+. Only Westchester and Orange counties in New York have the top AAA bond ratings from S&P.

"Does that make our debt more expensive because there's a general concern about creditworthiness or does it make it more attractive because we're now on par with the federal government? I don't know," said Joe Mareane, the Tompkins County administrator.

Some counties are more concerned about the long-term effects of the federal debt ceiling deal earlier this month and the spending cuts that may follow. Congress will need to cut $2.4 trillion from the deficit, which could lead to cuts to states starting in 2014.

"At this point, we're operating as we normally would and anticipating the federal a id that's expected from those sources," said Scott Adair, chief financial officer for Monroe County.

Monroe County is among counties whose credit ratings are tenuous. A report last month from Moody's Investors Service warned that Monroe and Rockland in particular face additional fiscal pressure because of the property-tax cap, which will limit municipalities' tax increases to 2 percent a year.

Westchester County, meanwhile, was among 162 governments in 31 states that Moody's last month warned could lose its top bond rating if the federal government didn't agrees to raise the debt ceiling.

Although a deal was reached, Moody's said Westchester was among governments with "high economic dependence on federal activity" that would be vulnerable if the U.S. credit rating is lowered.

Donna Greene, a county spokeswoman, said Monday that there is no indication that the S&P downgrade to the federal government will impact Westchester's credit rating.

JSPECTOR@Gannett.com
$qt $e