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Public Finance Expert: Pension Costs 'Squeeze Governments.'

Those who are looking closely at how state and municipal governments handle pension costs know the problem is going to require some creativity.

"Whatever share (of budgets) these pension costs are currently making up ... it's likely to increase" Gabriel Petek told *Chicago City Wire*. Petek is a managing director and sector leader in the U.S. Public Finance States group at S&P Global Ratings in San Francisco.

He said city and state officials are looking anywhere they can to balance finances under pressure.

"Governments will have to make cuts elsewhere," Petek said.

S&P Global Ratings, which measures the creditworthiness of states and municipalities, has observed "a profound shift unfolding" in states where pension system funding is in distress, Petek wrote for *The Hill*, specifically citing Illinois, Kentucky and New Jersey.

"The pervasiveness of budget pressures in these and other states is inconsistent with a mature national economic expansion and signals real credit stress," Petek wrote. "Our recent negative rating actions on several states' debt reflect this. Since January 2016, we have issued 11 state credit rating downgrades and just two upgrades."

A 2016 report calculated that Illinois' pension debt reached \$130 billion last year - a 17 percent increase from 2015 - and account for more than a quarter of the state's annual budget, according to the Commission on Government Forecasting Accountability.

The combined total cost of unfunded debt related to local and state government retirement commitments is more than \$267 billion, the Illinois Policy Institute reported in March.

Whether Republican Gov. Bruce Rauner and legislators in both parties and local government officials succeed in tackling pension problems will likely depend on whether officials adopt the try-everything approach that experts like Petek suggest may lead them out of the debt wilderness.

For example, Petek said, some governments are holding off on infrastructure investments or changing how they invest in higher education. As states cut funding to colleges and universities, higher education administrators can respond by adjusting tuition or changing the financing of programs.

Reducing existing pension benefits could give taxpayers some relief, Petek said. That would be good for Illinois resident. The Illinois Policy Institute report calculated that the rise in unfunded pension-related debt shakes out to \$56,000 per household in added future taxes.

"It's easier said than done," Petek said.

That's because cutting spending can be complicated. Many parts of state budgets are dictated by law. Others, like cutting contributions to secondary education, pose other challenges.

"It's a sensitive part of the budget to cut," he said of school funding.

In general, he said, governments are looking in every corner for programs that can be cut, or other ways to decrease deficits in ways that won't enrage constituents.

"That's the tension that we see playing out," Petek said. "It will squeeze governments."

Chicago City Wire

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