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Moody's: Sequestration's impact on local governments isolated and generally limited.

Only a few, isolated local governments are likely to experience significant negative pressure on their finances because of the ongoing federal sequestration, says Moody's Investors Service in the report "The Sequester Series: Limited Impacts on Local Governments." Those vulnerable are in regions with economies heavily dependent on defense spending or health care.

"Sequestration will strain the US economy to some extent, but any material impact on regional economies will be limited to areas with substantial dependence on defense spending or health care," says Rachel Cortez, a Moody's Vice President — Senior Analyst. "In these regions, local governments relying on revenues from income taxes and sales taxes may face some budget pressures as layoffs, furloughs, and hiring freezes reduce disposable income and consumer spending."

Direct government funding makes up only 5% of the general revenue of local governments taken together. Therefore the impact of the sequestration on local government budgets is mainly through its drag on the economy, which reduces local government income tax and sales tax revenues because of declines in disposable income and consumer spending. These tax sources make up about 10% of local government revenues.

Defense spending cuts will moderately pressure several regional economies, as the sequestration requires a 7.8% cut in discretionary defense spending in federal fiscal year 2013. Areas with relatively high dependence on federal employment include the Georgia MSAs of Warner Robins and Hinesville-Fort Stewart. Areas with large exposures to federal procurement contracts include Oshkosh-Neenah WI, Idaho Falls, ID, and Amarillo, TX.

Sequestration cuts also include a 2% reduction in Medicare reimbursement to hospitals and other healthcare providers. As hospitals cope with tighter operating margins, areas with significant healthcare employment may see some economic consequences. Such areas include Rochester, MN, McAllen-Edinburg-Mission, TX, and Brownsville-Harlingen, TX.

For more information, Moody's research subscribers can access this report at:

http://www.moody's.com/research/The-Sequester-Series-Limited-Impacts-on-Local-Governments-PBM_PBM152247.