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ERIE COUNTY GOVERNMENT

Control board to handle \$88 million short-term loan

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Erie County lawmakers spent the summer debating how the county should conduct its short-term borrowing.

In the end, the borrowing will be done in much the same way that it has in recent years: The county's state-appointed control board will take out a loan on the county's behalf.

The Erie County Fiscal Stability Authority expects to close on a deal next week to borrow \$88 million through a bond-anticipation note to cover county expenses until state and federal reimbursements come through.

The money should arrive Oct. 6, Kenneth J. Vetter, the control board's executive director, told county legislators Monday.

"We don't anticipate any problems," Vetter said. "There doesn't seem to be a cash issue with us delivering on that date."

County Comptroller Mark C. Poloncarz asked the control board to move forward with its deal last week after the county failed to obtain the highest short-term credit rating, MIG 1, from Moody's Investors Service.

Moody's instead gave the county a MIG 2 rating, citing concerns over "limited liquidity" and "narrow reserves" to protect from "economically sensitive revenues."

"Moody's considers the county's level of cash flow borrowing to be manageable given the county's conservative projections of sales tax and state aid," a Moody's analyst wrote. "However, a significant decline in the region's economic outlook resulting in a considerable decline in sales tax or state aid delays could place potential pressure on the county's ability to repay the note."

Moody's analysts noted that the "county's financial position has stabilized" as reserves have grown in recent years but that some of the county's surpluses have been due to one-time "windfall" revenues from unexpected stimulus funds.

The Moody's report noted the county's strengths as a "large and diverse tax base" and "strong budget management."

The debate over short-term borrowing flared this summer after County Executive Chris Collins asked legislators to approve a "declaration of need" to allow the control board, which has a better credit rating, to move forward with putting together a deal.

The Legislature later held off, allowing Poloncarz to seek proposals from bond underwriters to see if the county could obtain a better deal on its own. Poloncarz estimated that one of those proposals, from M&T Securities, could have saved the county an additional \$25,000 if it had been able to obtain the highest Moody's rating.

The control board will use its own underwriter, Roosevelt & Cross, to obtain the short-term loan on behalf of the county.

Vetter told legislators Monday that the control board's proposal would save the county more than \$600,000 over what the county could have obtained with a MIG 2 rating.

"If the county were to go to the market with a MIG 2, that's like going to bat with two strikes against you," Vetter said.

Poloncarz, in a letter to legislators, credited the late-summer competitive bidding process with helping the control board obtain a better deal from its underwriter.

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