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COUNTY OF ERIE

STEFAN I. MYCHAJLIW
COMPTROLLER

December 4th, 2013

Honorable Erie County Legislator Edward Rath III
92 Franklin Street, 4th Floor
Buffalo, New York 14202

Re: Kicking the can on pension payments

Dear Legislator Rath:

In response to your request about the potential negative ramifications of kicking the can on our pension obligations I wanted to share with you how unfavorably Wall Street views participation in the pension amortization program. Moody's Investor Service does not look favorably on kicking the can on pension payments:

"The deferral of pension contributions would increase the unfunded pension liabilities of participating local governments, a credit negative…The positive short-term budgetary relief will outweigh the cost of increasing unfunded pension liabilities for only the most financially stressed local governments…Participating local governments exacerbate their risks if investment returns are below projections."

Source: "Moody's Warns of Pension Risk Gimmick," Empire Center for Public Policy, E.J. McMahon, 4/19/13

Wall Street and the Poloncarz Administration appear to be on the same page concerning the negative impact of kicking the can on pension payments:

"One thing I'm really proud about our budget this year (2012) is we really did not rely on one-shots. There are for example, when you pay the retirement bill there is an option to amortize the bill. ***There is a one-time savings but it's a long-term cost with high interest rates. It's not a good decision…The alternatives were bad decisions like the retirement amortization is a bad decision. Short term it's great – you get more money now but you're paying a lot more for it in the future. There is no benefit."***

Source: Erie County Executive Mark C. Poloncarz's Director of Budget and Management Robert W. Keating, Erie County Fiscal Stability Authority Finance Committee Meeting, 10/19/12

Once again, it is the official position of the Office of Erie County Comptroller that the county pays off the pension bill as soon as possible, not in the full ten years, and not waste $2.4 million in unnecessary interest payments.

Potentially there are multiple positive variances in future fiscal years that could bring additional revenue to the county. Those include, but are not limited to better than projected sales tax revenue, casino revenue of more than $4 million, and potential multi-million dollar short-term Medicaid savings due to "Obamacare."

If Erie County does not pay the balance in full by February 1st, 2015, taxpayers will be on the hook for the first interest payment of approximately $420,838.90, money that could be dedicated to repairing roads and bridges, strengthening libraries and cultural institutions, or in whichever priority chosen by your Honorable Body.

Sincerely,

Stefan I. Mychajliw
Erie County Comptroller

Cc: Honorable Mark C. Poloncarz, Erie County Executive
Erie County Fiscal Stability Authority

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