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Moody's warns oil spill impact on Florida could be worse than recession

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A Moody's report released Tuesday on the potential impact of the oil spill on Florida warns it could hurt the state on a major scale.

"The state's high dependence on tourism dollars and jobs is significant and a gradually worsening disaster associated with any part of Florida's 1,197 coastline miles could likely have long-term implications even greater than the recent global recession or Hurricane Ivan in 2004," said Moody's Investor Service analyst and senior credit officer Edith Behr.

In effect, the impact could simulate a double dip to the economy in a state already struggling more than most to emerge from one of the country's worst recessions.

Here's how the Moody's scenario could happen.

Florida, as well as gulf coast cities in Louisiana, Mississippi and Alabama, may see credit ratings cut because of the BP oil spill, if tourism falls and property values drop. The spill may have "severe" effects if it reaches coastal communities on Florida's Panhandle since they rely so heavily on tourism and the state depends on sales taxes from the region.

"Cities, towns, school districts, and counties will likely experience a decline in property tax values, which will necessitate a reduction in services or an increase in other revenue to maintain current rating levels," Behr said.

In turn, lower ratings may raise borrowing costs for state and local governments in the region as investors in the \$2.8 trillion municipal-bond market demand higher yields to compensate for increased risk.

Moody's rates the credit quality of borrowers in the market. Tax revenue is likely to fall over the long term for coastal cities, which may force cutbacks in services, Behr said.

"A majority of statewide bonds are secured by special taxes including tourist taxes and sales taxes," the report said. "Also, with sales taxes constituting the state's primary revenue source, further reductions in this revenue would have negative implications on school district funding statewide."

It will all depend on the extent of damage from the oil spill. And that, Behr said, remains too early to tell.

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