



# Radical Tax Cap Would Put North Carolina in a Permanent Bind

## OPPOSE SENATE BILL 817 WHICH PUTS NC'S AAA-BOND RATING AT RISK

### BUDGET & TAX CENTER FACT SHEET

#### REASON #1

## Don't Risk North Carolina's AAA-Bond Rating

Amending the state constitution to set an arbitrary and low income tax rate could harm North Carolina's respected AAA bond rating. Our bond rating allows us to borrow for major road, building renovations, and development at low cost and in so doing makes it possible to pursue investments that set our state on a solid foundation for the future.

**North Carolina has the highest bond rating possible and is one of just three states that have held that rating for more than 50 years.**<sup>1</sup> Bond ratings are set by rating agencies based on the health of the economy and the ability of states to pay their debts and meet needs in their state. Rating agencies often view constitutional tax and spending limits as risky because policymakers then have fewer options in how a state can repay its debts and maintain public investments critical to a strong economy.

**This is a bad business decision for our state.** Janet Cowell, our state Treasurer, has already weighed in on a similar constitutional amendment because it ["poses a real danger to our finances and reputation."](#)

**Bond rating agencies have already signaled that artificial tax and spending limits can undermine states' bond ratings.**

In May 2016, Moody's dropped the credit outlook for Kansas from stable to negative, signaling that it could once again downgrade the state's bond rating.<sup>2</sup> Kansas was already downgraded in 2014 due to its revenue failing to keep up with immediate investments in public schools and long-term investments in pensions. Moody's noted that "failure to adopt measures to increase revenues or decrease expenditures sufficient to restore structural balance" drove the decision.

When policymakers in Georgia considered amending their state constitution to permanently cap the income tax rate, many experts also pointed to the risk to the state's bond rating. [Former State Auditor of Georgia stated](#): "One of the key factors bond agencies evaluate to judge a state's credit worthiness is the overall revenue structure to make sure lawmakers can raise enough money to balance the budget." [According to Moody's](#), "A significant strength of state [Georgia] management lies in its broad powers and resources to manage its finances in the face of volatility... Georgia's constitutional cap has stripped the state of that option with respect to its personal income tax."

*For press inquiries,  
please contact:*

**Alexandra Sirota**  
Budget & Tax Center  
[alexandra@ncjustice.org](mailto:alexandra@ncjustice.org)  
or (919) 861-1468

NORTH CAROLINA  
JUSTICE CENTER  
P.O. Box 28068  
Raleigh, NC  
27611-8068

(919)856-2570  
[www.ncjustice.org](http://www.ncjustice.org)

<sup>1</sup> <http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2014/06/09/sp-ratings-2014>

<sup>2</sup> <http://www.kansas.com/news/politics-government/article75347912.html#storylink=cpy>

**The Connect NC bond which includes \$2 billion worth of projects across the state could be derailed by higher borrowing costs.**

- Projects include renovation and building at UNC campuses; repair and renovation in the North Carolina College System; support for local water, sewer, and park infrastructure; repair and expansion projects in the state park system and North Carolina Zoo; and training facilities and renovations for the North Carolina National Guard and Department of Public Safety
- As BTC Analyst Patrick McHugh noted in his analysis of the strong potential economic return from Connect NC, “Realizing a return on the Connect NC Bond Act investment will require long-term funding commitments. An engineering building without equipment or engineers won’t make North Carolina more competitive. Zoo exhibits with no animals won’t enlighten our children, and public safety training facilities won’t do much good if we don’t hire new officers. As such, capturing the economic benefits of the Connect NC Bond will hinge on whether state leaders allocate adequate funding to use and maintain the new infrastructure.”<sup>3</sup>

**Projects being pursued by local governments to bond for school construction and transportation could also be affected by a rating downgrade.** With an estimated \$8 billion worth of school construction projects needed across the state, this is not the time to increase the cost of borrowing in North Carolina.

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<sup>3</sup> [http://www.ncjustice.org/sites/default/files/BTC%20Reports%20-%20INFRASTRUCTURE-ConnectNC%20bond\\_0.pdf](http://www.ncjustice.org/sites/default/files/BTC%20Reports%20-%20INFRASTRUCTURE-ConnectNC%20bond_0.pdf)