

June 12, 2006

MEMORANDUM

To: Land for Tomorrow Steering Committee
From: Jim Johnson
Subject: Why the State Can Afford Land For Tomorrow Bonds

On the important question for Land for Tomorrow, "Can North Carolina afford a \$1 billion Land and Water bond?," the answer is simply, yes.

Over many years with the General Assembly's fiscal staff, I have spent considerable time analyzing the various models used to simulate the impact of the issuance of bonds on the State's budget. After examining these models in relation to the Land for Tomorrow's proposal, my conclusions as to why this is both prudent and affordable can be summarized by the following:

- North Carolina bonds are rated AAA, the highest available. North Carolina maintains its AAA rating by using conservative assumptions to forecast the amount of debt that can be issued, and then by quickly paying off that debt when the voters decide the State should borrow money.
- This is a very prudent and conservative approach to managing the State's debt, and has been a hallmark of the State for decades. The result is lower interest rates when a decision is made to issue debt.
- Using the Treasurer's 2006 assumptions North Carolina has at least \$2.1 billion in available debt capacity over the next 10 years. In that same 10-year period the State will retire over \$3.37 billion in outstanding debt.
- With continued growth in the North Carolina economy, additional debt capacity should become available in future years to allow the State to meet other priorities in education, health, and transportation infrastructure.
- Using these same conservative assumptions, if the voters approve \$1 billion for Land for Tomorrow, \$1 billion in Clean Water bonds, and the General Assembly votes to use of certificates of participation for certain time sensitive projects in the areas of mental health, public health, and corrections, the State will still have less debt at the end of ten years than it has today.

I congratulate the Land for Tomorrow coalition on its thoughtful and business based approach to the issuance of new debt. The time is right to use voter approved bonds to purchase land that will become an appreciating asset to the State, and with the pressure of development in our rural areas will not be available tomorrow.