



## NORTH CAROLINA

OFFICE OF THE TREASURER

JANET COWELL, TREASURER

August 7, 2015

Members of the North Carolina General Assembly  
16 West Jones Street  
Raleigh, NC 27601

Dear Senators and Representatives:

I am writing you to express my opposition to Senate Bill 607, "Constitutional Amendment Tax Legislation." As State Treasurer, one of my top priorities is protecting the State's "AAA" bond rating. That rating keeps financing costs low and signals to businesses looking to locate here that North Carolina is on sound financial footing. For the reasons outlined below, my staff and I strongly believe that this measure would endanger our bond rating.

### **Potential Impact on the State's AAA bond rating:**

Due to the potential limitation on a state's financial and budgetary flexibility, this type of legislation is typically viewed negatively by the rating agencies. Documents provided by Standard & Poor's and Moody's agencies support this as a "credit negative" finding. "Governance/Flexibility" is an important category considered by rating agencies and is currently one of North Carolina's strongest factors.

The proposed bill creates a "super majority" that is required to approve additional taxes. Conversely, the bill also gives power to a minority who can check the will of even a large majority. The allowance of either condition is viewed negatively by rating agencies. Losing the State's coveted "AAA" rating would expose North Carolina to increased borrowing costs and send a negative message about our overall management capabilities. It could also impair the State's ability to promote itself for economic development purposes.

### **Potential Adverse Fiscal Implications of Super Majority**

During periods of economic downturn, super majorities make it more difficult for states to raise necessary revenue resulting in further job cuts and weakening economic recoveries. The taxing power of the State is especially important during times of emergency. A super majority would limit the ability of the General Assembly to make allowances for natural disasters or economic situations that would call for even a temporary increase in the income tax. The legislation requires a 2/3 vote before "rainy day" or other emergency service reserves could be used, limiting the ability of government to respond quickly in cases of fiscal emergencies. In Colorado in 2013, for instance, local governments expressed that the "Taxpayer's Bill of Rights" blocked their ability to assist communities in the wake of disastrous floods.

North Carolina has a long history of responsible fiscal management as evidenced by our status as one of only ten states in the nation with a “AAA” rating from all three rating agencies. I appreciate the strong partnership we have with the Governor’s administration and General Assembly in maintaining this top rating. The passage of the Constitutional Amendment Tax Legislation poses real danger to our finances and reputation.

My staff and I are happy to meet with you to discuss these issues in greater detail.

Sincerely yours,

A handwritten signature in black ink that reads "Janet Cowell". The signature is written in a cursive, flowing style.

Janet Cowell  
State Treasurer

CC: Governor Pat McCrory  
Mr. Lee Roberts, State Budget Director  
Dr. Linda Combs, State Controller