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Fitch Ratings: North Carolina Well-Positioned to Absorb Cost of Hurricane Damage

Fitch Ratings-New York-24 October 2018: Fitch Ratings believes the state of North Carolina is well-positioned to absorb the costs and address the impact of Hurricane Florence, which the state estimates inflicted more than \$12 billion in direct and indirect damage. North Carolina's strong operating framework and high level of financial flexibility should allow it to address recovery costs, assist local government, citizens, and businesses, and begin to develop plans for future storm resilience in the hurricane's aftermath.

North Carolina's initial recovery plan from Hurricane Florence relies on a significant draw on the state's budget reserve or rainy day fund, utilizing \$756 million of the approximately \$2 billion held in the fund. The sizeable remaining balance in the rainy day fund represents 5.5% of expected fiscal 2019 revenues. The appropriation from the rainy day fund to the new Hurricane Florence Disaster Recovery fund was incorporated in recently enacted legislation designed to address immediate recovery needs as well as longer term resiliency of the state to future storms. The legislation allocates \$849.4 million to recovery activities out of \$1.5 billion requested by the governor, most of which will come from the rainy day fund. The state does not anticipate a current need to reduce spending in other areas to address the costs of recovery, but does expect additional funding needs in future years.

Fitch expects the recovery costs from the storm will be shared between the state, private insurers, and significantly, the federal government through FEMA and the National Flood Insurance Program (NFIP). The state currently estimates receiving \$2.3 billion in federal aid and is requesting an additional \$3.4 billion. This, in combination with expected private funding, leaves an estimated \$3.7 billion in unmet needs. The \$849.4 million appropriation allows the state to begin addressing this need; however, the state will need to identify additional sources of funding to address the balance. One area of significant unmet need will be in the state's agricultural sector where the state currently estimates there is over \$2.3 billion in direct and indirect damage, of which less than \$200 million will be covered by either federal programs or private insurance. Almost half of the state's initial spending will address immediate needs in housing and agriculture, including \$65 million FEMA matching funds for housing and public assistance.

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