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Fitch: N. Carolina Primary Will Also Choose Infrastructure Path.

Fitch Ratings-New York/Chicago-14 March 2016: When voters in North Carolina choose a presidential candidate in tomorrow's primary, they will also decide whether or not to approve a \$2 billion general obligation (GO) bond to fund infrastructure. If approved, the voters' decision will signal a shift toward GOs and away from appropriation-backed lease revenue bonds and, potentially, indicate how voters in the state may prioritize infrastructure funding, Fitch Ratings says.

If approved, most of the proceeds would pay for capital improvements at the University of North Carolina campuses and community college campuses. The remainder would fund water and sewer projects, parks, the North Carolina Zoo and the National Guard and Department of Agriculture.

With tax-supported debt of approximately \$7.5 billion as of June 30, 2015, Fitch believes the state's debt levels will remain relatively low if the \$2 billion bond is approved. At the end of fiscal 2015 the state maintained reserves of \$852 million, or 3.8% of general fund revenues. The current biennial budget would further increase reserves to \$1.1 billion, or 5.1% of expected general fund revenues. The state has other reserves in excess of \$1.7 billion.

If voters decide against the authorization, North Carolina could pursue other infrastructure financing, such as revenue bond offerings, or public-private partnerships. According to the American Society of Civil Engineers (ASCE), the water systems in the state will need approximately \$10 billion over ten years to comply with new regulations and replace aging systems. The ASCE says the state will also need over \$4 billion for wastewater infrastructure through 2030 and approximately \$8 billion for education in the next five years. Some would be partially borne by the federal budget, tax collection and user fees.

If the state's population continues to rise at its recent rate, those projects may acquire even higher priorities. According to the United States Census Bureau, North Carolina's population has grown by 5.3% since 2010, above that of the US as a whole, which grew by 4.1% over the same period.