

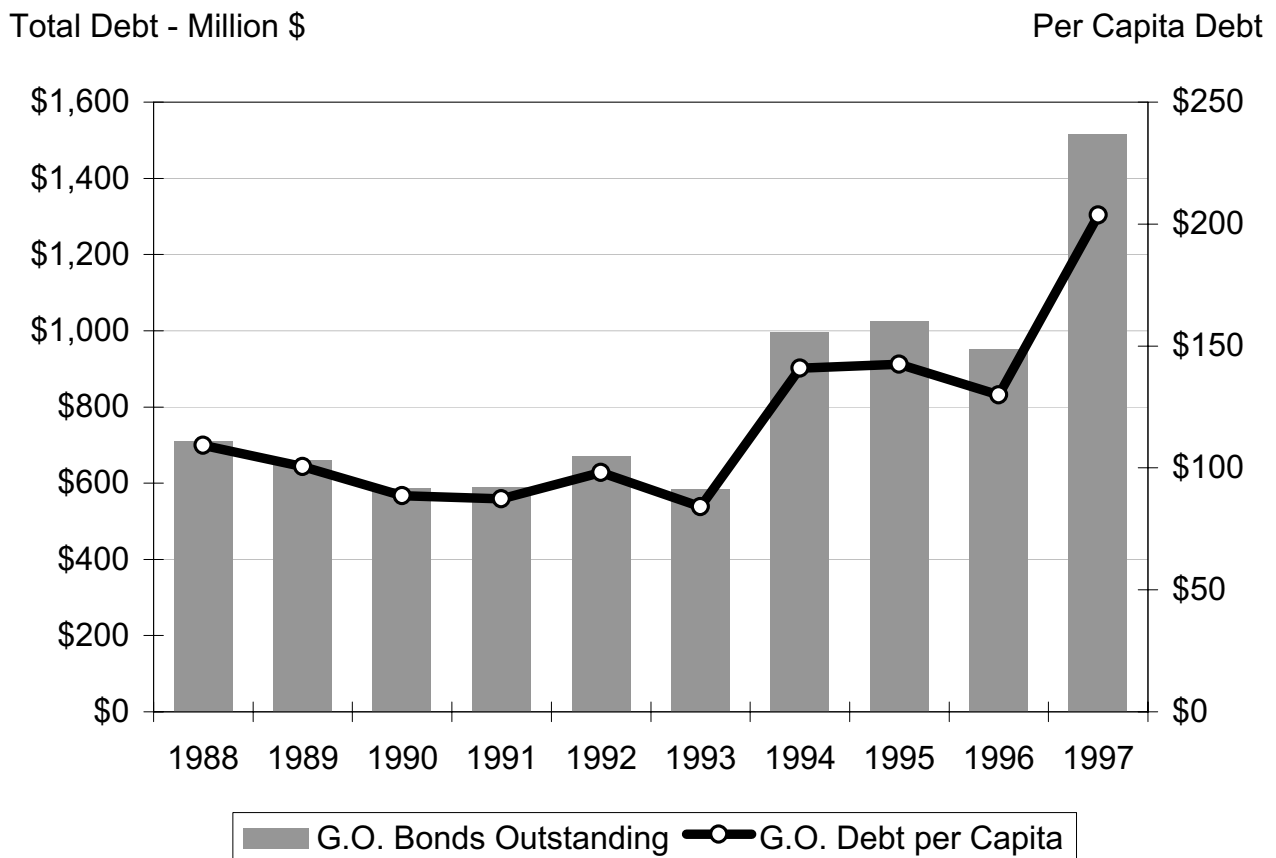
Why Bonds?

Throughout his eight-year tenure, Governor James Martin was an ardent proponent of using public bonds to finance various infrastructure projects – in particular, highway, school and prison construction. By contrast, Democrat lawmakers preferred to raise taxes for such projects, with the result that the corporate income tax was increased from 6 percent to 7 percent in 1987 to finance new school construction; and the gas tax and sales tax on new vehicle purchases were raised in 1989 to fund highway construction.

Martin preferred bonds over taxes for two reasons. First, he thought that by removing

appropriations for new construction from the budget he could break the spend and tax cycle that has dominated North Carolina politics for the past 100 years. If new spending were removed from the budget, reasoned Martin, there would be less chance of increasing spending and thus being forced to increase taxes to cover the recurring spending. Second, Martin thought it was more fair to the people of North Carolina to let them choose for themselves whether to implement new spending projects that would lead to local tax increases. Democrats regularly assailed Martin's bond proposals as being more expensive (because of the resulting interest payments) than their own plans, often without actually knowing what the final cost of a project would be. (The Highway Trust Fund being a classic example.)

General Obligation Debt Per Capita: 1988-1997



As an individual who undertakes to live by borrowing, soon finds his original means devoured by interest, and next no one left to borrow from – so must it be with a government.

Abraham Lincoln

In the fall of 1986, Martin proposed a bond plan for up to \$2.2 billion in funds that counties could borrow from for school construction. The state's AAA bond rating would insure that the state could borrow the money at a lower rate than North Carolina's individual counties. According to the governor, savings would range from \$50 million to \$100 million depending on the size of the bond issue. In 1987 Martin formally requested a \$1.5 billion bond package for school construction. At first, Lt. Governor Jordan supported the recommendation, but Jordan quickly backpedaled in the face of Democrat opposition. As a result, Martin's proposal failed. The governor accused Jordan of "punt[ing] on second down" by giving up too early. But this initial setback did not deter Martin from continuing to promote new bond issues.

In 1988 Governor Martin proposed another bond issue – this time for \$450 million for

new highway construction. Again, Democrats let the proposal die. In December 1989, Martin began pushing a third bond issue – for prison construction. The General Assembly took up his \$490 million package in 1990, but would only acquiesce to allocating \$75 million in bonds during the short session and placing an additional \$200 million referendum on the November ballot. By the slimmest of margins, less than 600 votes, the bond referendum passed. In his final year as governor, Martin also asked for a public referendum on \$300 million in bonds for UNC system construction. His recommendation was denied by the Legislature, which opted instead to raise tuition.

Ironically, once Democrat Governor Jim Hunt took office in 1993, the General Assembly suddenly reversed itself, passing the \$740 million "Education, Clean Water, and Parks Bond Act of 1993." The bond package sought to fund improvements to community colleges, universities and state parks, as well as water and sewer improvements designed to attract new businesses. Voters approved the bonds later that year in November.

Throughout Hunt's tenure as governor, the General Assembly also passed bonds for \$1.8 billion in school repairs and construction in 1996 (S.L. 1995-631) and \$3.1 billion for building and grounds construction and repairs for the UNC system in 2000 (S.L. 2000-3).