

# Agency Downgrades State Bond Rating by 1 Level

## Change won't affect ongoing construction

By **CLEVE R. WOOTSON JR.**  
Assistant State & National Editor

As construction funded by the N.C. Higher Education Bond shifts into high gear on campuses across the UNC system, future bond rates might increase because of a downgrade in the state's bond rating.

Moody's Investors Service, one of three main credit rating agencies, announced Monday that it had dropped North Carolina's bond rating from AAA to Aa1.

"It's just one step down," said Katherine Kirkman, director of public affairs for the state treasurer. "Aa1 is still a strong rating."

A press release from the N.C. Department of the State Treasurer said Moody's cited the state's "continued budget pressure, its reliance on nonrecurring revenues, and its weakened balanced sheets" as reasons for the downgrade.

But legislators are confident that continued efforts to fine-tune the state's 2002-03 budget will reverse the downgrade.

"If we can get our house in order in certain areas, we can get our rating back up," said Sen. Howard Lee, D-Orange.

Moody's announcement came as UNC-system officials were trying to capitalize on a favorable bond market. Bonds that already have been issued will not be affected by the downgrade.

Officials say the UNC system is currently spending 14 percent less than was allocated for projects — a result of low interest rates and a competitive bidding market.

Kevin MacNaughton, UNC-system finance and university property officer, said the state's tax revenue, generated in part by equipment purchases, salary taxes and other bond-related expenditures, exceeds the amount to be repaid on the bonds — at least for now.

"The debt service is actually less than the tax flow," MacNaughton said.

Additionally, he said, the construction-related bond "is essentially keeping the construction industry afloat in North Carolina." MacNaughton said any surplus will be stored away to account for inflation or in case there is a construction deficit in the future.

The bonds, approved by a referendum vote in November 2000, allocate \$3.1 billion to higher education specifically for construction. Of that, \$2.5 billion will go to the UNC system. The remaining \$600 million will go to state community colleges.

According to the University of North Carolina Bond Project Status Overview, as of July the system had allocated a total of \$591.2 million dollars to design, construction and land acquisition for UNC-system schools.

Higher education bonds have been issued twice since receiving approval — once in March and once in April.

In April, the state secured a 1.8 percent interest rate on the bonds, a relatively low rate made possible by the state's AAA credit rating.

The Raleigh-based Pope Center for Higher Education Policy, a conservative think-tank, advised lawmakers and system administrators last week to hold onto bond money until the state's budget crisis decreased in severity.

John Sanders, vice president of the foundation, said, "(The good economic market) doesn't take away from the fact that the state is in a tight fiscal situation and that every little bit counts."

But MacNaughton said the system will capitalize on the favorable price situation while it can — an option that might fade away as a result of the recent bond rating downgrade.

*"If we can get our house in order in certain areas, we can get our rating back up."*

SEN. HOWARD LEE  
D-Orange

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# Death Total Rises to 109 in European Floods

The Associated Press

DESSAU, Germany — Floodwaters from the rain-swollen Elbe River overwhelmed a dike and swamped part of this east German city Monday, forcing more evacuations as Europe wrestled with the aftermath of violent storms that swept the continent two weeks ago.

German authorities reported three more deaths Monday, increasing the Europe-wide toll to 109. European leaders also grappled with how to pay for damages estimated at up to \$20 billion — Germany rescinded a planned tax cut to help fund its recovery efforts.

High flood ramparts helped Budapest, the Hungarian capital, escape largely unscathed as the Danube River peaked Monday at a historic high.

In the Czech capital, Prague, officials were inspecting buildings for flood damage after three collapsed in recent days.

Thousands of German soldiers and emergency workers shored up flood barriers Monday as the swollen Elbe rolled toward north Germany after forcing 80,000 people from their homes. Dessau residents were the last to grab their belongings.

"What I'm wearing is all I've got," said city councilor Juergen von der Heydt, who leaned on the wall of a half-submerged restaurant near his home in suburban Waldersee to catch his breath while supervising relief efforts.

His home, just over a mile from the city center and its famed Bauhaus architecture school, was flooded neck-deep. "I've been up for five days and nights, and I haven't managed to rescue anything," he said.

Military helicopters ferried sandbags to a dike being built to protect a key highway linking Berlin and Munich. Houses designed by the Bauhaus school's master architects in Dessau were considered safe, city spokeswoman Christina Framke said.

Thousands of emergency workers, soldiers and volunteers worked nonstop piling tons of sandbags onto sodden dikes along the Elbe and Mulde rivers. Sandbags were scarce, prompting Denmark to ship 650,000 of them to help, said the Technical Aid Service, a German government relief agency.

In Magdeburg, about 40 miles downstream from Dessau, authorities prepared to evacuate up to 20,000 people as the Elbe's crest approached.

Hundreds were evacuated from villages farther north in Mecklenburg-Western Pomerania state.

Weather forecasts for Germany and central Europe called for dry weather in the next few days, with scattered showers over western Hungary.

Floods have wiped out or severely damaged scores of roads, rail lines, bridges, stores and homes in Germany, Austria, the Czech Republic and Slovakia, leaving countries with a cleanup and rebuilding bill estimated at \$20 billion.

The German government said it was delaying next year's tax cuts until 2004, which Chancellor Gerhard Schroeder said would free up \$6.8 billion.

The flood-damaged buildings include Dresden's famous Zwinger Palace museum, where a support wall collapsed Monday in the basement. The collapse was not expected to cause serious damage, said Martin Roth, managing director of the state art collections in Dresden.

In Prague, authorities inspected more buildings damaged by flooding from the Vltava River. Fifty-eight homes in the low-lying Karlin neighborhood were damaged and at least 28 dwellings could be torn down, officials said.




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