State of Georgia

General Obligation Bonds
New Issue Report

Ratings

New Issues

General Obligation Bonds 2015A	AAA
General Obligation Bonds 2015B (Federally Taxable)	AAA
General Obligation Refunding Bonds 2015C	AAA
Outstanding Debt	
General Obligation and General Obligation Guaranteed Revenue Bonds	AAA

Rating Outlook
Stable

Related Research

Fitch Rates Georgia $1.3BN General Obligations 'AAA'; Outlook Stable (June 2015)

Pension Pressures Continue (2014 State Pension Update) (May 2014)

2015 Outlook: U.S. States (Proceeding with Caution) (December 2014)

U.S. State Snapshot (A Compilation of Fitch's State Credit Assessments and Rating Histories) (March 2015)

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New Issue Details

Sale Information: $563,350,000 General Obligation Bonds 2015A, $447,830,000 General Obligation Bonds 2015B (Federally Taxable) and $279,145,000 General Obligation Refunding Bonds 2015C on or about June 9 via competitive bid. All par amounts are preliminary.

Security: General obligations (GOs) of the state of Georgia, secured by a pledge of the state's full faith and credit.

Purpose: To provide funds for various capital outlay projects of the state and refund certain outstanding GO bonds.

Final Maturity: Feb. 1, 2035.

Key Rating Drivers

Low Liability Burden: The state's long-term liability burden is low, and overall debt management is conservative. While Georgia issues bonds regularly for capital needs, amortization of principal is rapid. Additionally, the state fully funds its actuarially determined employer contributions (ADECs, formerly ARC) for pensions, keeping the unfunded liability very manageable.

Fiscally Conservative: Georgia has a long history of conservative revenue estimation and balanced operations and consistently takes timely action to address fiscal weakness. The state capitalized on recent revenue growth to make substantial progress rebuilding reserves.

Diversified Economy: After a sharp recessionary downturn, the state's diverse economy has accelerated, with employment growth outpacing national trends.

Rating Sensitivities

Fundamental Credit Characteristics: The 'AAA' rating is sensitive to changes in the fundamental credit characteristics of the state, including timely fiscal responses to economic cyclicality and a well-managed and modest debt profile.

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	6/5/15
AAA	Affirmed	Stable	6/12/14
AAA	Affirmed	Stable	6/19/13
AAA	Affirmed	Stable	12/6/12
AAA	Affirmed	Stable	10/25/11
AAA	Affirmed	Stable	9/29/10
AAA	Affirmed	Stable	4/13/06
AAA	Assigned	—	1/5/93

Credit Profile

The long-standing 'AAA' rating and Stable Rating Outlook on Georgia's GO bonds reflect its conservative debt management, a proven willingness and ability to support fiscal balance and a diversified economy. The state took repeated action during the recession to maintain fiscal balance through steep spending cuts, use of federal stimulus and draws from its rainy day fund, the revenue shortfall reserve (RSR). Since then, it has maintained a conservative approach to fiscal management, curbing spending growth and making progress rebuilding the RSR balance. The state's long-term liability burden is moderate as a percentage of personal income.

Low Long-Term Liabilities

Most of the state's tax-supported debt is in the form of GO or guaranteed revenue bonds ($9.8 billion on a pro forma basis as of July 1, 2015), and amortization of principal is rapid, with approximately 70% maturing within 10 years. Other outstanding obligations include $772.2 million in federal grant anticipation revenue (GARVEE) bonds and $252.8 million in capital leases. Including the current sale, debt remains moderate at 2.7% of 2014 state personal income.

Georgia's major pension systems covering both state employees and teachers have benefited from consistent full funding of ARCs. As of the June 30, 2013 valuation and under the new GASB 67 reporting standing, systemwide ratios of assets to liabilities for the state employees and teachers' plans were reported at 71.4% and 82.5%, respectively. Both ratios were consistent with prior year results under the prior GASB reporting standard. Using Fitch Ratings' more conservative 7% discount rate assumption, the state employees and teachers' plans were funded at 67.7% and 78.2%, respectively, as of June 30, 2013. As reported in Fitch's May 2014 state pensions update, Georgia's net tax-supported debt and Fitch-adjusted unfunded pension liability attributable to the state totaled 4.7% of 2013 personal income, below the median of 6.1% for U.S. states.

Broad and Recovering Economy

While the recession was more severe in the state than the nation overall, Georgia's economic recovery has outpaced that of the nation over the past few years. Like all states, Georgia remains vulnerable to significant macroeconomic risks, including the uneven pace of the housing market recovery, growth challenges abroad in Europe and China and effects of the Federal Reserve's anticipated interest rate hikes.

Statewide employment began showing year-over-year (YOY) gains in fall 2010, shortly after those of the nation. While the initial growth rate was tepid and volatile, the growth trend outpaced national YOY employment gains in 2013 (2.1% versus 1.7%), and Georgia's three-month moving average April 2015 YOY gain of 3.3% was ahead of the nation's 2.3% rate. Similarly, personal income growth in Georgia has been strong, exceeding the national rate in 2013 and 2014.

However, unemployment remains elevated, and the state's overall wealth metrics still lag those of the U.S. As of April 2015, the state's unemployment rate was 6.3% versus the national 5.4% rate. Georgia's per capita personal income ($39,097) ranks 41st among the states at 84.8% of the U.S. level, and its poverty rate of 18.2% exceeds the nation's 15.4%.

Related Criteria

Tax-Supported Rating Criteria (August 2012)

U.S. State Government Tax-Supported Rating Criteria (August 2012)

Conservative Financial Management

Georgia has demonstrated its commitment to budgetary balance and maintaining flexibility in the form of RSR balances. Strong revenue performance through fiscal 2007 (ended June 30) enabled the RSR balance to reach $1.5 billion (8.2% of net revenues) by fiscal year-end. During the recession, the state drew down the RSR to a low of $103.7 million (0.6% of net revenues) in fiscal 2009. Through spending restraint and conservative revenue estimates, Georgia has since steadily rebuilt the RSR.

The state ended fiscal 2014 with a solid RSR balance just over $1 billion, supported by strong revenue growth and expense management. After accounting for the customary 1% midyear appropriation for education spending, the net RSR balance was $862.8 million (4.5% of fiscal 2014 net general fund revenues). Total net general fund revenues increased 5.1% from the prior year, ahead of the 3.7% amended budget estimate. Strong corporate income growth (nearly 20% YOY) buttressed modest personal income tax growth (2.2% YOY). Georgia's 2014 projections prudently incorporated a significant slowdown in YOY personal income tax growth, after fiscal 2013's sharp increase of nearly 8%, to account for the effects of federal tax changes.

The structurally balanced fiscal 2015 original and amended budgets assume moderate economic and revenue growth. Amended fiscal year (AFY) 2015 budget estimates are for 3.6% growth in net tax revenues (Department of Revenue-reported tax collections, which exclude the insurance premium tax) from fiscal 2014. Through April, the state's tax revenues are up nearly twice that rate at 7% YOY. Personal income, sales and corporate revenues are all outpacing budgeted expectations. The strong growth allowed the state to meet midyear expense adjustments, including $39.2 million in additional Medicaid and PeachCare for Kids funding. Georgia has not expanded Medicaid under the Affordable Care Act but attributes part of the increased healthcare spending to Medicaid enrollment growth ahead of projections for the previously eligible but unenrolled population.

Georgia's fiscal 2016 adopted budget reflects continued improvement in fiscal flexibility. The state again increased K–12 funding by over $500 million to support enrollment growth and continued restoration of recession-related cuts in staffing and school days. The budget did not include broad-based expenditure reductions from current-year funding levels. Fitch views the budget as structurally balanced and in line with the state's historically conservative budgeting practices.

Education funding will be a key topic in future years as the governor recently created an Education Reform Commission to evaluate Georgia's school funding practices. The commission will make its recommendations, which could include substantial changes to how the state and local governments fund schools, in time for consideration during the fiscal 2018 budget cycle.

Transportation Funding Changes

During the 2015 legislative session, the legislature adopted HB 170, providing a significant new stream of transportation funding. Most significantly, the bill revised Georgia's motor fuel tax structure, resulting in a net change to state revenues of $600 million–$700 million in fiscal 2016. Fitch notes this includes a loss of $167.8 million in general fund revenues, which the fiscal 2016 budget reflects and should not materially affect financial performance. In total, the state projects HB 170 will provide $800 million–$900 million in new transportation spending in fiscal 2016. By fiscal 2020, Georgia projects the additional resources could reach nearly $1.3 billion.

The legislation also created a legislative special joint committee on Georgia revenue structure to develop comprehensive tax reform legislation. The bill requires the legislation be considered by the committee during next year's legislative session. If the committee approves any bills or resolutions, they will be sent to the state House and Senate for up or down votes with no amendments permitted. Fitch believes this unique approval process will likely limit the scope of any tax reforms to those with broad support and will assess the implications of any changes once enacted.

Debt and Long-Term Liabilities

Georgia's low to moderate long-term liability profile is a key credit strength. The state conservatively manages its debt burden and regularly funds the full ADECs for its pension systems. While other post-employment benefit (OPEB) obligations are typically funded on a pay-as-you-go basis, the AFY 2015 and fiscal 2016 budgets will result in a $300 million one-time contribution to the state's OPEB trust funds. The overall OPEB liability is moderate following reforms several years ago. Debt plus unfunded pension liabilities as a percentage of the state's personal income are below average as measured by Fitch.

Debt Statistics

($000)

	Pro Forma – 7/1/15
GO Debt – Outstanding[a]	8,799,460
GO Debt – New Issue[b]	989,715
Total GO Debt	9,789,175
Capital Leases	252,830
GARVEEs	772,180
Gross Tax-Supported Debt	**10,814,185**
Less: Self-Supporting Debt	—
Net Tax-Supported Debt	**10,814,185**
Per Capita ($)[c]	1,071
As % of Personal Income[d]	2.7
Amortization[e]	
% Due in Five Years	39
% Due in 10 Years	70
Authorized but Unissued Bonds	441,070
Adjusted State-Supported Pension Unfunded Actuarial Accrued Liability (UAAL)[f]	7,516,000
Net Tax-Supported Debt Plus Adjusted State-Supported Pension UAAL as % of Personal Income[d]	4.6

[a]Includes GO and guaranteed revenue bonds. [b]Nets out the effect of the series 2014D refunding bonds on total outstanding debt. [c]Population: 9,992,167 (2013 Census annual population estimate). [d]Personal Income: $381,486,538,000 (2013 Bureau of Economic Analysis estimate). [e]GO and guaranteed revenue bonds. [f]As reported in Fitch's 2014 State Pension Update published in May 2014. This amount is calculated from public disclosure and Fitch communication with the issuer. Note: Numbers may not add due to rounding. N.A. – Not available.

The state has significant ongoing capital needs, including for transportation and higher education, and is a regular debt issuer (primarily through GO bonds). Georgia manages its debt load through rapid amortization. The state will have $441.07 million of authorized but unissued GO debt after this sale. The state Legislature authorizes borrowing annually during the budget process. Georgia's debt as a percentage of personal income is slightly above the median for states rated by Fitch. Still, the level has remained relatively stable, as the state retires approximately 70% of all GO and guaranteed revenue bonds within 10 years.

Debt Structure

The state's debt management is conservative, and Fitch expects the recent authorization of multiyear lease obligations will not materially affect that profile. Over 85% of Georgia's outstanding tax-supported debt is GO, with the rest consisting of guaranteed revenue bonds (with a GO guarantee and repaid from specified revenue streams) GARVEEs and capital leases. The General Assembly must authorize any issues of GO or guaranteed revenue bonds. The state has not issued GARVEEs since 2009 and has no immediate plans for additional issuance. Recent GO bond authorizations included $186.5 million for transportation projects.

Georgia's constitution includes several provisions limiting debt issuance, including a cap of maximum annual debt service (MADS) for GO and guaranteed revenue bonds at 10% of prior-year revenue. The Georgia State Financing and Investment Commission (GSFIC) oversees all debt management, including performance relative to the state's policy targets.

Multiyear lease obligations, which were first authorized in 2013, will be outside the constitutional debt cap but subject to a policy limit and under the oversight of GSFIC. In November 2012, voters approved a constitutional amendment authorizing multiyear leasing for state agency and higher education facility needs. The total amount of ongoing lease commitments agencies can enter into each year is capped by GSFIC at 0.5% of prior-year treasury receipts. As of June 1, 2015, the State Properties Commission had entered into $34.7 million in leases, with another $10.7 million possible before the end of the fiscal year. The Board of Regents expects to enter into one lease for $6.5 million this year and eek approval for a $150 million in leases next year. State agencies are not permitted to issue bonds supported by lease payments.

Positively, the state does not borrow to meet short-term cash flow needs, and such issuance is very restricted under state law. Georgia's constitution restricts short-term issuance to 5% of prior-year net receipts, and the statute further restricts it to 1%. Any short-term borrowing must be repaid in the same fiscal year. The state has not borrowed short term in the 30+ year history of GSFIC. The state's variable-rate exposure is very limited with a single series (approximately $127 million) of floating-rate notes (FRNs). The FRNs have a maximum interest rate of 9% with no term-out provisions, limiting the state's risk. Georgia has no auction-rate securities and no derivative transactions.

Pension and Other Post-Employment Benefits

Pension and OPEB liabilities are manageable for Georgia due to consistent funding of its ARCs and OPEB benefit reforms adopted several years ago. Net tax-supported debt plus the portion of unfunded pension liabilities allocated to the state (as of Fitch's May 2014 state pension update) were 4.7% of 2013 personal income versus the median for U.S. states of 6.1% (ranked 17th).

The state's two major retirement systems are the Employees Retirement System of Georiga (ERS) and the Teachers Retirement System of Georgia (TRS), which are both cost-sharing, multiple-employer plans. Fitch allocates liabilities according to the states' share of their respective ARC. This amounted to approximately 87% (ERS) and 17% (TRS) for fiscal 2013. Funded ratios declined over the past decade, albeit not precipitously, due to both investment returns below the 7.5% assumption and longer than average smoothing of seven years.

The GASB 67 ratio of assets to liabilities for fiscal 2013 was relatively consistent with the fiscal 2012 funded ratios on the prior GASB reporting standard. On a Fitch-adjusted basis (7.0% return assumption), the ratios of assets to liabilities are slightly lower than reported levels, with ERS at 67.7% and TRS at 78.2% as of the June 30, 2013 valuation. The state projects reported ERS and TRS asset to liability ratios improving slightly by the June 30, 2017 valuations. Fitch notes that the forecast conservatively assumes growth in payroll, which has actually been declining for both systems.

In 2013, the boards of both ERS and TRS made changes to actuarial assumptions, which generally move the plans toward more conservative estimates of liabilities. Both plans moved to closed amortizations of their unfunded liabilities from previously open 30-year amortizations. ERS adopted a 25-year closed period, while TRS moved to a 30-year closed period. In both cases, the UAAL in the initial valuation year (fiscal 2013) will be amortized over the specified period, while any additional UAAL in future years is amortized over a separate closed period of the same length. The shift to closed amortizations provides a clearer path to achieving full actuarial funding of pension obligations than the previously open amortizations. ERS and TRS also moved to five-year smoothing of asset values from the previous seven-year smoothing approach.

OPEB obligations are funded on a pay-as-you-go basis, and the overall liability is sizable but manageable for the state. As of June 30, 2013, the UAAL levels attributable to the state for its three major OPEB plans were $3.4 billion for the state employees' OPEB plan, $4.1 billion for the Board of Regents' plan and $57.9 million for the portion of the school employees' plan attributable to the state (based on the percentage of the actual contribution paid directly by the state). The total state OPEB liability was stable with the prior year as benefit reforms and better than projected claims experience offset underfunding of the actuarially calculated annual required contributions.

Economy

Georgia's diverse economy is rebounding after a particularly sharp recessionary decline. The demographic profile is somewhat mixed but should support further economic growth. Atlanta serves as a national corporate and transportation hub, historically anchoring the state's economy. Expansion in the previously challenged manufacturing industry is among the key drivers of more rapid statewide improvement. Population growth is ahead of national trends, but wealth indicators remain below average.

Major Economic Drivers

The state's economic profile is similar to that of the nation with trade, transportation and utilities and various service sectors, including professional, business, education and health, making up the largest sector shares. Atlanta's Hartsfield-Jackson International Airport is the world's busiest airport by passenger traffic volume, while the port of Savannah was the fifth most active U.S. port by total cargo volume in 2014. In addition, several major interstates also converge around Atlanta, providing a strong transportation and distribution network.

Recovery in the manufacturing sector has been particularly important for other regions of the state. In the past, low value-added manufacturing had been a primary economic driver in the areas outside Atlanta. Those industries declined in the years leading up to the recession, which exacerbated the economic losses. However, since 2011, the sector has been growing with key gains coming in the automotive industry. The 2009 opening of Kia Motors' first U.S. automotive manufacturing facility on Georgia's western border served a key role in the turnaround. Since then, Kia suppliers and other automotive companies have moved to the state, boosting manufacturing-sector performance. Late last year, Mercedes-Benz USA announced plans to relocate its headquarters to Atlanta.

The housing market downturn hit Georgia particularly hard, and the recovery has been somewhat volatile in recent months, which has direct implications for economic growth. Housing prices declined precipitously across the state, particularly in the Atlanta metropolitan area, in 2008 and 2009. Prices rebounded with growth in the Atlanta area far outpacing most other major metropolitan areas by late 2012. By mid-2014, Atlanta's growth slowed to move in tandem with national trends. Fitch's Residential Mortgage-Backed Securities group characterizes the Atlanta metro area's and the state's home prices as sustainable or undervalued between 2010 and 2014.

YOY construction-sector employment growth in Georgia had been steadily accelerating since turning positive at the start of 2013, but the growth rate dipped beginning in the last quarter of 2014. It remains positive but is now below the national rate for the first time since mid-2013. Mortgage foreclosure rates are still higher than national levels but are now at pre-recession levels. Housing starts in Georgia have been relatively flat over the past few months, while national housing starts declined sharply during the harsh winter before ticking up in April.

Employment

Georgia's YOY employment gains have been regularly outpacing those of the nation since year-end 2012, but unemployment remains elevated. Through April, the three-month moving average for state employment increased 3.3% YOY versus 2.3% for the U.S. The growth has been widespread, with virtually all sectors of the state's economy seeing YOY gains, as well as all of the state's metropolitan areas.

Recovery in construction and manufacturing has been particularly important. The government sector had been a drag on overall growth but trended positive beginning in the middle of last year and has remained so since then. Fitch believes ongoing federal deficit reduction, as well as continued expenditure controls at the state and local levels, limits the growth trajectory in this sector in the near and medium term.

Unemployment levels in Georgia have been above the national level since 2005, and the trend worsened during the recession and even into the first years of the recovery. As of April, the state's unemployment rate of 6.3% was still above the U.S. rate of 5.4% and improved from 7.3% the prior year. Fitch notes that the state's labor force grew 0.9%, just short of U.S. labor force growth of 1.1%, indicating the improvement is tied directly to increasing employment rather than a shrinking workforce.

Income and Wealth

Georgia's wealth metrics are lower than those of the U.S., although recent growth is approaching, or on par with, national trends. The state's 2014 per capita personal income of $39,097 ranks 41st among the U.S. states. Annual growth in this metric has historically been below that of the nation but has accelerated in recent years as employment picked up. In three of the past four years (except 2012), Georgia's growth outpaced the nation's. Fitch still anticipates the state will remain below average in terms of wealth levels for the foreseeable future. Similarly, Georgia's total state personal income growth was faster than the nation's in those same years. Recent quarterly data reinforce this trend, with the state's growth modestly accelerating further ahead of national growth in the second half of last year.

Other Demographic Factors

Above-average population growth, particularly in the lower age ranges, has driven extensive capital needs but also positions the state well for future economic growth. Population growth in Georgia had historically been approximately double the national rate, but that trend has slowed somewhat since the start of this decade. Between 2000 and 2010, the state's population grew 1.7% on an average annual basis versus 0.9% for the U.S. Georgia's average annual growth rate since 2010 is 1% versus the national rate of 0.8% . The state skews younger than average, with a median age of 35.9, compared with the U.S. median age of 37.6. Above-average growth of a young population indicates the state could see steady economic expansion with a growing labor force in future years.

Basic Demographics

	Population				Population Growth (%)		
	1990 Census	2000 Census	2010 Census	2013	1990–2000	2000–2010	2010–2013
Georgia	6,478,149	8,186,453	9,687,653	9,992,167	26.4	18.3	4.2
U.S.	248,765,170	281,421,906	308,745,538	316,128,839	13.1	9.7	3.3

	Population Age (%)a				Education (%)a	
	Median	Under Five	18–64	65+	High School Diploma	Bachelor's Degree
Georgia	35.9	6.7	63.1	12.0	84.7	28.0
U.S.	37.6	6.3	62.5	14.1	86.0	28.8

	Individuals in Poverty (%)[a]
Georgia	18.2
U.S.	15.4

[a]Based on estimates from the most recent Census American Community Survey.

How ever, educational attainment and poverty levels are w eaker than average, signaling some risks in the state's demographic profile. In 2014, the state's individual poverty rate of 18.2% notably exceeded the national rate of 15.4%, and per capita personal income remains persistently low. High school and college degree attainment levels are below those of the U.S., although only slightly so. Of state residents, 28% have at least a bachelor's degree versus 28.8% nationw ide.

Finances

Diverse operating revenues, a demonstrated w illingness to make adjustments to maintain balance and rebuild reserve levels, and no reliance on cash flow borrow ing all support Georgia's strong financial profile.

Revenue Analysis

Georgia's ow n-source revenues are derived primarily from income and sales taxes, providing a w ide base off which the state conservatively forecasts. Personal and corporate income taxes account for 51.5% and 5.2%, respectively, of budgeted AFY 2015 tax revenues (Department of Revenue-reported tax collections, w hich exclude the insurance premium tax, and 47.3% and 4.8% of total state general funds). Sales and use tax revenues comprise the other major revenue driver at 29.4% of tax revenues and 27% of total state general funds. Budgeted revenues exclude federal revenues.

PIT grow th this year has been robust at 8.8% year to date (YTD) through April. Withholding revenues w ere up 5.7% versus the prior year, indicating strong underlying economic grow th. The total 8.8% YTD grow th rate w as double the AFY 2015 forecast.

Sales tax revenues grew 5.7% YTD, ahead of the 4.2% AFY 2015 forecast, another indicator of underlying economic grow th in the state. The strong grow th comes one year after a 2.9% decline due to a substantial policy change (replacement of the sales tax on automobiles w ith a titling fee).

Expenditure Analysis

Education is the key driver of state expenditures and w ill likely remain so given the younger demographic profile of the state. K–12 and higher education spending typically accounts for just over one-half of general fund expenditures. As part of budget balancing, the state cut education funding deeply during the recession. Even with the significant 4.8% increase budgeted for fiscal 2016 (from AFY 2015), funding remains below peak levels, and enrollment growth has continued, implying continued spending pressures.

Healthcare spending is the other major expenditure category and also subject to growth pressures. Public health and welfare spending generally comprises just under one-quarter of general fund spending. In fiscal 2015, the AFY budget included supplemental Medicaid and PeachCare (the state's program for otherwise uninsured children) funding. Medicaid enrollment growth from the previously eligible but not enrolled population exceeded the state's expectations. High cost specialty drugs, particularly for Hepatitis C, also triggered additional spending needs.

Operating Margin Trends

The state ended fiscal 2012 on a strong note and was able to make a sizable addition to its reserves. Final results were very close to the amended budget and resulted in a $222.3 million ending balance, which was transferred to the RSR. General fund taxes grew 4.4% from the prior year, which was the second consecutive annual improvement following recessionary losses.

Georgia generated another strong surplus in fiscal 2013, with $301.9 million in excess funds and $218.2 million in lapses driven partially by executive spending controls. The ending balance increased the RSR to $900.2 million, or a net $717.3 million after the customary 1% midyear allocation to K–12 during fiscal 2014. $717.3 million represents 3.9% of fiscal 2013 net general fund revenues, up from $377.9 million and 2.2% at fiscal year-end 2012.

Fiscal 2014 ended with another surplus and the state added to its RSR for the fifth consecutive year. General fund taxes ended 5.1% ahead of the prior year, led by nearly 20% growth in corporate income tax revenues. The net RSR balance, after the 1% education allocation, reached $862.8 million at the end of last fiscal year, or 4.5% of fiscal 2014 net general fund revenues.

Tax revenues for the current year are tracking ahead of that pace and ahead of AFY 2015 estimates, indicating the likelihood of another surplus and addition to reserves at fiscal year end. Through April, tax revenues were up at double the 3.6% AFY 2015 estimate. Revenue growth has been widespread across most major tax categories

Georgia's adopted fiscal 2016 budget relies on higher growth targets than the current-year budget, but Fitch still views them as achievable in light of the strong performance in the current year; there is no significant use of nonrecurring revenues. The adopted budget assumes 4.6% growth in tax revenues from the AFY 2015 budget.

As it typically does, the state will update its revenue forecast over the next several weeks with new budget instructions for state agencies. The revised forecast will include the YTD revenue performance noted above. Recommendations from the joint committee on revenue structure (fiscal 2017 budget cycle) and the Education Reform Commission (fiscal 2018 cycle) could trigger discussion of significant budgetary changes in future years. Fitch will evaluate any enacted proposals and anticipates the state will maintain its overall prudent fiscal management approach.

Fund Balance and Reserve Levels

Georgia's reserve levels declined during the recession, but the state is quickly rebuilding its cushion. The RSR serves as the main financial cushion in the event of unexpected or uncontrollable revenue declines, such as those that occurred between fiscal years 2008 and 2010. Under state law, the RSR receives all surpluses at the end of a fiscal year, but the total balance cannot exceed 15% of prior-year net revenue. The Legislature may appropriate up to

1% of prior-year net revenue for K–12 education at midyear and has historically done so. Funds in the RSR in excess of 4% of prior-year net revenue can be released for appropriation by the governor. After declining to just above $103 million at fiscal year-end 2009 (0.6% of own-source revenues), the state has added to the RSR for five consecutive years. Fitch anticipates another gain in fiscal 2015 based on the YTD performance noted earlier.

On a GAAP basis, the state reported a negative unreserved general fund balance in fiscal 2009 and had another modest negative unreserved balance in 2010. The unrestricted fund balance (following an accounting change in fund balance presentation that eliminated the use of unreserved balances) has been solidly positive since fiscal 2011.

Liquidity

The state manages its cash flow needs without short-term borrowings, reflecting its strong liquidity position. Withholding of budgeted spending allotments has been one of the state's main liquidity management tools. Historically, the state had allocated funding on a quarterly basis, but, during the recession, the frequency was increased to provide greater expenditure control. Currently, the state allocates budgeted funds on a monthly basis but, during the height of the recession, had allocated as frequently as weekly, and could do so again if needed. In addition to expenditure control, Georgia retains the legal authority to engage in short-term borrowing, although none has been necessary.

Management and Administration

Fitch views Georgia's prudent and institutionalized financial and debt management policies positively. Conservative and thorough budgeting policies with regular interim reviews and the ability and willingness to make adjustments as needed provide important flexibility. GSFIC serves an important oversight role given the state's broad capital needs. Financial reporting is timely, including monthly revenue reports and on-time audits.

Institutionalized Policies and Budgeting Practices

The state has strong legal and institutional mechanisms to maintain budget balance. As with most states, the state constitution requires a balanced budget, as appropriations may not exceed the total revenue estimate in the governor's annual budget report. The governor unilaterally forecasts revenues, but performance is monitored monthly and timely actions are taken to address deficiencies. The governor can withhold budgeted funding until an amended budget proposal is released midyear. At that point, the Legislature must authorize a revised budget based on the updated revenue estimate. The current level of cooperation between the executive and legislative branches is generally high on fiscal issues. The only veto in the AFY 2015 and adopted 2016 budgets was for a bond proposal.

Debt management falls primarily under the purview of GSFIC. While the state constitution includes a debt cap based on MADS as a percentage of prior-year revenues (10%), GSFIC uses its own more stringent policy targets. Under its policies, GSFIC aims for debt service on GO bonds, guaranteed revenue bonds and GARVEEs to be no more than 8% of prior-year revenues; total debt to be no more than 4% of personal income; and debt per capita to be no more than $1,500. These targets are above average for U.S. states, but all levels are currently below the policy targets and expected to remain so for at least the next five years, according to GSFIC, inclusive of $900 million in new authorizations for GO bonds between fiscal years 2017 and 2019.

Budgetary Basis Revenue Summary

($000, Fiscal Years Ended June 30)

	General Fund[a]					
	2010	2011	2012	2013	2014	CAGR (%)
Personal Income Tax	7,016,412	7,658,782	8,142,371	8,772,227	8,965,572	6.3
Sales Tax	4,864,691	5,080,777	5,303,524	5,277,211	5,125,502	1.3
Corporate Income Tax	684,701	670,410	590,676	797,255	943,806	8.4
Motor Fuel Taxes	854,360	932,703	1,019,301	1,000,626	1,006,493	4.2
Other Taxes	1,039,311	1,126,903	1,088,711	1,217,271	1,888,883	16.1
Total Net Taxes	**14,459,475**	**15,469,575**	**16,144,582**	**17,064,591**	**17,930,257**	5.5
Department of Revenue Reported Tax Collections[b]	14,185,108	15,108,905	15,835,390	16,735,354	17,558,135	5.5
Other Revenue	756,316	1,089,073	1,125,393	1,231,268	1,237,550	13.1
Total State General Funds (Net Revenue Collections)	**15,215,791**	**16,558,648**	**17,269,975**	**18,295,859**	**19,167,807**	5.9
Reserves[c]	116,022	323,388	377,971	707,324	862,835	
As % of Total State General Funds	0.8	2.0	2.2	3.9	4.5	55.9

[a]State revenues available for appropriation. [b]Excludes insurance premium tax and is consistent with state's monthly revenues report. [c]Revenue shortfall reserve, net of any midyear appropriation for K–12 spending. Note: Numbers may not add due to rounding.

Revenue and Spending Limitations

Georgia voters approved a constitutional amendment in November 2014 that limits the state's revenue-raising ability, although not in a manner that threatens current financial flexibility. The amendment prohibits any increases in the maximum marginal personal income tax rate. Fitch notes the state has not raised that rate in several decades and has no plans to do so, rendering the limitation relatively moot. However, it presents a new limitation on the state's hypothetical ability to raise revenues in the future.

Budgetary Basis Revenue Summary — Projections

($000, Fiscal Years Ended June 30)

	General Fund[a]							
	2014	2015	2016	YOY Change (%)	2014	2015	YOY Change (%)	
	Actual	Amended	Adopted	2015–2016	YTD (April)	YTD (April)	Budgeted	Actual YTD
Personal Income Tax	8,965,572	9,364,418	9,884,056	5.5	7,405,724	8,056,903	4.4	8.8
Sales Tax	5,125,502	5,340,192	5,593,609	4.7	4,292,844	4,537,022	4.2	5.7
Corporate Income Tax	943,806	954,636	995,534	4.3	735,823	777,225	1.1	5.6
Motor Fuel Taxes	1,006,493	992,163	998,184	0.6	834,551	845,589	(1.4)	1.3
Other Taxes	1,888,883	1,922,098	1,947,906	1.3	N.A.	N.A.		
Total Net Taxes	**17,930,257**	**18,573,507**	**19,419,289**	4.6	N.A.	N.A.		
Department of Revenue Reported Tax Collections[b]	17,558,135	18,191,942	19,030,234	4.6	14,511,075	15,526,693	3.6	7.0
Other Revenues	1,237,550	1,240,260	1,273,355	2.7	N.A.	N.A.		
Total State General Funds (Net Revenue Collections)	**19,167,807**	**19,813,767**	**20,692,644**	4.4	N.A.	N.A.		

[a]State revenues available for appropriation. [b]Excludes insurance premium tax and is consistent with state's monthly revenues report. . N.A. – Not applicable.
Note: Numbers may not add due to rounding.

Economic Trends

Nonfarm Employment
(000, Not Seasonally Adjusted)

	Georgia	% Change	U.S.	% Change
2004	3,923		131,749	
2005	4,024	2.6	134,005	1.7
2006	4,111	4.8	136,398	3.5
2007	4,166	1.3	137,936	1.1
2008	4,122	(1.1)	137,170	(0.6)
2009	3,900	(5.4)	131,233	(4.3)
2010	3,860	(1.0)	130,275	(0.7)
2011	3,900	1.0	131,842	1.2
2012	3,954	1.4	134,104	1.7
2013	4,035	2.1	136,393	1.7
2014	4,156	3.0	139,042	1.9
April 2014	4,139	—	138,377	—
April 2015	4,257	2.9	141,462	2.2

Unemployment Rates
(%, Not Seasonally Adjusted Annual Rates)

	Georgia	U.S.	Georgia as % of U.S.
2004	4.8	5.5	86.0
2005	5.4	5.1	105.6
2006	4.7	4.6	102.0
2007	4.5	4.6	98.0
2008	6.2	5.8	108.1
2009	9.9	9.3	107.1
2010	10.6	9.6	109.7
2011	10.2	9.0	114.4
2012	9.2	8.1	113.7
2013	8.2	7.4	111.3
2014	7.2	6.2	116.6
April 2014	7.3	6.2	117.7
April 2015	6.3	5.4	116.7

Personal Income
(Change from Prior Year)

	% Change		Georgia Growth
	Georgia	U.S.	as % of U.S.
2004	5.1	5.9	86.4
2005	6.6	5.6	117.9
2006	7.0	7.3	95.7
2007	5.5	5.4	102.0
2008	2.3	3.7	62.0
2009	(2.8)	(2.8)	101.1
2010	0.9	2.8	33.6
2011	7.1	6.2	114.5
2012	3.3	5.2	64.0
2013	2.4	2.0	121.6
2014	4.4	3.9	111.6

Personal Income Per Capita
(Change from Prior Year)

	% Change		Georgia Growth
	Georgia	U.S.	as % of U.S.
2004	3.4	5.0	68.0
2005	4.7	4.6	102.3
2006	4.3	6.2	68.4
2007	3.3	4.4	75.2
2008	0.6	2.7	22.5
2009	(4.0)	(3.7)	91.9
2010	(0.0)	1.9	(1.0)
2011	6.1	5.5	111.2
2012	2.2	4.4	50.2
2013	1.7	1.3	129.4
2014	3.3	3.0	108.6

Real Gross Domestic Product Trends
($ Bil.)

	Georgia		U.S.		
	Real GDP	% Change	Real GDP	% Change	State Growth as % of U.S.
2004	398.4		13,779.9		
2005	414.0	3.9	14,226.8	3.2	121.0
2006	421.3	1.8	14,612.6	2.7	65.1
2007	427.0	1.3	14,824.6	1.5	92.6
2008	417.4	(2.2)	14,728.9	(0.6)	(148.0)
2009	404.0	(3.2)	14,328.0	(2.7)	82.7
2010	407.0	0.7	14,639.7	2.2	33.5
2011	410.8	0.9	14,868.8	1.6	60.0
2012	416.9	1.5	15,245.9	2.5	58.7
2013	424.6	1.8	15,526.7	1.8	100.0

Personal Income Per Capita 2013: $38,179, 85.7% of U.S., Rank 40th
Note: Monthly unemployment rates are seasonally adjusted.

Economic Trends (continued)

Components of Real GDP
(%)

	Georgia			U.S.		
	2004	**2013**	**% Change**	**2004**	**2013**	**% Change**
Natural Resources and Mining	1.3	0.8	(37.4)	2.4	3.3	51.0
Construction	1.4	1.3	0.0	5.6	3.7	(24.6)
Manufacturing	6.0	3.5	(37.7)	12.6	12.5	11.6
Trade, transportation, and utilities	13.1	11.8	(3.8)	17.4	16.4	5.9
Information	20.4	20.1	4.9	4.3	5.2	36.7
Financial Activities	5.8	6.4	16.8	18.7	19.8	19.6
Professional and Business Services	16.6	18.2	16.8	11.3	12.3	22.1
Educational and Healthcare Services	10.9	12.6	22.9	7.7	8.3	22.2
Leisure and Hospitality	6.4	7.6	26.9	4.0	3.8	6.2
Other Services	3.7	3.6	3.8	2.7	2.1	(11.0)
Government and Government Enterprises	2.4	2.0	(10.9)	13.7	12.6	3.3
Total Real GDP	**13.9**	**13.0**	**(0.7)**			**12.7**

2014 Per Capita Personal Income: $ 39,097; 84.8% of US average; rank among state: 41st.

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