S&P Global Ratings

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Georgia; General Obligation; General Obligation Equivalent Security

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Table Of Contents

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Credit Profile		
US$421.5 mil GO bnds ser 2023A due 07/01/2043		
Long Term Rating	AAA/Stable	New
US$261.1 mil GO rfdg bnds ser 2023C due 01/01/2033		
Long Term Rating	AAA/Stable	New
US$203.6 mil GO bnds (Federally Taxable) ser 2023B due 07/01/2043		
Long Term Rating	AAA/Stable	New
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the State of Georgia's approximately $421.5 million general obligation (GO) bonds, series 2023A (tax-exempt); approximately $203.6 million GO bonds, series 2023B (federally taxable); and approximately $261.1 million GO refunding bonds, series 2023C (tax-exempt).
- We also affirmed our 'AAA' long-term rating on the state's $9.55 billion of GO debt outstanding and our 'AAA' rating on the state's $386.6 million of managed lane system (full faith and credit) guaranteed revenue bonds outstanding, issued by the Georgia State Road & Tollway Authority (SRTA), which we view as equivalent to Georgia's general creditworthiness.
- The outlook on the ratings is stable.

Security

Georgia's full faith, credit, and taxing power secures the various series 2023 bonds and its GO debt outstanding.

Proceeds from the series 2023A and 2023B bonds will be used to finance various capital outlay projects of the state's departments and agencies, to make grants to governmental entities--including counties and independent school systems--for capital outlay projects, and to pay the costs of issuance. The 2023C refunding bond proceeds will refund all or a portion of the series 2013A and the series 2013D GO bonds, previously issued by the State of Georgia.

Credit overview

The 'AAA' long-term rating reflects our view of Georgia's overall very strong governmental framework and responsive financial and budget management practices that have enabled consistent and timely adjustments to general fund expenditures across credit cycles. The state has demonstrated resilient budgetary performance over the previous two fiscal years and increased reserve balances in its revenue shortfall reserve (RSR) to the statutory cap of 15% of previous year net revenues, and we believe Georgia will continue to maintain structural budget balance and high RSR balances over the outlook horizon. The rating also incorporates our view of steady in-migration of a young and high-skilled labor force and diversified business development and expansion within Georgia's already large and diverse economic base, supporting the state's favorable annual growth rates compared with the nation and underpinning our view of its long-term growth prospects and credit stability.

In May 2023, the legislature passed, and the governor signed into law, an approximately $30.8 billion fiscal 2024 budget, which includes $2.1 billion in additional spending (or 7.5%) compared with the enacted fiscal 2023 budget. Although the year-over-year increase is moderate, in our view, the budget is structurally balanced with no use of one-time revenues or reserves. The budget incorporates $591.1 million for workforce recruitment and retention, including a $2,000 cost-of-living adjustments for full-time state employees and certified pre-kindergarten and kindergarten through grade 12 teachers, and salary increases for certain law enforcement officers. The state will make an additional $840 million contribution to cover increases in the State Health Benefit Plan employer premiums for the Teachers' Plan, and $237.6 million for Medicaid and PeachCare for anticipated expenses and enrollment growth. The state appropriated $50 million for increases in scholarship and grant tuition awards to state higher education institutions and $46 million for a new electric vehicle training center, which aligns capital spending with recent economic developments.

In March 2023, Georgia's governor signed an amended fiscal 2023 budget, which reflects $2.0 billion in additional spending for operational purposes and other non-recurring spending items. Additional spending capacity in the amended budget reflects the use of projected surplus revenues due to better-than-budgeted fiscal year-to-date revenue performance. The largest share of the amended budget includes approximately $1 billion for one-time income tax refunds and $950 million in homeowner tax relief grants for one-time property tax relief. Following these significant one-time tax relief expenditures, the state anticipates a more modest operating surplus compared to the $6.67 billion surplus achieved in fiscal 2022. However, we believe Georgia's combined $5.24 billion RSR balance (or 17% of fiscal 2024 general fund expenditures)--the highest level in state history--$6.98 billion of unreserved, undesignated surplus (or 23% of fiscal 2024 general fund expenditures) provides a robust financial cushion for the state to manage potential economic and budgetary uncertainties should they materialize during the ensuing fiscal year.

S&P Global Economics' baseline forecast projects more subdued 0.7% (annual) U.S. GDP growth in 2023, albeit above the 0.1% contraction in its November 2022 forecast. With increasing pressure from the Federal Reserve's interest rate hikes to tame persistent high inflation, S&P Global Ratings' economists forecast a shallow recession, with 0.3% decline in in GDP from peak to trough (Q1-Q3). By 2024, GDP is forecast to expand 1.2%. (For additional information see "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March 27, 2023, on Ratings Direct.) In light of potential downside economic risks, Georgia revised its general fund revenue estimates to $30.6 billion (or a 12.3% annual decline) for fiscal 2023, and the state holds down the revenue growth rate at 0.4% in fiscal 2024. In the ensuing three fiscal years (2025-2027), the state projects annual revenue growth to accelerate to 2.7%, 3.4%, and 3.7%, respectively, which we view as reasonable given evolving economic and budgetary conditions.

The state's five-year revenue forecast (2023-2027) also assumes enacted individual income tax rate cuts. During the 2022 legislative session, Georgia enacted a flat individual income system that would also expand personal exemptions, effective Jan. 1, 2024. The income tax rate will be initially reduced to 5.49% from the current rate of 5.75% and be reduced annually by 10 basis points until the income tax rate reaches 4.99%, subject to certain revenue targets being met. While projected growth in economic activity and revenue performance could offset near-term reductions in state income tax collections, we will continue to monitor long-term revenue effects of tax reductions on revenue predictability and future structural balance.

With less than a month remaining in fiscal 2023, Georgia's net tax collections continue to outperform previous year collections, although the pace of revenue growth could slow over the near term. Fiscal year-to-date net tax collections (through April 30, 2023) totaled nearly $27.8 billion, or approximately 0.9% above the previous fiscal year. Individual income tax receipts--the state's leading revenue source--are $745.0 million, or negative 4.9%, below the previous fiscal year. This is partly due to lower-than-expected capital gains performance, and a 2021 tax change for pass-through entities that shifted some previous individual tax filings to entity-level tax filings, which are recognized in the state's corporate income tax collections. State motor fuel taxes are $1.1 billion, or negative 71%, below the previous fiscal year due to a temporary suspension of the state's motor fuel tax collections through Jan. 10, 2023. However, declines have been offset by corporate income tax collections that are outpacing previous year collections by $1.34 billion, or 68.6%, while healthy consumer spending and inflation-driven factors continue to support net sale and use tax collections at $651.5 million, or 9.5% above the previous year.

The 'AAA' GO rating reflects our view of Georgia's:

- Very strong governmental framework, with the authority and a demonstrated willingness to make politically difficult decisions to align expenditures with revenue projections.
- Very strong financial and budgetary management, with well embedded, and likely sustainable processes for monitoring performance and planning for future needs.
- Diverse economy, with ongoing economic development projects that we believe will help sustain future growth.
- Generally strong budgetary performance, with a commitment to increasing and maintaining reserves during economic growth and a commitment to restoring reserves if necessary to manage revenue shortfalls.
- Adequate pension funding discipline, coupled with a moderate-to-low debt burden and modest upcoming debt plans relative to its rapid debt amortization, which are unlikely to change our view of the state's debt profile.

Georgia's GO bonds are eligible to be rated above the sovereign because we believe the state can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013), U.S. states are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable, with significant state autonomy and flexibility demonstrated by serial bond amortization as well as independent treasury management.

Environmental, social, and governance

ESG Indicators: E-2, S-2, G-2

ESG factors have no material influence on our credit rating analysis for Georgia. The state's physical risks, including exposure to severe storms and flooding due to its coastline along the Atlantic Ocean, are a neutral consideration in our credit rating analysis. Georgia has established regulatory programs and made capital investments to harden critical infrastructure and it has a history of coordinated state agency planning to respond to evolving risks. Social risks are a neutral credit consideration within our analysis as the state's strong population growth, continued economic development and diverse employment base support its economic profile. Finally, governance factors are also a neutral consideration, as Georgia has established and maintained a strong financial and risk management framework to quickly respond to developing risks, including a comprehensive statewide cyber-security program.

Outlook

The stable outlook incorporates our expectation that Georgia will maintain a commitment to structurally balanced budgeting amid potential near-term softening economic and revenue growth conditions, and if necessary, make timely adjustments to expenditures over the outlook horizon to maintain its strong financial position and preserve balances in its RSR at or near its statutory 15% maximum. The outlook also reflects our view that Georgia will continue to exhibit favorable economic and demographic growth that exceeds the U.S., further supporting our view of the state's long-term credit stability.

Downside scenario

While we believe Georgia's demonstrated history of making midyear budget adjustments to align expenditures with projected revenue will continue to support credit stability, should the state exhibit a significant reliance on reserves to close budget gaps, without a plan to restore structural balance and replenish reserve levels, could result in a lower rating. Downward pressure could intensify, if, at the same time, we believe that Georgia's ability to contain long-term liability growth related to pensions and retiree health care costs weakens our view of its debt and liabilities or limits operating flexibility in future budgets.

Based on the analytic factors evaluated for Georgia, on a four-point scale of '1.0' (as the strongest) to '4.0' (as the weakest), S&P Global Ratings assigned a composite score of '1.5' to the state.

Credit Opinion

Government Framework

In our view, Georgia maintains a well-established and very strong government framework that has supported its ability to manage through economic cycles. Key provisions of Georgia's government framework include:

- A constitutional balanced budget requirement that the governor submit a balanced budget recommendation to the legislature that considers available reserves and expected revenue. Within each fiscal year, a six-month budget revision process begins, when the governor submits an amended budget to the legislature with adjustments for revenue projections and public education spending to reflect actual enrollment;
- The governor's broad authority, in coordination with Office of Planning and Budget (OPB) to adjust the timing of appropriations and disbursements as the state releases general funds monthly to state agencies. If revenue performance and updated projections warrant, the governor can also instruct OPB to request state agencies to reserve appropriations for budget reductions and recommend reductions to the legislature at its next session;
- Strong flexibility to set and modify tax rates, fees, and timing of refunds and exemptions, with only a simple majority vote of the legislature necessary to pass new taxes or rate adjustments. The lone exception is a constitutional amendment that prohibits the state legislature from increasing the maximum marginal rate of the state income tax

above 6%. Georgia has not raised its income tax rate in 30 years and could examine other areas of the tax code to offset the rate cap, but we view this constitutional amendment as effectively reducing its revenue flexibility;

- Strong legal framework for issuing debt for various purposes, but debt service for current and proposed GO and guaranteed debt cannot exceed 10% of the previous-year receipts. GO debt service is paid out of the GO debt sinking fund and, if these funds are insufficient, from the first money received by the state's general fund; and
- Georgia's position as a non-voter-initiative state and maintenance of significant flexibility to control and limit disbursements to local government entities.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a score of '1.1' to Georgia's government framework.

Financial Management

We consider Georgia's financial management practices strong, which indicates practices are well embedded and likely sustainable. In formulating its budget, Georgia bases its revenue estimates on an independent recommendation from the state's chief economist to the governor and the governor also receives input from the Council of Economic Advisors. The state legislature cannot change the governor's official revenue estimates and it must adopt a balanced budget. Once enacted, the state budget is monitored monthly for both revenue and expenditures. The state has an RSR that acts as a rainy day fund, established by statute, which cannot exceed 15% of the net revenue of the preceding fiscal year. The state forecasts revenue and expenditures as part of its long-term financial planning. Georgia has a formal debt management policy measured by key indices, including debt service against revenue for all GO and guaranteed debt, debt to personal income, and debt per capita. The state formulates a five-year capital plan that identifies major capital areas but provides funding annually.

Georgia's budget management framework is good, in our view. The executive branch has broad powers to adjust appropriations and it has a track record of making politically difficult revenue and expenditure decisions to restore balance during the fiscal year. The state has also raised taxes and fees. Deficits are not carried forward, and gap-closing solutions appear to be generally focused on structural budget balance.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a score of '1.5' to Georgia's financial management.

Economy

In our view, Georgia's economic strength and long-term growth prospects are supported by steady population growth, extensive business expansion, and a rapidly diversifying employment base. The state's post-pandemic labor market recovery is complete with approximately 210,000 jobs in excess of pre-pandemic levels and some evidence that the state's employment gains are shifting toward positions in professional and business services, finance, information, and the education and health services sectors. These sectors have tended to garner higher wages that could benefit state income levels, which remain below the U.S., but consistent with the state's lower cost of living. Per capita personal income was $57,219 in 2022, or 87% of the national level and per capita gross state product (GSP) is $69,248, or 91% of the nation.

The state is home to the world's busiest airport (Hartsfield-Jackson Atlanta International Airport) and the Atlanta metropolitan statistical area continues to attract a diverse range of businesses. In addition, the Port of Savannah's strong export growth and an approximately $973 million expansion will increase port capacity and support the state's already strong transportation sector. In our view, private sector investments in Georgia continue at a strong pace through the first half of 2023, with firms announcing $13 billion in capital investments to build or expand facilities and office space, particularly in aerospace, automotive, and other advanced manufacturing, which could generate as many as 17,500 additional positions. This continues the trend of significant economic developments relocating to Georgia in 2022, including a $5.5 billion investment by Hyundai (8,100 positions) to build an electric-vehicle-production facility, a $5 billion investment by Rivian Motors (7,500 positions) for an assembly plant and battery factory, and McKinsey (700 positions). The state has budgeted additional resources for infrastructure investments and workforce training to support growth of these industries.

S&P Global Market Intelligence forecasts Georgia's employment growth to temper somewhat compared with the nation over the next four years, with total state employment averaging just 0.33% between 2023-2026 (less than the national average of 1.5%), which could suggest a tight labor market in the state over the medium-term. Over the same period, however, S&P Global Market Intelligence anticipates the state's GSP will grow at an average of 1.7%, compared with the U.S. GDP growth rate of 1.4%, indicating potentially higher productivity and output from the state's expanding industry base.

In our view, population growth is likely to continue on a strong path and remain integral to Georgia's economic growth trajectory and competitiveness. According to S&P Global Market Intelligence, the state's population is projected to outpace the U.S. over the medium-term growing to nearly 11.4 million residents in 2026, or 4.2% above 2022 levels. At the same time, the state could also benefit from a comparatively high percentage of its population between the ages of zero-to-24, which is supportive of future employment growth.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a score of 1.6' to Georgia's economy.

Budgetary Performance

Historically, the state has benefited from positive operating results, allowing Georgia to fund reserves during good economic times and depleted during downturns, consistent with the state's strong financial management practices. Based on its current five-year revenue projections and enacted fiscal 2024 budget, we believe the state is well-positioned to maintain, at least, balanced operations and maintain reserve balances at or near its statutory maximum.

Georgia's revenue is diverse, with net revenues of $34.9 billion in 2022 consisting primarily of individual income (approximately 56.3%) and sales taxes (approximately 27.3%). During recent periods of budget uncertainty, Georgia relied on reserves and expenditure cuts prior to implementing revenue adjustments. In fiscal 2021, across-the-board 10% cuts were made to agency operating budgets through withholding of appropriations to manage potential revenue declines due to pandemic-related economic and revenue uncertainty. However, as revenues outperformed budget expectations, funding levels were restored through mid-year adjustments to the fiscal year 2021 and 2022 budgets.

Audited fiscal 2022 results

On a generally accepted accounting principles basis, Georgia ended fiscal 2022 with a $6.67 billion general fund surplus, equal to 11.6% of expenditures. Revenues increased 15.8% over 2021 to $64.1 billion, a product of strong individual income, corporate, and sales tax revenue performance. With strong financial performance, the state exceeded its statutory 15% RSR limit for a second consecutive year, and $6.98 billion was reported as unreserved, undesignated surplus. Georgia's RSR balance stood at $5.24 billion at June 30, 2022.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a score of '1.3' to Georgia's budgetary performance.

Debt And Liability Profile

In our view, the state's debt burden is low to moderate, and we expect its rapid amortization schedule and growth in population and incomes will likely support relatively stable debt metrics over the next several years, despite potential for additional borrowings over the near term. On a per capita basis, we calculate Georgia's tax-supported debt to be a moderate $988. At the same time, we view its tax-supported debt to be a low 1.7% of personal income and 1.4% of GSP. We also calculate total tax-supported debt service at a moderate 5.6% of general governmental spending in fiscal 2022. All of the state's GO debt is fixed rate, and the state has no private or direct-placement debt outstanding.

Including the current bond issuance, the state estimates that GO and guaranteed revenue bonds will remain below its 7.0% debt affordability model limitations for debt service as a percent of previous-year receipts, at 4.2% in 2024 and 3.9% in 2025. The state's calculation is based on available revenue, which differs from our expenditure-based calculation. Debt amortization is rapid, with 72% of GO and guaranteed revenue bonds retired within 10 years and all debt within 20 years. To incur guaranteed revenue debt, the legislature determines whether the debt is self-supporting and makes an appropriation in the amount equal to MADS to a common reserve fund. The common reserve, if tapped to pay debt service as a result of a revenue shortfall and replenished by the general fund within 10 days of the start of any fiscal year.

Pension and other postemployment benefits (OPEB) liabilities

Georgia maintains its commitment to adequately funding its pension liabilities and in recent years the state started to prefund its OPEB obligations. When determining the state's liabilities, we view in aggregate its proportionate share of liabilities in its defined-benefit pension systems and of its retiree health care plans.

- We view Georgia's pension funding discipline as adequate as annual contributions to its two major pension plans have met our static funding calculation, but contributions have historically fallen short of our minimum funding progress metric.
- Due to negative investment returns reported for fiscal 2022, the state's overall average pension-funded ratio across all plans declined substantially to 72.2% from 91.6%, reducing the three-year average pension funded ratio to 80.3% from 82.4%. The aggregate unfunded liability of all plans is $1,077 per capita, or a low 1.9% of state personal income.

Plans representing a significant portion of the state's unfunded pension liability as of June 30, 2022, included:

- Teachers' Retirement System (TRS): 72.9% funded with the state's applicable net pension liability (NPL) $1.51 billion; and
- Employees' Retirement System (ERS): 67.4% funded with the state's applicable NPL $2.16 billion

Georgia has fully funded the actuarially determined contribution for each plan the past 10 years. The TRS and ERS systems use an entry age actuarial cost method as part of their funding policy with five-year valuation smoothing. ERS and TRS use level-dollar and level-percent of pay with closed amortization methods, respectively. As of June 30, 2022, ERS had a remaining blended amortization of 18 years compared with TRS' remaining 21.9. ERS had an assumed investment rate of return of 7.0% compared with 6.9% for TRS. In our opinion, a higher assumed rate of return than our 6.0% guideline could result in contribution volatility. While we believe current assumptions and current liabilities are unlikely to be a source of near-term budgetary pressure for Georgia, we will continue to monitor how growth in these costs affect expenditure flexibility in future state budgets.

OPEB liabilities

We view the state's OPEB liability as moderate with some pre-funding and a legal ability to adjust benefits when necessary. The state administers various OPEB plans including:

- Georgia state employee's post-employment health benefit fund (state OPEB fund): 80.0% funded with the state's proportionate share of the net liability for 2022 equal to $254.6 million;
- State employee's assurance department (SEAD-OPEB Plan): 138.0% funded, with the state's proportionate share of the net asset for 2022 equal to $567.4 million; and
- Board of Regents retiree health benefit fund (BOR Retiree plan): 5.1% funded with the state's proportionate share of net liability for 2022 equal to $5.03 billion.

The state, as the plan sponsor, also reports OPEB liabilities for the Georgia school personnel postemployment health benefit fund, however, its proportionate share is small. The state's combined OPEB unfunded liability was $5.4 billion ($495 per capita), based on reported proportionate shares for each plan.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a '1.9' score to Georgia's debt and liability profile.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of June 8, 2023)		
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of June 8, 2023) (cont.)		
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia State Road & Tollway Authority, Georgia		
Georgia		
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Georgia State Rd & Tollway Auth (Georgia) managed lane sys gtd rev bnds (Georgia) ser 2021A due 07/15/2051		
Long Term Rating	AAA/Stable	Affirmed
Georgia State Rd & Tollway Auth (Georgia) GOEQUIV		
Long Term Rating	AAA/Stable	Affirmed