S&P Global
Ratings

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Summary:

Georgia; General Obligation; General Obligation Equivalent Security

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Credit Profile		
US$494.215 mil GO bnds ser 2022A due 07/01/2042		
Long Term Rating	AAA/Stable	New
US$482.445 mil GO rfdg bnds ser 2022C due 07/01/2032		
Long Term Rating	AAA/Stable	New
US$186.565 mil GO bnds ser 2022B due 07/01/2042		
Long Term Rating	AAA/Stable	New
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to Georgia's $494 million series 2022A (tax-exempt), $187 million series 2022B (federally taxable), and $482 million series 2022C (refunding: tax-exempt) general obligation (GO) bonds. We also affirmed our 'AAA' long-term rating on the state's GO debt outstanding. The outlook on the ratings is stable.

Georgia's full faith, credit, and taxing power secures the bonds. Proceeds from the series 2022A and 2022B bonds will primarily fund education and safety initiatives, but also provides funding for other various projects. The 2022C bond proceeds will refund existing debt for cost savings. Following this issuance, the state will have approximately $357.1 million of authorized but unissued GO debt.

Credit overview

Georgia's 'AAA' long-term rating is supported by our view of its overall strong credit fundamentals, including its large and diverse economic base that has benefited from sustained population growth and ongoing economic development efforts that have attracted considerable investment. State employment has exceeded its pre-pandemic levels at 4.8 million and its unemployment rate was well below the U.S. average at 3.1% in April. Georgia's rating is also supported by our view of a strong governmental framework that supports its ability control its expenditures and manage its liquidity.

In our opinion, Georgia has demonstrated responsive financial management that has enabled timely adjustments to general fund appropriations, and has yielded resilient budgetary performance and quick rebuilding of reserve balances in its revenue shortfall reserve (RSR). This was illustrated by the state's swift response to pandemic-related pressures on state finances, including implementation of 10% general fund expense reductions across state programs in its fiscal 2021 budget. Concurrently, actual general revenues exceeded the final amended revenue estimate by 15.1% at $28.6 billion, aided by a strong recovery of statewide economic activity. This enabled the state to generate a significant budgetary surplus, totaling $4.7 billion (10.2% of general fund expenditures on a generally accepted accounting principles basis) and replenish balances in its revenue shortfall reserve (RSR) at its statutory maximum (15% of previous year's net revenue collections), which currently stands at $4.3 billion. The state authorized the use of up to $1.6 billion of unreserved, undesignated surplus--in excess of the statutory maximum RSR level--to provide one-time tax relief to taxpayers, but currently estimates actual cost will be approximately $1.1 billion. The state also enacted a bill during the 2022 legislative session to phase in income tax rate reductions that will convert the state's current progressive rates system into a single tax rate beginning in calendar year 2024. The rate will initially be set at 5.49% and will decrease 10 basis points per year (subject to revenue targets) until reaching 4.99%. A 10-basis point decrease is projected to decrease annual revenues by approximately $260 million annually; however, in our view, the established revenue thresholds and continued economic growth will help offset the lost revenue.

Through April 2022, Georgia reports net tax collections have reached $27.5 billion, which is $5.8 billion or approximately 27% above previous year collections. Based on current fiscal year-to-date performance in fiscal 2022 and projected relatively stable revenue performance in fiscal 2023, the state restored prior appropriation reductions in its amended fiscal year 2022 budget, and it maintains or increases funding across general fund programs in its recently enacted $30.2 billion budget for fiscal 2023. The stable outlook incorporates our expectation that Georgia will maintain its strong financial position and will preserve balances in its RSR at or near its statutory maximum in the near term.

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 that 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. Environmental factors are a neutral consideration in our credit rating analysis despite associated physical risk exposure of severe storms and flooding due to its coastline that lies along the Atlantic Ocean given the state's capital investments to harden critical infrastructure and history of 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 budgetary policy framework to quickly respond to developing risks.

Stable Outlook

Downside scenario

While we believe Georgia's demonstrated history of making mid-year budget adjustments to align expenditures with projected revenue will continue, 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.

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 formulating the budget, the governor is constitutionally required to submit a balanced budget recommendation to the legislature that considers available reserves and expected revenue. Once a budget is adopted, a six-month revision begins when the governor submits an amended budget to the legislature with adjustments for revenue projections and kindergarten-through-twelfth-grade (K-12) education spending to reflect actual enrollment. The state cannot carry over deficits from one year to the next. Georgia enjoys the flexibility to set and modify tax rates, fees, and timing of refunds and exemptions and the state requires only a majority vote of the legislature to pass rate adjustments or new taxes.

An amendment to the Georgia State Constitution was approved in November 2014, prohibiting the General Assembly from increasing the maximum marginal rate of the state income tax above 6% (effective Jan. 1, 2015). Although the state has not raised its rate in the past 30 years, we view this constitutional amendment as effectively reducing its revenue flexibility. We recognize there is no effect on the projected state income tax revenue. Officials could examine other areas of the tax code to offset the rate cap, possibly reviewing how the state treats deductions.

Georgia used several mechanisms to control its expenditures and manage its liquidity. The governor's authority includes a request to state agencies to reserve appropriations for budget reductions and to recommend such reductions to the General Assembly at its next session. The state can also delay disbursements, as it did in fiscal 2009 with the Homeowner Tax Relief Grant, or withhold a portion of its appropriation allotments to its agencies, as it did in fiscal 2010. At the direction of the Governor, the Office of Planning and Budget can adjust the timing of appropriations disbursements and currently releases funds monthly to agencies. If revenue performance and updated estimates warrant, the Governor can instruct the Office of Planning and Budget that additional budget-balancing steps might be appropriate. In line with the Governor's recommendation, the General Assembly made across-the-board cuts in previous years, with the actual level of cuts varying from year to year. Georgia generally works to make smaller cuts to education funding, but it has the legal authority to implement equal cuts across agencies, which was largely done as a result of the pandemic. The fiscal 2021 budget included a 10% operational budget reduction that included cuts to public and higher education. The amended fiscal 2022 and fiscal 2023 budgets restore $388 million in both fiscal years to eliminate these austerity measures. The budgets, together, provide an additional $1.4 billion in direct funding for K-12 schools, with the fiscal 2023 budget investing more per student than any prior year budget.

The state enjoys a lot of legal flexibility to issue 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 Georgia's GO debt sinking fund and, if these funds are insufficient, from the first money received by the state's general fund. To incur guaranteed revenue debt, the General Assembly determines whether the debt is self-supporting and it appropriates an amount equal to maximum annual debt service (MADS) to a common reserve fund. The guaranteed revenue debt common reserve fund, if tapped to pay debt service due to a revenue shortfall, is replenished by the general fund within 10 days of the start of any fiscal year. Georgia is not a voter-initiative state and maintains significant flexibility to control and limit disbursements to local government units. The government's level of assistance to local governments is limited mainly to education and is highly flexible.

On a four-point scale on which '1' is strongest, we have assigned a score of '1.1' to Georgia's government framework.

Financial Management

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.

We consider Georgia's financial management practices strong, which indicates practices are well embedded and likely sustainable. In formulating its budget, Georgia has historically based its revenue estimates on an independent recommendation from the state's chief economist to the governor and the Governor also receives input from his 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.

On a four-point scale on which '1' is strongest, we have assigned a score of '1.5' to Georgia's financial management.

Economy

In our view, Georgia's economic strength is supported by generally strong development and a diverse employment base similar to the U.S. Atlanta is home to the world's busiest airport (Hartsfield-Jackson Atlanta International Airport) and the Atlanta metropolitan statistical area (MSA) continues to attract a diverse range of businesses. While firms resume investment in the MSA, state officials report that through the first three quarters of fiscal 2022, 78% of projects and investments and over half of job announcements are planned for outside the metro Atlanta area. The state's port system also contributes to ongoing development. Specifically, the Port of Savannah's strong growth is supported by continuing investment including an ongoing approximately $973 million harbor expansion that will increase port capacity and support an already strong transportation sector. Recent significant economic development announcements include a $5.5 billion investment by Hyundai (expected to employ over 8,000), a $5 billion investment by Rivian Motors (7,500 jobs), and Norfolk Southern' relocation from Norfolk, Va. to Atlanta (850 jobs).

Total non-farm employment of 4.8 million as of April 2022 exceeds the 4.7 million recorded prior to the pandemic in February 2020. The state's employment composition is similar to the U.S., with the largest exceptions being trade, transportation, and utilities (+2.1% compared with the U.S.) and education and health services (-2.9%). All sectors have remained relatively stable over the past several years, although the leisure and hospitality sector saw the most severe decline in 2020 as a result of the pandemic and subsequent travel restrictions. The sector continues its recovery, although sector employment remains below previous highs and the industry has been particularly challenged by tight labor markets, similarly to the rest of the nation. However, other areas have done well, including professional and businesses services which tends to garner higher wages and benefits state income levels which remain below the U.S.--consistent with the state's lower cost of living. Per capita personal income was $55,289 in 2021, or 87% of the national level which has remain unchanged since 2015 (86%).

IHS Markit expects employment growth similar to the nation over the next several years, with total state employment increasing 5.4% through 2025 compared with 5.0% nationally. In 2021 the state's real gross state product (GSP) increased 5.82%, which followed a 3.9% contraction in 2020 and growth in GSP has exceeded the U.S. on a five- and 10-year basis, with a compound annual growth rate of 2.30% and 2.55%, respectively, (U.S. GDP growth was 1.9% and 2.0% over the same periods).

Population growth has also been strong, with compound annual growth exceeding the U.S. on a one-, five-, and 10-year basis at 0.69%, 0.92% and 0.97% respectively (U.S. growth was 0.12%, 0.46% and 0.63% over the same periods). Also, the state's age-dependency ratio remains below the U.S at 61.1, and it has generally increased at a rate similar to that of the nation. Georgia should also benefit from a comparatively high percentage of its population between the ages of 0-24, which is supportive of future employment growth.

On a four-point scale on which '1' is strongest, we have assigned a score of 1.6' to Georgia's economy.

Budgetary Performance

According to Georgia statutes, excess revenue collections of up to 4% must be set aside in the RSR with up to 1% of the net revenue of the preceding year available for funding increased grade K-12 educational needs in the midyear adjustment process. Funds in the RSR in excess of 4% of the previous year's net revenue can be appropriated on the governor's recommendation. Historically, reserves were funded during good economic times and depleted during downturns, consistent with the state's strong financial management practices. The maximum balance permitted in the RSR is 15% of net revenue of the preceding fiscal year and at $4.3 billion in 2021, it is fully funded.

The state treasury monitors cash balances daily and reports to and works with the state economist and Office of Planning and Budget to review monthly cash-flow projections and expected allotments. Georgia can adjust both appropriation and tax refund allotments to better manage its liquidity. The state may also use interfund borrowing to control its liquidity, or it can also borrow externally up to 1% of previous-year receipts, but hasn't yet needed to take either of these actions. Any external cash-flow borrowing must be repaid within the same fiscal year. Historically, the state has preferred to implement spending-reduction plans and monthly allotment releases to better manage its cash flow.

Georgia's revenue is diverse, with net revenues of $30.3 billion in 2021 consisting mostly of individual income (about 50%) and sales and use (about 24%) tax. In addition, the state has significant flexibility to raise revenue with a simple majority vote and the state can raise taxes and fees to close budget gaps. Historically, Georgia relied on reserves and expenditure cuts prior to implementing revenue adjustments. It has the legal ability to make across-the-board cuts to the budget through withholding of appropriations; cuts of 10% were implemented in fiscal 2021 to manage potential revenue declines due to economic uncertainty driven by the pandemic. However, as revenues have outperformed, these cuts have been restored with the recent budget.

Adopted fiscal 2023 budget

The $30.2 billion 2023 budget was signed by the governor on May 12. It includes an additional $2,000 pay raise for teachers finalizing a commitment to increase salaries by $5,000 and, fully restores austerity cuts made to education. The state also enacted income tax rate reductions that will reduce the state's top income tax rate to a flat 4.99% from 5.75% over six years, with the first tax rate reduction occurring after Jan. 1, 2024 (contingent on the state meeting certain revenue targets). We understand the state's budget would not be affected until fiscal 2024, but the revenue changes could amount to as much as $1 billion when implemented in 2024. However, the expectation is that the tax reduction would be phased in, subject to revenue growth triggers, and generate additional economic activity.

Fiscal 2022 update

The amended fiscal 2022 budget projects $28.6 billion in state general fund receipts, which is $2.8 billion, or 10.8% above the original budget. At $27.5 billion, total net tax collection receipts through April are up nearly 27% year over year, and they seem to be trending to surpass the amended budget projection. Georgia's two primary revenue sources--individual income taxes and sales and use tax--are up 33% and 22%, respectively. The amended budget provided $556 million in pay adjustments for state employees and fully restores K-12 education austerity cuts implemented in 2021. The state also authorized the use of up to $1.6 billion from the $2.2 billion unreserved, undesignated surplus from 2021 to provide one-time tax refunds in the form of tax credits for individuals on their 2021 tax returns.

Fiscal 2021 audit

On a generally accepted accounting principles basis, Georgia ended the year with a $4.7 billion general fund surplus, equal to 10.2% of expenditures. Revenues increased 19.2% over 2020 to $55.4 billion which was aided by federal assistance in support of COVID-19 and increasing tax revenues. Expenditures increased $4.7 billion, or 11.4% over

2020 reaching $46.5 billion. With strong financial performance, the state exceeded its 15% RSR limit and receipts above 15%, or $2.2 billion was reported as unreserved, undesignated surplus. At $4.3 billion, the RSR was fully funded at year end.

On a four-point scale on which '1' is strongest, we have 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 it should remain so despite future debt plans and the potential for additional borrowings over the near- to medium-term. GO debt service is paid out of the GO debt sinking fund and, if these funds are insufficient, from first money received by the state's general fund. To incur guaranteed revenue debt, the General Assembly determines whether the debt is self-supporting and it appropriates an 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, is replenished by the general fund within 10 days of the start of any fiscal year.

Based on current revenue, management expects to be below its 7% debt affordability model limitations for debt service as a percent of previous-year receipts through 2026, including the current transaction and planned authorizations of $950 million annually between 2023 through 2026. For 2022, management projected this ratio at 4.7% of previous-year revenue and 4.7% for the budget year (fiscal 2023 estimate) including GO and Guaranteed Revenue Bonds. The state's calculation is based on available revenue; this differs from our calculation, which is based on expenditures. All of the state's GO debt is fixed rate. Debt amortization is rapid, with 69% of GO and Guaranteed Revenue Bonds retired within 10 years and all debt within 20 years. The state's tax-supported debt per capita is approximately $932 and tax-supported debt to personal income is 1.7%, which we view as low-to-moderate. Provided the state's annual debt plans, amortization schedule, and growth in population and incomes, we expect these ratios will remain relatively stable over the next several years.

Pensions

Georgia maintains its commitment to adequately funding its pension liabilities and in recent years the state started to prefund its other postemployment benefits (OPEB) obligations. When determining the state's liabilities, we view in aggregate its proportionate share of liabilities in its various defined-benefit pension systems and of its retiree health care plans. We view the state's pension funding discipline as adequate as historically annual contributions in its major pension plans have covered static funding, but they have fallen short of our minimum funding progress metric. However, in 2021 contributions exceeded our minimum funding calculation and unfunded liabilities decreased as a result of strong market returns. We view the state's OPEB liability as moderate with some pre-funding and a legal ability to adjust benefits when necessary.

As of June 30, 2021, the state's overall average pension-funded ratio across all plans improved to 92% improving the three-year average pension funded ratio to 82%. The total unfunded liability of all plans is about $345 per capita, or a low 0.6% of state personal income. Both of these ratio's improved significant in 2021 with strong market returns.

Plans representing a significant portion of the state's unfunded pension liability as of June 30, 2021, included:

- Teachers' Retirement System (TRS): 92% funded with the state's applicable net pension liability (NPL) $1.5 billion;

and

- Employees' Retirement System (ERS): 88% funded with the state's applicable NPL $2.1 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 market smoothing. ERS and TRS use level-dollar and level-percent of pay with closed amortization methods, respectively. As of June 30, 2021, ERS had a remaining amortization of 20 years compared with TRS' remaining 23. Each plan uses a five-year asset valuation smoothing. TRS had an assumed investment rate of return of 6.9% compared with 7.2% for ERS. In our opinion, a higher assumed rate of return than our guideline of 6% could result in contribution volatility, but the rate should not be a source of budgetary pressure for the state in the short term.

The systems do not project an asset-depletion date under Governmental Accounting Standard Board Statement No. 67, which we believe is reasonable. The ratio of active members to beneficiaries equals 1.6 for TRS, indicating a relatively young plan, and 1.2 for ERS, which represents a more mature plan. Georgia law requires that at least once every five years, an experience study be performed for ERS and TRS.

OPEB liabilities

The state also administers various OPEB plans including:

- Georgia state employee's post-employment health benefit fund (state OPEB fund): 60% funded with the state's proportionate share of the net liability for 2021 (measured June 30, 2020) equal to $1.0 billion
- State employee's assurance department (SEAD-OPEB Plan): Overfunded, with the state's proportionate share of the net asset for 2021 equal to $255 million; and
- Board of Regents retiree health benefit fund (BOR Retiree plan): 2.9% funded with the state's proportionate share of net liability for 2021 equal to $5.3 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 at 0.68% and the state's portion of the liability is only approximately $101 million. The combined OPEB unfunded liability was $6.1 billion ($566 per capita), based on reported proportionate shares for each plan.

We have assigned a score of '1.9' to Georgia's debt and liability profile, on a scale where '1.0' is the strongest and '4.0' the weakest.

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, 2022)		
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of June 8, 2022) (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 GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia State Rd & Tollway Auth, Georgia		
Georgia		
Georgia State Rd & Tollway Auth (Georgia) managed lane sys gtd rev bnds (federally taxable) (Georgia) ser 2021B due 07/15/2034		
Long Term Rating	AAA/Stable	Affirmed
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