S&P Global
Ratings

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Georgia; General Obligation; General Obligation Equivalent Security

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Credit Profile		
US$810.53 mil GO bnds ser 2021A due 07/01/2041		
Long Term Rating	AAA/Stable	New
US$328.1 mil GO bnds (federally taxable) ser 2021B due 07/01/2041		
Long Term Rating	AAA/Stable	New
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Georgia's approximately $1.1 billion general obligation (GO) series 2021A (tax-exempt) and 2021B (federally taxable) bonds. In addition, we affirmed our 'AAA' long-term rating on the state's GO debt outstanding. The outlook is stable.

Georgia's full faith, credit, and taxing power secures the bonds. Bond proceeds will be used to finance capital projects related to K-12 education, higher education, and transportation, among other projects. After the issuance of the bonds, there will be $171.9 million of authorized, but unissued debt remaining, primarily for K-12 education projects.

Credit overview

Georgia's 'AAA' long-term rating is supported by our view of the state's overall strong credit fundamentals, including its large and diverse economic base that exhibited comparative resilience relative to the U.S. in light of uncertain public health and safety risks presented by the COVID-19 and management's implementation of timely structural budget measures to balance its fiscal 2020 and fiscal 2021 budget. In our view, Georgia made necessary budget adjustments and emerged from this challenging social and economic landscape in a comparatively steady financial position, ending fiscal 2020 with very strong budgetary reserve levels, at $2.9 billion, or approximately 10.3% of governmental fund expenditures (on a GAAP basis), less expenditures paid with federal receipts.

Based on its stronger than expected revenue performance and adjusted revenue estimate that projects approximately $704 million in additional general fund revenue compared to its enacted fiscal 2021 budget, we believe Georgia is likely to recover and sustain a strong financial position at the end of the current fiscal year and be well-positioned as it begins fiscal 2022. Strong income and sales tax collections are driving year-over-year revenue recovery, driven in part by extraordinary federal aid and stimulus payments flowing to individuals and businesses and online sales collections following the passage of a marketplace facilitator law in January 2020. The law went into effect April 1, 2020, which increased tax revenue from remote and online merchants. Georgia's state fiscal economist estimates that the marketplace faciliator law will add approximately $350 million to $450 million in net sales tax revenues annually to the state. While the state used about $100 million from its revenue shortfall reserve (RSR) to fund increased allowances for K-12 educational needs in the amended fiscal 2021 budget, if revenue trends continue to outperform the state's budget, officials expect to replenish these reserves and potentially add substantially to its revenue shortfall reserve (RSR) that reach close to its 15% reserve limit.

The enacted fiscal 2022 budget is balanced without the use of one-time or non-recurring revenues to support state operations. In addition, Georgia's fiscal 2022 does not appropriate or authorize federal aid from the American Rescue Plan (ARP) to fund operational expenditures over the current or following fiscal year. Georgia estimates an ARP disbursement of $4.85 billion in direct aid, with half being distributed on May 20, 2021 and the remaining portion expected to be disbursed during the next fiscal year. Previously, Georgia received approximately $3.5 billion in direct aid under Title V of the CARES Act, which established the Coronavirus Relief Fund (CRF). Approximately 40% of CRF funds received went to repay what the state borrowed for the federal Unemployment Compensation Fund, and the rest was largely spread across local government aid, health care and public safety staffing costs, PPE, testing, and other public health and response-related costs.

In our opinion, Georgia's economy is likely to remain resilient given its level of employment diversification and projected economic growth that mirrors the nation, despite the significant slowdown in leisure and hospitality (which constitutes 9.4% of total employment). Georgia's unemployment rate has not yet returned to pre-pandemic lows, with the Bureau of Labor Statistics reporting the state's annual average rate of 6.5% in 2020, compared to the U.S. level of 8.1%. Although it continues to experience higher unemployment levels due to remaining job losses in it lower-wage sectors, Georgia's income tax withholdings are rising due to a strengthening recovery of its medium- and higher-income employment sectors. This, in conjunction with extraordinary federal aid over the past year have supported relative stability of the state's income metrics. Over the past decade, Georgia has benefited from an expanding economy, strong demographic trends, and improvement in the urban core of metropolitan Atlanta. Before the COVID-19 outbreak, most service sectors of the state's economy were flourishing. Absent any future pull-back in economic activity to address health and safety risks, the state should be relatively well positioned for future growth.

The state's debt burden, in our view, is moderate and should remain so despite potential future debt plans to undertake additional transportation projects, given our expectation that the state will align its debt issuance with its affordability metrics. Georgia's tax-supported debt per capita is about $930 and its tax-supported debt to personal income is approximately 2%. The state has no significant debt plans and given its rapid amortization and growth in population and incomes, we expect these ratios to continue to see slight moderation over time. Debt service has also been moderating in recent years and was a moderate 6% of expenditures in 2020.

Georgia maintains its commitment to adequately funding its pension liabilities and in recent years has started to prefund its other postemployment benefit (OPEB) obligations. We view the state's pension funding discipline as adequate as it annually contributes an amount in its major pension plans to cover static funding, although its falls slightly short of meeting our calculated minimum funding progress metric for all plans. Favorably, Georgia's contributions exceeded the actuarially determined contribution in several of the past fiscal years. The state's OPEB liability is moderate with some pre-funding and a legal ability to adjust benefits when necessary.

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, on RatingsDirect), 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 factors

We view the state's social risks in line with that of the sector, supported by strong economic growth and demographic trends over the past decade. While we expect economic activity to continue to recover and remain comparable with the nation, headwinds from a resurgence in COVID-19 infections or increased corporate focus on social issues could challenge the pace of growth. We view Georgia's governance risks as being in line with the sector and it has historically maintained a strong management and policy framework to respond to developing risks. However, we view environmental risk as somewhat elevated compared to other states due to approximately 110 miles of coastline along the Atlantic Ocean and susceptibility to physical risks, such as hurricanes and other adverse weather events. The state is also party to an interstate dispute spanning several decades over water rights that directly affect freshwater consumption in the heavily populated Atlanta metropolitan statistical area.

Stable Outlook

Downside scenario

We expect the state to continue monitoring revenues and make any necessary expenditure modifications during its normal midyear budget adjustment process in December and January to adjust for changing economic events. However, if the recovery slows or reverses, and the state does not make sufficient budgetary adjustments, materially weakening reserves without a restoration plan, we could lower the 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 has assigned a composite score of '1.5' to the state.

Credit Opinion

Reserves expected to be stronger than ever at end of fiscal 2021

According to Georgia statutes, excess revenue collections of up to 4% (but no greater than 15%) 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 may 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. In the past 20 years, its net RSR balance has passed its prior peak of $1.5 billion (2007) to $2.8 billion in 2019. The state appropriated funds from the RSR to fund increasing K-12 educational needs, bringing the net RSR balance down slightly to $2.7 billion in 2020. The net RSR balance reflects midyear adjustments in the subsequent fiscal year. Given current budget performance estimates, however, we anticipate the RSR will likely approach, if not surpass, the state's 15% limit at the end of fiscal 2021.

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 withhold appropriation allotments and increase processing times for tax refunds to better manage its liquidity. The state may use interfund borrowing to control its liquidity, or it can also borrow externally up to 1% of prior-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 $26.9 billion collected in fiscal 2020 consisting mostly of individual income (about 50%) and sales and use (about 23%) tax. In addition, the state has significant flexibility to raise revenue with a simple majority vote and can raise taxes and fees to close budget gaps. Historically, Georgia has 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. During the most recent recession, it asked agency heads to identify service-level reductions for each year and implemented those cuts based on need. Although Georgia typically reduces appropriations across the board to all agencies, reductions to education tend to be lower than for other areas of the budget, but this is a policy decision made on a case-by-case basis, not a statutory limitation.

Adopted fiscal 2022 budget

Signed by the governor on May 11, Georgia's fiscal 2022 budget assumes modest growth of 3.6% over amended fiscal 2021 estimates and is structurally balanced, in our opinion. Highlights include:

- Expected increases to sales and corporate income taxes, returning the state to modest year-over-year growth projections;
- Restoring $577 million, or 60% of the austerity reductions made to K-12 funding in the enacted fiscal 2021 budget , as well as $38 million in additional funding for enrollment growth, equalization funding, and charter school supplements;
- Increased funding by $164 million to Medicaid and PeachCare (the state's children's healthcare insurance program) to support increasing caseloads; and
- Pay-as-you-go capital funding for a variety of transportation and other projects prioritizing maintaining existing state assets.

Based on 2021 year to date collections and our overall expectations of economic recovery in Georgia, we view the assumptions as realistic.

Amended 2021 budget

The amended fiscal 2021 budget increased general fund revenue estimates by $704 million and removed the use of $250 million in RSR funds, given the expectation of increased revenues. Although the amended budget assumes a revenue decline of 2.5% over 2020, officials report year to date collections are trending more in line with pre-pandemic levels. Therefore, we believe the state may realize strong results at year end. On the expenditure side, the state restored 60% of the austerity reduction to K-12 aid that was included in the original budget. No further reductions to expenditures were needed during the update to maintain balanced operations. The enacted fiscal 2021 budget included a 10% reduction in expenditures, compared to the governor's original 6% reduction proposal introduced prior to the pandemic.

Audited fiscal 2020 results

On a GAAP basis, Georgia ended the year with a $322 million surplus, net of any transfers. Total revenues increased $1.7 billion, or 83.7% over the prior year largely due to increased federal aid (up 8% from fiscal 2019). Expenditures also grew by about $2 billion, in part from increased education and health and welfare spending. Total fund balances in the general fund were $8.4 billion, of which $2.4 billion was classified as unassigned and represents the amount of fund in the state's RSR or rainy day fund. Reserve balances at the end of the year represented about 10% of governmental fund expenditures, less those paid with federal receipts.

On a four-point scale on which '1' is strongest, we have assigned a score of '1.3' to Georgia's budgetary performance.

Georgia's economy outperformed the nation overall prior to the pandemic, and its recovery is expected to mirror the U.S.

Over the past decade, Georgia has benefited from an expanding economy, strong demographic trends, and improvement in its core urban, metropolitan Atlanta. In 2020, the state's real gross state product (GSP) contracted less than the nation (3.5%), falling just 2.5%. The state's real GSP growth has exceeded the nation on a five- and 10-year basis. Wealth and incomes are below average, consistent with a lower cost of living than the rest of the country, while per capital personal income was 91% of the nation.

Although Georgia is emerging from the sudden stop recession, unemployment has not yet returned to pre-pandemic levels, ending 2020 at 6.5%. Between February and April, state employment decreased by approximately 11%, better than the decline of 14% nationally. IHS forecasts state employment will not return to its most recent peak until at least 2022. This is slightly faster than S&P Global Ratings projections for the U.S. economy overall (See S&P Global Economics' reports "Economic Outlook U.S. Q2 2021: Let The Good Times Roll", published March 24, 2021, on RatingsDirect, and "Within Reach: How Stimulus Proposals Lift U.S. GDP to Pre-Pandemic Levels", published Feb. 1, 2021).

Georgia's economy overall is powered by the Atlanta MSA, and the role of Hartsfield-Jackson Atlanta International airport as a logistics and travel hub. Airport passenger traffic was down more than 60% year over year in 2020. IHS reports that although there is recovery, employment in the metro's transportation, warehousing and utilities sector is still down 3.4%. Coupled with leisure and hospitality services still below 10.4%, the state's overall recovery will be somewhat tied to the pace of economic recovery in its core urban centers, particularly metropolitan Atlanta.

Before the COVID-19 outbreak, most service sectors of the state's economy were flourishing. Georgia's population growth has exceeded the U.S. annually for at least the past 20 years. Georgia, and in particular metropolitan Atlanta, have experienced strong domestic and international in-migration and a comparatively favorable demographic shift toward a relatively young and more highly educated workforce relative to the U.S., supporting our view of a more resilient recovery and a continuation of its growth trend over the previous decade. Therefore, we believe Georgia should be relatively well positioned for future growth.

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

Debt and liability profile is expected to remain moderate

In our view, the state's debt burden is moderate and should remain so despite future debt plans and the potential for additional borrowings over the near- to medium-term to fund transportation projects. 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 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. Georgia's overall debt burden remains moderate, in our view.

Based on current revenue, management expects to be below its 7% debt affordability model limitations for debt service as a percentage of prior-year receipts through 2024, including the current transaction and planned authorizations of $990 million annually between 2021 through 2024. For 2021, management projected this ratio at 4.6% of prior-year revenue (fiscal 2020) and 4.8% for the budget year (fiscal 2021 estimate), both below the 7% limitation. 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 75% retired within 10 years and all debt within 20.

The state's debt burden remains low to moderate with tax-supported debt per capita of about $930 and tax-supported debt to personal income of 2%. Georgia has no significant debt plans and given its rapid amortization, and growth in population and incomes, we expect these ratios to continue to see slight moderation over time. Debt service has also been moderating in recent years and was a moderate 6% of expenditures in 2020.

Pension and OPEB liabilities

Georgia maintains its commitment to adequately funding its pension liabilities and in recent years has started to prefund its 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 it annually contributes an amount in its major pension plans to cover static funding, but not enough to meet our minimum funding progress metric. We view the state's OPEB liability as moderate with some pre-funding and a legal ability to adjust benefits when necessary.

Pensions

As of June 30, 2020, the state's overall average pension funded ratio across all plans declined to 77%, which we consider about adequate. The three-year average pension funded ratio was a strong 79%. The total unfunded liability of all plans is about $771 per capita, or a low 1.5% of state personal income.

Plans representing a significant portion of the state's unfunded pension liability as of June 30, 2020, included:

- Teachers' Retirement System (TRS): 77% funded with the state's applicable net pension liability (NPL) $4.3 billion; and
- Employees' Retirement System (ERS): 76.2% funded with the state's applicable NPL $3.8 billion

Georgia has fully funded the ADC 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, 2020, ERS had a remaining amortization of 16.5 years compared to TRS' remaining 27.1. Each plan uses a five-year asset valuation smoothing. TRS had an assumed investment rate of return of 7.25% compared to 7.3% for ERS. In our opinion, a higher assumed rate of return than our guideline may result in contribution volatility, but should not be a source of budgetary pressure for the state.

The systems do not project an asset depletion date under GASB 67, which we believe is reasonable. The ratio of active members to beneficiaries equals 1.7 for TRS, indicating a relatively young plan, and 1.07 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

As plan sponsor, the state reports the OPEB liability for both state employees and school personnel. However, its proportionate share of the school plan is minimal. The combined OPEB unfunded liability attributable to the state was $6.4 billion ($577 per capita), based on reported proportionate shares for each plan and including overfunding in the state's non-health care retiree benefit plan. The primary portion of the unfunded liability is attributable to state ($1.1 billion) and Board of Regents ($5.3 billion). Funding ratios per GASB reporting requirements were 40.23% for the state OPEB fund, 3.99% for the school OPEB fund, and about 3% for the BOR Plan. The State Employees' Assurance Department's OPEB (that provides life insurance) is overfunded by $284 million and had a 129.2% funded ratio as of June 30, 2020.

For fiscal 20, the total amount of employer contributions to the state and the school OPEB funds was $150.5 million and $338.2 million, respectively, an amount $508.2 million more than the ADC. All other OPEB funds are contributed to on a pay-as-you-go basis. While both plans are funded that way, the State Health Benefit Plan (SHBP) may transfer funds exceeding Incurred but Not Reported (IBNR) liability plus a 10% contingency reserve to the OPEB trust funds each year at fiscal year-end. Prior to the pandemic, the state's amended budgets between fiscal 2017 and fiscal 2019 included additional funds for those payments. However, given the uncertainty related to the plan expense due to COVID-19, the transfer of excess funds was suspended temporarily and were instead held within SHBP reserves to allow the state additional flexibility to deal with unexpected conditions during the pandemic.

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.

Strong government framework provides tools to manage budget pressures

In formulating the budget, the governor is constitutionally required to submit a balanced budget recommendation to the legislature that takes into account 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 grade K-12 education spending to reflect actual enrollment. The state cannot carry over deficits from one year to the next. Georgia enjoys flexibility to set and modify tax rates, fees, and timing of refunds and exemptions, and needs only a majority vote of the legislature to pass rate adjustments or new taxes.

An amendment to the Georgia State Constitution was approved on November 2014, prohibiting the General Assembly from increasing the maximum marginal rate of the state income tax above the 6% rate in effect on 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 report that they could examine other areas of the tax code to offset the rate cap, possibly reviewing how the state treats deductions.

Georgia has used several mechanisms to control its expenditures and manage its liquidity. The governor's authority includes a request to state agencies to reserve appropriations he believes are necessary 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. The Office of Planning and Budget may adjust the timing of appropriations disbursements, and currently releases funds monthly to agencies. Georgia's chief economist monitors revenue results, and updates revenue forecasts periodically. If revenue performance and updated estimates warrant, the economist informs the budget director that additional budget-balancing steps may be appropriate. In line with the state'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 tends to make smaller cuts to education funding but has the legal authority to implement equal cuts to all of its agencies. Historically, the governor instructed the agencies on cost-control measures to institute, if necessary, at the beginning of the year.

The state enjoys a high degree of legal flexibility to issue debt for a wide variety of purposes, but debt service for current and proposed GO and guaranteed debt may not exceed 10% of prior-year receipts. GO debt service is paid out of Georgia's 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 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 as a result of 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. Decisions to apply a lower level of expenditures to education are not due to statutory or constitutional funding requirements but rather are determined by policy.

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

Financial management policies provide strong oversight and budget adjustment authority

Georgia's budget management framework is good, in our view. The executive branch has broad powers to adjust appropriations and has a track record of making politically difficult revenue and expenditure decisions to restore balance during the fiscal year. Throughout the recession, the governor withheld a percentage of appropriation allotments from its agencies to reduce overall expenditures to align them with projected revenue. 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.

Financial management assessment: Strong

We consider Georgia's financial management practices strong, which indicates that financial management 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. The state legislature cannot change the governor's official revenue estimates and 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.

Ratings Detail (As Of May 24, 2021)		
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
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Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed
Georgia GO		
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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) GO Equiv		
Long Term Rating	AAA/Stable	Affirmed