State of Georgia

General Obligation Bonds
New Issue Report

Ratings

New Issues

General Obligation Bonds 2014A	AAA
General Obligation Bonds 2014B (Federally Taxable)	AAA
General Obligation Bonds 2014C (Federally Taxable Qualified School Construction Bonds – Direct Pay)	AAA
General Obligation Refunding Bonds 2014D	AAA

Outstanding Debt

General Obligation and General Obligation Guaranteed Revenue Bonds	AAA

Rating Outlook

Stable

Related Research

Fitch Rates Georgia $977.83MM General Obligations 'AAA'; Outlook Stable (June 2014)

U.S. State OPEB Liabilities (Liability Limited for Most; Uncertain Assumptions Drive Calculations) (June 2014)

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

U.S. States Population Trends – 2013 Review (Long-Term Trends Continue) (February 2014)

2014 Outlook: U.S. States (The Recovery Continues) (December 2013)

U.S. State Economies & Finances, and the Business Cycle (The Analytical Value of Growth, Volatility and Sensitivity Relative to U.S. Performance) (October 2013)

Federal Healthcare Reform's Impact on State Credit (October 2013)

Analysts

Eric Kim
+1 212 908-0241
eric.kim@fitchratings.com

Douglas Offerman
+1 212 908-0889
douglas.offerman@fitchratings.com

New Issue Details

Sale Information: $649,970,000 General Obligation Bonds 2014A, $151,115,000 General Obligation Bonds 2014B (Federally Taxable), $13,750,000 General Obligation Bonds 2014C (Federally Taxable Qualified School Construction Bonds – Direct Pay) and $162,995,000 General Obligation Refunding Bonds 2014D on or about June 17 via negotiation.

Security: General obligations 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 to refund certain outstanding GO bonds.

Final Maturity: Feb. 1, 2034.

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 calculated annual required contributions (ARCs) for pensions, keeping the unfunded liability very manageable.

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

Diversified Economy: After a sharp recessionary downturn, the state's diverse economy is showing signs of an accelerating recovery.

Rating Sensitivities

Fundamental Credit Characteristics: The 'AAA' rating is sensitive to fundamental changes in the credit characteristics of the state, including an unexpected failure to respond to changes in the economy that result in budget gaps, or an unexpected change in the debt profile.

Rating History

Rating	Action	Outlook/ Watch	Date
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

Related Criteria

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

Credit Profile

The longstanding '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 in rebuilding the RSR balance. The state's debt profile is conservative, and its debt 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, and amortization of principal is rapid, with just over 70% maturing within 10 years. Other outstanding obligations include $913.3 million in federal grant anticipation revenue (GARVEE) bonds and $188.5 million in capital leases. Including the current sale, debt remains moderate at 2.8% of 2013 state personal income.

Georgia's major pension systems covering both state employees and teachers have benefitted from consistent full funding of ARCs. As of the June 30, 2012 valuation, systemwide funded ratios for the state employees and teachers' plans were reported at 73.1% and 82.3%, respectively. Using Fitch Ratings' more conservative 7% discount rate assumption, the state employees and teachers' plans are funded at 69.3% and 78%, respectively, as of June 30, 2012. On a combined basis (and inclusive of the new issuance), the state's net tax-supported debt and Fitch-adjusted unfunded pension liability attributable to the state total 4.8% of 2013 personal income, below the median of 6.1% for U.S. states.

Funded ratios declined very modestly in the June 30, 2013 valuation, but Fitch notes positively that the state's two pension systems adopted more conservative actuarial assumptions. The reported Employees Retirement System (ERS)- and Teachers Retirement System (TRS)-funded ratios were 71.4% and 81.1%, respectively. The boards of both retirement systems shifted to closed from open amortizations. ERS' unfunded actuarial liabilities (UAAL) for each year will be fully amortized within separate, closed 25-year periods, while, for TRS, the amortization periods (using a similar methodology) will be of closed 30-year periods.

Broad and Recovering Economy

While the recession was more severe in the state than the nation overall, Georgia's employment recovery has outpaced that of the nation recently. Like all states, Georgia remains vulnerable to significant macroeconomic risks, including the uneven pace of the housing market recovery and effects of the Federal Reserve's tapering of quantitative easing.

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% versus 1.7%), and Georgia's April 2014 YOY gain of 1.9% was ahead of the nation's 1.7% rate. However, unemployment remains elevated, and the state's overall wealth levels still lag those of the U.S. As of April 2014, the state's unemployment rate was 7% versus the national 6.3% rate. Georgia's per capita personal income ($38,179) ranks 40th among the states at 85.7% of the U.S. level, and its poverty rate of 17.4% exceeds the nation's 14.9%.

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 2007. 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 2013 with a solid RSR balance above $900 million, supported by strong revenue growth and expense management. After accounting for the customary 1% midyear appropriation for education spending, the net RSR balance was $717.3 million (3.9% of fiscal 2013 net general fund revenues). Total net general fund revenues increased 5.9% from the prior year, ahead of the 4.1% amended budget estimate. As in other states, personal income tax growth (7.7% YOY) was a major driver, and Georgia attributed a portion of that growth to a one-time acceleration of income into the 2012 tax year as a result of the recent federal tax increase.

The structurally balanced fiscal 2014 original and amended budgets assume moderate economic and revenue growth. Amended fiscal year (AFY) 2014 budget estimates are for just 3.7% growth in tax revenues (Department of Revenue-reported tax collections, which exclude the insurance premium tax) from fiscal 2013. Georgia's 2014 projections prudently incorporated a significant slowdown in YOY personal income tax growth, despite last year's sharp increase of nearly 8%, to account for the effects of income acceleration. Through May, the state's tax revenues are up 4.6% YOY versus the 3.7% AFY 2014 estimate. Stronger growth in corporate income tax revenues and, to some extent, sales tax revenues, offset weaker growth in personal income tax revenues.

Georgia's fiscal 2015 adopted budget reflects overall improvement in fiscal flexibility. The state notably increased K–12 funding by over $500 million to allow school districts to restore recession-related cuts in staffing and school days. Additionally, unlike in recent years, the fiscal 2015 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.

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 ARCs for its pension systems. Other post-employment benefit (OPEB) obligations are only funded on a pay-as-you-go basis, but the overall 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.

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 $416.3 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 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) and GARVEEs. 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.

Georgia — Debt Statistics

($000)

	Pro Forma – 7/1/14
GO Debt – Outstanding[a]	8,840,815
GO Debt – New Issue[b]	890,340
Total GO Debt	**9,731,155**
Capital Leases	188,465
GARVEEs	913,330
Gross Tax-Supported Debt	**10,832,950**
Less: Self-Supporting Debt	—
Net Tax-Supported Debt	**10,832,950**
Per Capita ($)[c]	1,084
As % of Personal Income[d]	2.8
Amortization[e]	
% Due in Five Years	39.6
% Due in 10 Years	70.9
Authorized but Unissued Bonds	416,340
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]	4.8

[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]This amount is calculated from public disclosure and Fitch communication with the issuer. N.A. – Not available. Note: Numbers may not add due to rounding.

Georgia's constitution includes several provisions limiting debt issuance, including a cap of maximum annual debt service (MADS) for GO and guaranteed revenue 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. In fiscal 2013, none of the GSFIC-authorized $55 million in lease authority was used, and the authorizations lapsed. For fiscal 2014, GSFIC authorized $145 million, and only $13.5 million has been utilized. At this point, no state agencies have proposed issuing 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. Debt plus the portion of unfunded pension liabilities allocated to the state (as of June 30, 2012) are 4.8% of 2013 personal income versus the median for U.S. states of 6.1% (ranked 17th).

The state's two major retirement systems are ERS and TRS, which are both cost-sharing, multiple-employer plans. Fitch allocates liabilities according to the states' share of their respective ARC. This amounts to approximately 85% (ERS) and 16% (TRS) for fiscal 2012. 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. On a Fitch-adjusted basis (7.0% return assumption), the funded ratios are slightly lower than reported levels, with ERS at 69.3% and TRS at 78% as of the June 30, 2012 valuation. The state projects reported ERS-funded ratios improving slightly by the June 30, 2017 valuation and declining modestly for TRS. Fitch notes that the forecast conservatively assumes growth in payroll, which has actually been declining for both systems.

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, 2012, the UAAL levels attributable to the state for its three major OPEB plans were $3.8 billion for the state employees' OPEB plan, $3.7 billion for the Board of Regents' plan and $55.6 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). Liability levels have generally improved in recent years, primarily due to benefit reforms.

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 12th most active U.S. port by total cargo volume in 2013. 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.

The housing market downturn hit Georgia particularly hard, and the pace of recovery has somewhat slowed in recent months, which has direct implications for economic growth. Housing prices declined precipitously across the state, and particularly in the Atlanta metropolitan area, in 2008 and 2009. Prices rebounded with growth in the Atlanta area outpacing most other major metropolitan areas by late 2012, although the gap has narrowed in recent months. YOY construction-sector employment growth has steadily accelerated since turning positive at the start of 2013, and above-average population gains will likely support continued expansion. However, risks to the important housing sector remain. Mortgage foreclosure rates are still higher than national levels, but the gap has narrowed considerably. Furthermore, housing starts nationally and in Georgia are down from the recent peaks.

Employment

Georgia's YOY employment gains have been regularly outpacing those of the nation since year-end 2012, but the over-performance is narrowing and unemployment remains elevated. As of April, state employment increased 1.9% YOY versus 1.7% for the U.S. The three-month moving average of YOY employment growth reflects a closer spread, with Georgia at 1.7% and the U.S. at 1.6%. The growth has been widespread with virtually all sectors of the state's economy seeing YOY gains in April, as well as most of the state's metropolitan areas. As discussed earlier, recovery in construction and manufacturing has been particularly important. The government sector remains a soft spot with a YOY decline of 1.5% in April. Fitch believes ongoing federal deficit reduction, as well as continued expenditure controls at the state and local levels, precludes the likelihood of growth 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 7% was still above the U.S. rate of 6.3%. The state's rate is improved from 8.3% the year prior. Fitch notes that the state's labor force declined 0.3% YOY in April, while the U.S. labor force was flat, implying that at least some of the unemployment rate improvement was due to residents leaving the 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 2013 per capita personal income of $38,179 ranks 40th 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 both 2011 and 2013, Georgia's growth slightly outpaced the nation's. Fitch still anticipates the state will remain below average in terms of wealth levels. Similarly, Georgia's total state personal income growth was slightly faster than the nation's in 2011 and 2013. Recent quarterly data indicate a mixed trend with the state's growth falling back to the national rate, or slightly exceeding or trailing it.

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. Since then, Georgia's average annual growth rate slowed to 0.9%, while the nation grew 0.7% annually. The state skews younger than average with a median age of 35.7, compared with the U.S. median age of 37.4. Above-average growth of a young population indicates the state could see steady economic expansion with a growing labor force in future years.

However, educational attainment and poverty levels are weaker than average, signaling some risks in the state's demographic profile. In 2013, the state's individual poverty rate of 17.4% notably exceeded the national rate of 14.9%, 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, 27.8% have at least a bachelor's degree versus 28.5% nationwide.

Georgia — 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	Georgia	26.4	18.3	3.1
U.S.	248,765,170	281,421,906	308,745,538	316,128,839	U.S.	13.1	9.7	2.4

	Population Age (%)a				Education (%)a	
	Median	Under Five	18–64	65+	High School Degree	Bachelor's Degree
Georgia	35.7	6.8	63.4	11.5	84.4	27.8
U.S.	37.4	6.4	62.8	13.7	85.7	28.5

	Individuals in Poverty (%)[a]
Georgia	17.4
U.S.	14.9

[a]Based on estimates from the 2012 Census American Community Survey.

Finances

Diverse operating revenues; a demonstrated willingness to make adjustments to maintain balance and rebuild reserve levels; and no reliance on cash flow borrowing all support Georgia's strong financial profile.

Revenue Analysis

Georgia's own-source revenues are derived primarily from income and sales taxes, providing a wide base off which the state conservatively forecasts. Personal and corporate income taxes account for 51.9% and 4.7%, respectively, of budgeted AFY 2014 tax revenues (Department of Revenue-reported tax collections, which exclude the insurance premium tax, and 45% and 4.1% of total state treasury receipts). Sales and use tax revenues comprise the other major revenue driver at 29.1% of tax revenues and 25.2% of total state treasury receipts. Budgeted revenues exclude federal revenues.

PIT growth this year has been very modest at just 1.5% year-to-date (YTD) through May, although the state reports the weakness has been a function of the anticipated decline in nonwithholding taxes due to last fiscal year's income-tax acceleration effect. Withholding revenues from January–May were up 5.1% versus the prior year. Nonwithholding personal income tax revenues are down 5.2% for the fiscal YTD. The total 1.5% YTD growth rate is slightly below the AFY 2014 forecast of 2.7%.

Sales tax revenues declined 3.8% YTD, ahead of the negative 4.2% AFY 2014 forecast. The state forecast declines due to a substantial policy change (replacement of the sales tax on automobiles with a titling fee). Economic improvement appears to be supporting the better-than-expected sales tax performance. The policy change became effective last April 1, and both April and May 2014 sales tax revenues were up solidly over the prior year.

Expenditure Analysis

Education is the key driver of state expenditures and will 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 4.9% increase budgeted for fiscal 2015 (from AFY 2014), funding remains below peak levels and enrollment growth has continued, implying future 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 a quarter of general fund spending. Healthcare spending is one of the few areas, along with K–12 education, with spending increases in the 2014 and 2015 budgets. In total, Medicaid and Peachcare (the state's program for otherwise uninsured children) are budgeted for a net gain of $87.2 million in fiscal 2015.

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 tax revenues are tracking slightly ahead of AFY 2014 estimates, indicating the potential for another surplus and addition to reserves at fiscal year end. Through May, tax revenues were up 4.6% versus the 3.7% AFY 2014 estimate. Stronger sales and use tax and corporate income tax growth has offset slower personal income tax growth.

Georgia's adopted fiscal 2015 budget relies on higher growth targets than the current-year budget, but Fitch still views them as achievable; there is no significant use of nonrecurring revenues. The adopted budget assumes 4.5% growth in tax revenues from the AFY 2014 budget. As actual performance is ahead of the 2014 budget, Fitch views the fiscal 2015 budgeted growth rate as reachable.

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 and minor revenue adjustments, including the governor's recent suspension of a scheduled increase in motor fuel taxes effective July 1. The state estimates the suspension will cost the general fund $22.7 million through Dec. 31, 2014. At that point, the suspension will need to be ratified by the state Legislature. Fitch views these amounts as immaterial in a general fund budget of approximately $20 billion.

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 four consecutive years. Fitch anticipates another gain in fiscal 2014 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 any expenditure reductions. The current level of cooperation between the executive and legislative branches is generally high on fiscal issues. Both the amended fiscal 2014 and adopted 2015 budgets were signed with no gubernatorial program vetoes.

Budgetary Basis Revenue Summary

($000, Fiscal Years Ended June 30)

	General Fund[a]					
	2009	2010	2011	2012	2013	CAGR (%)
Personal Income Tax	7,814,552	7,016,412	7,658,782	8,142,371	8,772,227	2.9
Sales Tax	5,306,491	4,864,691	5,080,777	5,303,524	5,277,211	(0.1)
Corporate Income Tax	694,718	684,701	670,410	590,676	797,255	3.5
Motor Fuel Taxes	884,091	854,360	932,703	1,019,301	1,000,626	3.1
Other Taxes	1,080,875	1,039,311	1,126,903	1,088,711	1,217,271	3.0
Total Net Taxes	**15,780,728**	**14,459,475**	**15,469,575**	**16,144,582**	**17,064,591**	2.0
Department of Revenue Reported Tax Collections[b]	15,466,389	14,185,108	15,108,905	15,835,390	16,735,354	2.0
Other Revenue	985,934	756,316	1,089,073	1,125,393	1,231,268	5.7
Total State General Funds (Net Revenue Collections)	**16,766,662**	**15,215,791**	**16,558,648**	**17,269,975**	**18,295,859**	2.2
Reserves[c]	103,694	116,022	323,388	377,971	707,324	61.6
As a % of Total State General Funds	0.6	0.8	2.0	2.2	3.9	

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

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 GOs, 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 $850 million in new authorizations for GO bonds.

Budgetary Basis Revenue Summary — Projections

($000, Fiscal Years Ended June 30)

	General Fund[a]							
	2013	2014	2015	YOY Change (%)	2013	2014	YOY Change (%)	
	Actual	Amended	Adopted	2014–2015	YTD (May)	YTD (May)	Budgeted	Actual YTD
Personal Income Tax	8,772,227	9,004,728	9,536,657	5.9	7,962,335	8,080,876	2.7	1.5
Sales Tax	5,277,211	5,053,333	5,258,817	4.1	4,909,546	4,721,645	(4.2)	(3.8)
Corporate Income Tax	797,255	816,831	846,667	3.7	640,454	743,254	2.5	16.1
Motor Fuel Taxes	1,000,626	993,447	1,001,444	0.8	895,077	929,608	(0.7)	3.9
Other Taxes	1,217,271	1,826,254	1,833,916	0.4	N.A.	N.A.	N.A.	N.A.
Total Net Taxes	**17,064,591**	**17,694,593**	**18,477,501**	**4.4**	N.A.	N.A.	N.A.	N.A.
Department of Revenue Reported Tax Collections[b]	16,735,354	17,360,817	18,135,403	4.5	15,161,779	15,859,480	3.7	4.6
Other Revenues	1,231,268	1,225,123	1,249,330	2.0				
Total State General Funds (Net Revenue Collections)	**18,295,859**	**18,919,716**	**19,726,831**	**4.3**				

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

Revenue and Spending Limitations

Georgia's Legislature added a proposed constitutional amendment to the state's November election that would limit its revenue-raising ability, although not in a manner that threatens current financial flexibility. The amendment would prohibit 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, if passed, it would present a new limitation on the state's hypothetical ability to raise revenues in the future.

Economic Trends

Nonfarm Employment
(000, Not Seasonally Adjusted)

	Georgia	% Change	U.S.	% Change
2003	3,870	—	130,318	—
2004	3,923	1.4	131,749	1.1
2005	4,025	4.0	134,005	2.8
2006	4,112	2.2	136,398	1.8
2007	4,167	1.3	137,936	1.1
2008	4,123	(1.1)	137,170	(0.6)
2009	3,901	(5.4)	131,233	(4.3)
2010	3,861	(1.0)	130,275	(0.7)
2011	3,901	1.0	131,842	1.2
2012	3,955	1.4	134,104	1.7
2013	4,033	2.0	136,368	1.7
April 2013	4,032	—	135,911	—
April 2014	4,108	1.9	138,272	1.7

Unemployment Rates
(%, Not Seasonally Adjusted Annual Rates)

	Georgia	U.S.	Georgia as % of U.S.
2003	4.8	6.0	79.4
2004	4.7	5.5	85.4
2005	5.2	5.1	102.8
2006	4.7	4.6	102.0
2007	4.6	4.6	100.2
2008	6.3	5.8	108.5
2009	9.8	9.3	105.3
2010	10.2	9.6	105.5
2011	9.9	9.0	110.3
2012	9.0	8.1	111.7
2013	8.2	7.4	110.7
April 2013	8.3	7.5	110.7
April 2014	7.0	6.3	111.1

Personal Income
(Change from Prior Year)

	% Change		Georgia Growth
	Georgia	U.S.	as % of U.S.
2003	3.4	3.6	92.7
2004	5.1	5.9	86.1
2005	6.6	5.6	117.9
2006	7.0	7.3	95.7
2007	5.5	5.4	101.9
2008	2.3	3.7	61.8
2009	(2.8)	(2.9)	101.1
2010	1.0	2.9	35.0
2011	7.0	6.1	114.3
2012	4.1	4.2	98.5
2013	2.7	2.6	104.9

Personal Income Per Capita
(Change from Prior Year)

	% Change		Georgia Growth
	Georgia	U.S.	as % of U.S.
2003	2.0	2.8	72.8
2004	3.4	5.0	67.6
2005	4.7	4.6	102.2
2006	4.3	6.2	68.4
2007	3.3	4.4	75.2
2008	0.6	2.7	22.3
2009	(4.0)	(3.7)	92.1
2010	0.0	2.0	1.8
2011	5.9	5.3	110.8
2012	3.0	3.4	87.7
2013	1.9	1.8	105.5

Real Gross Domestic Product Trends
($ Bil.)

	Georgia		U.S.		
	Real GDP	% Change	Real GDP	% Change	State Growth as % of U.S.
2003	343.4	—	11,809.0	—	—
2004	352.5	2.7	12,199.5	3.3	80.5
2005	363.2	3.0	12,539.1	2.8	108.7
2006	369.2	1.7	12,875.8	2.7	62.2
2007	377.5	2.2	13,103.3	1.8	126.5
2008	373.9	(1.0)	13,016.8	(0.7)	54.4
2009	353.8	(5.4)	12,592.7	(3.3)	35.4
2010	358.8	1.4	12,897.1	2.4	58.8
2011	366.3	2.1	13,108.3	1.6	127.6
2012	374.0	2.1	13,430.6	2.5	85.0

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.		
	2003	2012	% Change	2003	2012	% Change
Natural Resources and Mining	1.3	0.8	(37.4)	2.9	2.7	4.0
Construction	5.6	3.4	(35.3)	5.2	3.5	(25.2)
Manufacturing	12.3	11.6	2.3	11.9	12.5	20.1
Trade, Transportation and Utilities	20.1	19.9	8.3	17.2	16.9	11.8
Information	5.6	7.7	50.4	4.1	5.3	47.1
Financial Activities	18.2	18.5	11.1	20.6	21.0	16.1
Finance and Insurance	6.7	6.8	10.1	8.0	7.9	12.7
Real Estate, Rental and Leasing	11.5	11.8	11.7	12.6	13.1	18.3
Professional and Business Services	11.1	12.5	22.8	11.4	12.3	22.8
Educational and Healthcare Services	6.5	7.3	23.6	7.7	8.2	21.4
Leisure and Hospitality	3.6	3.6	10.5	3.8	3.9	16.7
Other Services	2.4	2.1	(6.5)	2.7	2.2	(5.2)
Government and Government Enterprises	13.6	12.9	3.8	12.6	11.5	3.5
Total Real GDP			**8.9**			**13.7**

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.