

CREDIT OPINION

11 October 2016

New Issue

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State of Georgia

New Issue - Moody's assigns Aaa to Georgia's \$881M 2016E&F GO Bonds; Outlook Stable

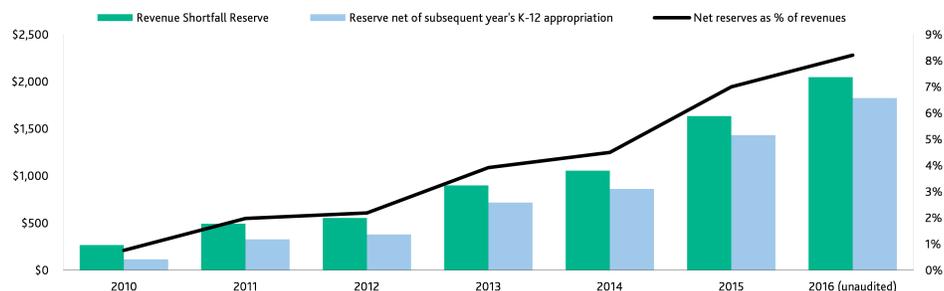
Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the State of Georgia's \$377 million General Obligation Refunding Bonds, Series 2016E and \$504 million General Obligation Refunding Bonds, Series 2016F.

Georgia's Aaa General Obligation rating reflects its robust economy -- which remains a regional outperformer -- solid tax revenue trends, conservative fiscal management, and moderate debt and pension liabilities.

Exhibit 1

Georgia's Revenue Shortfall Reserve Continues to Grow Amid Strong Revenue Trend (Revenue Shortfall Reserve Represents Accumulated Surpluses)



Note: State can, and each year since 2011 has, appropriated money from the Revenue Shortfall Fund for K-12 education in the subsequent fiscal year.

Source: State of Georgia

Credit Strengths

- » Conservative fiscal management, including prompt responses to revenue declines
- » History of rapid replenishment of budget reserves
- » Moderate debt levels
- » Diversified economy that continues to grow

Credit Challenges

- » Large unfunded retiree health benefits liability

Rating Outlook

The outlook for Georgia is stable based on the state's conservative fiscal management, the current strong trends in revenue growth, and manageable long-term liabilities.

Factors that Could Lead to a Downgrade

- » Return to negative fund balances over an extended period
- » Economic deterioration leading to revenue declines and lack of budget balance

Key Indicators

Exhibit 2

Georgia	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Operating Fund Revenues (000s)	18,725,959	19,361,984	20,041,249	20,775,112	22,176,375
Balances as % of Operating Fund Revenues	2.1%	1.7%	4.0%	5.2%	5.8%
Net Tax-Supported Debt (000s)	10,788,109	10,523,033	10,630,498	10,533,130	10,510,695
Net Tax-Supported Debt/Personal Income	3.1%	3.0%	2.9%	2.8%	2.7%
Net Tax-Supported Debt/Personal Income 50 State Median	2.8%	2.8%	2.6%	2.5%	2.5%
Debt/All Governmental Funds Revenue	32.2%	30.3%	29.0%	28.7%	27.0%
Debt/All Governmental Funds Revenue 50 State Median*	22.7%	24.3%	23.8%	23.0%	20.4%
Adjusted Net Pension Liability/All Govt Funds Revenue	42.0%	36.1%	60.4%	47.1%	49.3%
Adjusted Net Pension Liability/All Govt Funds Revenue 50 State Median	48.7%	63.9%	60.3%	59.2%	52.5%
Total Non-Farm Employment Change (CY)	1.1%	1.3%	2.0%	3.0%	3.0%
Per Capita Income as a % of US (CY)	86.4%	83.2%	83.5%	83.7%	83.8%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy

Georgia's economy (see [here](#) for latest Moody's economy.com report) is a leader among Southern states, bolstered by corporate expansions in the state, good population growth, and favorable demographics. The state's \$460 billion economy continues to exceed our expectations: we upgraded our forecasts for economic growth in April in light of a number of favorable trends. Job creation is robust, and total personal income is growing at a faster pace than the rest of the South. The state's [unemployment rate](#) of 4.9% as of August was equal to the US rate. The state's unemployment rate has often been higher than the US rate in recent years, but trends in the state's labor force growth and income are good. The composition of the state's job growth is also good, as transportation, warehousing and construction jobs are on the upswing.

The state's population of 10.2 million people continues to grow, another positive trend.

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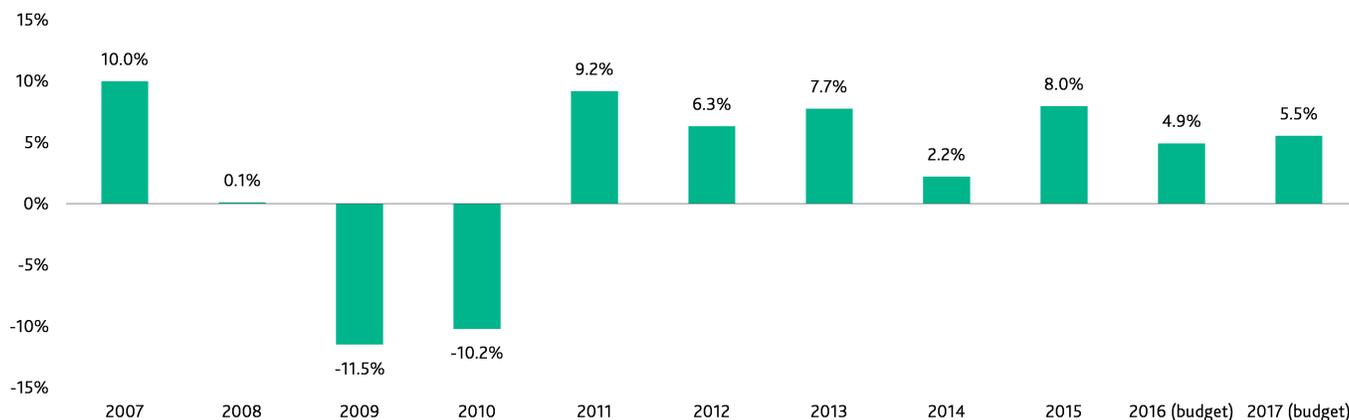
Finances and Liquidity

Georgia's finances continue to strengthen as revenues grow sharply. As revenue outperformance drives annual surpluses, the state's reserves grow each year and have reached quite healthy levels.

The state's roughly \$23 billion [general fund budget](#) is funded mostly by an individual income tax with a top bracket rate of 6% (51% of tax revenues) and a 4% sales and use tax (27%). The state income tax receipts in particular have been solid amid favorable economic trends, and overall tax revenue growth is well above the level of peers.

Exhibit 3

Georgia's Income Tax Receipts Continue to Propel Revenues Higher Year-Over-Year Growth in Individual Income Tax Receipts



Note: 2016 growth of 4.9% was budgeted. Figures reported by the Department of Revenue show growth of 7.9%.

Source: State of Georgia

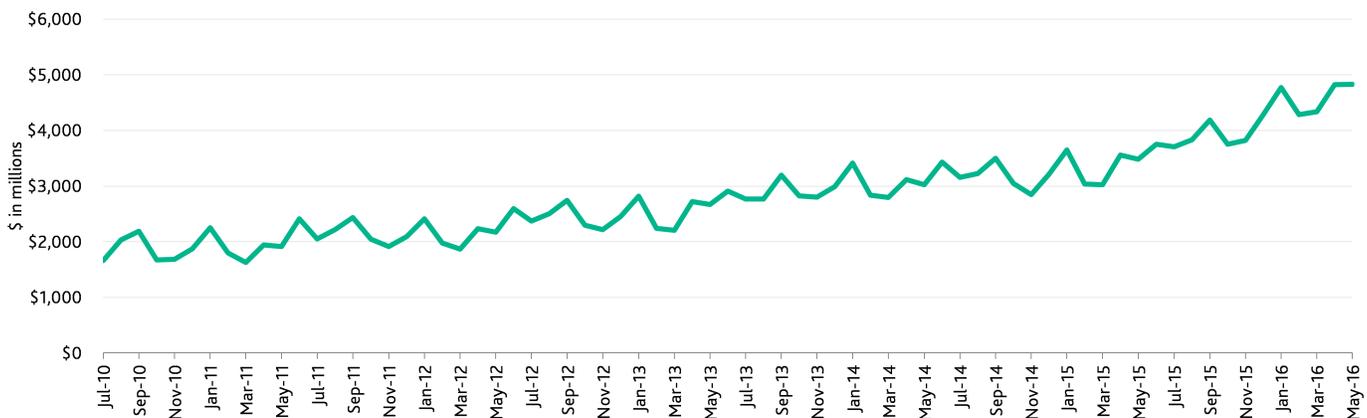
Tax revenue growth [continued unabated](#) in fiscal 2016 as income tax receipts grew 7.9%, well above the budgeted growth rate. Georgia's tax revenues are a positive outlier among states as revenue growth nationally has slowed to a more [subdued pace](#).

As revenue outperformance drives budget surpluses, the state's [Revenue Shortfall Reserve](#), which accumulates annual surpluses into a rainy-day-type fund, grows annually. The \$1.4 billion reserve at the end of 2015 (net of subsequent-year appropriations to education) was equal to 7% of revenues, and was the highest on a nominal basis since 2007. Based on unaudited figures, the reserve grew again in 2016, to \$1.8 billion.

LIQUIDITY

Georgia's cash position is solid and has been growing because of its annual budget surpluses. The state's comprehensive annual financial report showed \$4.1 billion of cash and cash equivalents held in the general fund as of 6/30/2015, a very healthy level of cash. A [liquidity portfolio](#) held at the state treasury includes certain cash balances outside the general fund and excludes certain unavailable balances. The trend in this portfolio is steadily positive.

Exhibit 4
State's Liquidity Improves in Concert with Strengthening Financial Position
 Primary Liquidity Portfolio Holdings



Source: Georgia Office of State Treasurer

While the treasurer cautions that liquidity available for outlays could be less than this due to investments on behalf of state agencies, the state's cash is clearly adequate to meet any needs that may reasonably arise.

Favorably, the liquidity held, in addition to being on the rise, shows little variability month to month. In 2015, the liquidity balance hit a low of \$2.85 billion (November) and a high of \$3.76 billion (June), a muted peak-to-trough disparity. The state department of revenue's [annual report](#) for 2015 shows little monthly variance in tax receipts (see page 11 of report).

Debt and Pensions

Georgia's debt and pension liabilities are moderate.

The state's debt consists of \$9.5 billion of direct General Obligation bonds plus \$289 million of GO-guaranteed debt.

Total net tax supported debt (including transportation debt and capital leases) is \$10.5 billion, which according to [all measures](#) is about average:

Exhibit 5
Georgia's Debt is Average

Measure	Georgia	US Median	Georgia's Rank (Lower Means More Debt)
Debt Per Capita	\$1,020	\$1,025	25
% of Personal Income	2.7%	2.5%	23
% of State GDP	2.21%	2.21%	25

Source: Moody's Investors Service

The impact of debt service on the general fund budget is moderate, at about 5% of expenditures.

The state's constitution mandates conservative debt issuance practices by imposing a 25-year maximum term and a maximum annual debt-service cap at 10% of prior-year net revenues.

DEBT STRUCTURE

Virtually all of Georgia's debt is fixed rate. The state has a \$127 million private placement floating rate note, which will be refunded with the current sale. Following that, all of Georgia's debt will be fixed rate.

DEBT-RELATED DERIVATIVES

The state has no exposure to derivatives on its bonds.

PENSIONS AND OPEB

Georgia's pension liabilities are below-average. Using [standard Moody's adjustments](#), we estimate Georgia's adjusted net pension liability at \$19.2 billion, or 4.6% of personal income. This is a [more modest exposure](#) than most other states (the median ANPL to personal income is 5.8%).

Furthermore, Georgia's pension contributions are sufficient to "tread water," meaning not allow the net pension liability to grow on an actuarial basis assuming all actuarial assumptions are met.

Governance

Georgia's strong governance framework and financial management practices have helped to support the state's Aaa rating over many years. Statutory and constitutional provisions have helped keep financial operations largely balanced and have encouraged strong recovery from previous economic downturns. The state's constitution limits growth in appropriations to net projected revenues from existing sources, plus appropriations from reserves. Projected revenue is determined by the governor, giving the executive strong power to constrain expenditures. A history of prompt spending cuts in response to revenue shortfalls has been an important aspect of the state's credit profile.

Legal Security

The bonds are secured by the full faith and credit of the State of Georgia.

Use of Proceeds

Proceeds of the bonds will be used to refund certain portions of the state's Series 2007G, 2008B, 2009B, 2009D, and 2011G bonds for estimated net present value savings of 16%.

Obligor Profile

Georgia is the 8th-largest state, with a population of 10.2 million. It had a gross domestic product of \$474.7 billion in 2014, which ranks 10th in the US, and per capita personal income of \$40,551.

Methodology

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

Ratings

Exhibit 6

Georgia (State of)

Issue	Rating
General Obligation Refunding Bonds 2016E	Aaa
Rating Type	Underlying LT
Sale Amount	\$376,815,000
Expected Sale Date	10/24/2016
Rating Description	General Obligation
General Obligation Refunding Bonds 2016F	Aaa
Rating Type	Underlying LT
Sale Amount	\$504,210,000
Expected Sale Date	10/24/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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REPORT NUMBER 1045699

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