

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Georgia's \$1.3B 2015 GO bonds; outlook stable

Global Credit Research - 05 Jun 2015

Approximately \$9.8B in parity GO and guaranteed debt outstanding

GEORGIA (STATE OF)
State Governments (including Puerto Rico and US Territories)
GA

Moody's Rating

ISSUE		RATING
General Obligation Bonds 2015A		Aaa
Sale Amount	\$563,350,000	
Expected Sale Date	06/12/15	
Rating Description	General Obligation	
General Obligation Bonds 2015B (Federally Taxable)		Aaa
Sale Amount	\$447,830,000	
Expected Sale Date	06/12/15	
Rating Description	General Obligation	
General Obligation Refunding Bonds 2015C		Aaa
Sale Amount	\$279,145,000	
Expected Sale Date	06/12/15	
Rating Description	General Obligation	

Moody's Outlook STA

NEW YORK, June 05, 2015 --Moody's Investors Service has assigned Aaa ratings to the State of Georgia's planned issuance of general obligation (GO) bonds in the three series listed above. The bonds are expected to be priced the week of June 9.

SUMMARY RATING RATIONALE

The highest rating is supported by Georgia's conservative fiscal management, demonstrated by the rapid replenishment of budgetary reserves after the last recession, as well as the state's moderate debt burden and diverse economy.

OUTLOOK

The outlook for Georgia is stable, based on our expectation that the state's conservative management will maintain fiscal stability even in the face of economic weakness.

WHAT COULD MAKE THE RATING GO DOWN

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

- Renewed reliance on non-recurring fiscal measures
- Failure to address large, unfunded retiree health benefits liability or substantial deterioration in pension funded status

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

CHALLENGES

- Large unfunded retiree health benefits liability

RECENT DEVELOPMENTS

Georgia's enacted 2016 budget estimates tax revenue growth of 4.6% and total general fund revenue growth of approximately 4.4% compared to the amended fiscal 2015 budget revenue estimate. We believe the state's revenue forecast is reasonable because of favorable economic trends. As in fiscal 2015, no agency budget reductions are expected to be necessary in fiscal 2016, which starts July 1. The year's incremental revenues will help Georgia address anticipated rising K-12 funding needs as well as increasing pension contributions. The budget fully funds the actuarially determined employer contribution required to the Teachers Retirement System and Employees' Retirement System, boosting appropriations to these plans by \$93 million and \$46 million, respectively.

In May 2015, the state enacted legislation (HB 170) to provide an estimated \$850 million to \$1 billion annually for road repairs. The law eliminates sales tax on motor fuel and consolidates all state motor fuel taxes into an excise tax that is indexed to inflation and vehicle manufacturer corporate average fuel economy standards. The law also imposes a tax of \$5 per night on hotel stays and a \$200 annual electric vehicle levy, while rescinding the tax credit on electric car purchases. The estimated revenue impact is about \$850 million for fiscal 2016 and up to \$1 billion in later years.

DETAILED RATING RATIONALE

ECONOMY: RECOVERY AIDED BY MANUFACTURING AND POPULATION GROWTH

Georgia has regained the jobs it lost during the recession, and its economic recovery continues at a healthy pace. The state is attractive to manufacturers, particularly in the automotive sector. We note that Georgia is expected to be an above-average performer in the South, which is supported by population growth that moderately exceeds the nation's and will help support demand for housing and personal service industries. As of April 2015, Georgia's 6.3% unemployment rate was still higher than the nation's 5.4%, but is still trending down as the labor force expands.

FINANCES AND LIQUIDITY

FISCAL 2015 REVENUES TRACKING ABOVE BUDGET

Georgia's total net taxes through April 2015 were up 7% year-over-year and are on track to exceed fiscal 2015's estimated 3.6% revenue growth. Year-to-date results have been bolstered by income and corporate tax revenues, which climbed 8.8% and 5.6%, respectively, through April 2015.

The state's 2015 budget was based on projected net taxes of \$18.6 billion, with state general fund revenue growth of 3.4% and total tax revenue growth of 3.6%. The year's budget was amended to allow additional spending of \$86.9 million.

If current trends hold, fiscal 2015 will be the fifth consecutive year of positive revenue performance and sixth consecutive year in which the state will add to its Revenue Shortfall Reserve (RSR).

Liquidity

STATE HAS BEEN REBUILDING BUDGETARY RESERVES AND AVAILABLE FUND BALANCE

Georgia has solid liquidity and continues to build its available fund balance. As of April 30, 2015, the state had \$2.1 billion in its primary liquidity portfolio, including the RSR, of \$863 million. By law, the RSR receives any fiscal year-end surplus and can hold as much as 15% of prior-year net revenues. In addition to the RSR, the state's treasury monitors investment portfolios on a bi-weekly basis to generate necessary liquidity. As required by policy, treasury maintains marketable securities in its investment portfolios to safeguard against unforeseen events. The state has not relied on external borrowing for cash-flow purposes, but it is legally authorized to secure a bank line of credit and issue short-term debt. Under current law, any bank line of credit would be limited to 1% of the prior year's receipts, about \$202 million currently. Any such borrowing must be repaid within the same fiscal year in which it was incurred.

DEBT AND PENSIONS

Debt Structure

MODERATE DEBT BURDEN IS A CREDIT STRENGTH

In Moody's 2014 State Debt Medians report, Georgia's debt-per-capita ranked 25th, at \$1,064, compared with the \$1,054 national median for states. Georgia's 2.9% debt-to-income ratio ranked 22nd, compared with the 2.6% median.

Georgia's total net tax-supported debt is moderate, and amounted to about \$10.58 billion in 2014, including GO debt (85% of total), GARVEEs (9%) and state-guaranteed revenue bonds (3%). The GARVEEs are issued by the Georgia State Road and Tollway Authority and finance Federal Highway Administration-approved road projects. We include these securities in our calculation of tax-supported debt even though pledged revenues come from the federal government and Georgia itself is not the legal obligor. Georgia also has a \$127 million private placement SIFMA index note that matures serially in 2021 through 2026; there is no remarketing risk or liquidity provider risk and the state has the option to call the bonds at par at any time with 60 days notice after Dec. 1, 2015.

BOND ISSUANCE GOVERNED BY 1972 CONSTITUTIONAL AMENDMENT

Georgia's debt practices are governed by a 1972 constitutional amendment that authorized the state to issue general obligation and guaranteed revenue bonds. The amendment also created the Georgia State Financing and Investment Commission to oversee state debt issuance. The constitution does not allow debt to cover a revenue shortfall unless it is repaid within the same fiscal year by taxes levied for that year. The state currently issues only general obligation bonds or full faith and credit-guaranteed revenue bonds. In November 2012, voters approved an amendment to the state constitution allowing the Board of Regents and the State Properties Commission on behalf of state agencies to enter into multi-year lease agreements of up to 20 years. The State Properties Commission has entered into 13 leases totaling \$34.7 million and has \$200 million of remaining authorization for fiscal 2016, while the Board of Regents plans to enter into one lease in fiscal 2015 for \$6.5 million and expects to request \$150 million for fiscal 2016.

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. Georgia has minimal exposure to variable rate debt, with a single private placement issue equal to about 1.2% of total net-tax supported debt.

Debt-Related Derivatives

In 2005, Georgia passed a law allowing the state to enter into interest rate swaps, however, it has not entered into any swap agreements.

Pensions and OPEB

UNFUNDED PENSION LIABILITY EXPECTED TO RISE

Based on 2013 data, we have calculated the state's adjusted net pension liability (ANPL) at \$22.1 billion, or 60.4% of state governmental revenues. This amount ranks at the 50-state median ANPL to revenues of 60.3% and places Georgia 25th when the states are ranked by this metric. Our adjustments to reported state pension data include an assumed 13-year duration of plan liabilities and a market-based discount rate to value the liabilities, rather than the long-term investment return that has been used in reported figures. The state has implemented GASB 68 in the current fiscal 2015, which we expect to have a material impact on the state's reported-basis entity-wide financial position for fiscal 2015. Pension expense reported by the state on its entity-wide income

statement will likely experience increased volatility from year-to-year going forward as a result of the new statements as well. We expect the overall credit impact of the new standards will be minimal, as our adjustments to pension information reported by states and local governments will remain fundamentally unchanged. For example, Moody's already considers adjusted net pension liabilities (ANPLs) as balance sheet obligations for the purposes of our credit analysis.

STATE FACES SUBSTANTIAL OPEB LIABILITY, DESPITE RECENT REFORMS

The state enacted legislation in 2009 to create two other post-employment benefits (OPEB) funds: one for state employees and one for school personnel. As of June 30, 2013, the state employee OPEB fund had a \$3.6 billion unfunded actuarial accrued liability (UAAL), down from \$3.8 billion, while the school personnel fund's unfunded OPEB liability was \$10.8 billion, down from \$10.9 billion. For fiscal 2015, the annual required contribution (or ARC) to both provide for current service and to amortize the liability for past service for the state employee plan was \$276 million, and the ARC for the school personnel plan was \$873 million. On an aggregate basis, these amounts represent about 8% of state revenues. The state is currently not funding the ARC, instead only cover the annual costs of benefits. Georgia notes that accounting standards for reporting retiree health benefit liabilities are not funding requirements, and that its OPEB plan funding will remain subject to appropriation and under the control of state agencies. The amended fiscal 2015 and fiscal 2016 Appropriation Acts direct the State Health Benefit Plan to transfer funds exceeding incurred but not reported liability plus a 10% contingency reserve to the OPEB Trust Funds. Accordingly, as of May 2015, the Department of Community Health has transferred \$101.4 million to the State OPEB Fund and \$30.8 million to the School OPEB Fund. It is expected that fiscal 2016 financial statements will reflect over \$300 million in equity in the OPEB Trust Funds.

MANAGEMENT AND 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.

KEY STATISTICS

- Per-capita income relative to US average: 84.8%
- Industrial diversity (1=most diverse): 0.78
- Employment volatility (U.S.=100): 124
- Available balances as % of operating revenue (5-yr. avg.): 1%
- NTSD/total governmental revenue: 29%
- 3-year avg. adjusted net pension liability/total governmental revenue: 44.3%

OBLIGOR PROFILE

Georgia is the 8th-largest state, with a population of 10.1 million. It had a gross domestic product of \$454.5 billion in 2013, which ranks 10th in the US, and per-capita personal income of \$39,097.

LEGAL SECURITY

BONDS ARE GENERAL OBLIGATIONS OF THE STATE

The current issues are state general obligations secured by Georgia's pledge of its full faith, credit, and taxing power.

USE OF PROCEEDS

Proceeds of the Series 2015A and 2015B bonds will finance various capital projects, while the Series 2015C bonds will refund outstanding GO bonds to provide interest cost savings.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US States Rating Methodology published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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