S&P Global Ratings

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Summary:

Georgia; General Obligation; General Obligation Equivalent Security

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Credit Profile		
US$504.21 mil GO rfdg bnds ser 2016F due 01/01/2029		
Long Term Rating	AAA/Stable	New
US$376.815 mil GO rfdg bnds ser 2016E due 12/01/2028		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to the State of Georgia's general obligation (GO) refunding bonds, series 2016E and series 2016F. In addition, S&P Global Ratings affirmed its 'AAA' long-term rating on the state's GO debt outstanding. The outlook is stable.

The series 2016E and 2016F refunding bonds constitute a GO of the state to which its full faith, credit, and taxing powers are pledged. Bond proceeds will be used to refund certain GO bonds outstanding to lower debt service requirements. There is no extension of original maturities, and savings are taken throughout the remainder of the repayment term.

The 'AAA' rating reflects our view of the state's:

- Well-diversified and broad-based economic growth that is outpacing that of the nation following a period of stagnation associated with the Great Recession;
- Strong financial monitoring and oversight with a history of budget adjustments, mainly through expenditure reductions, to restore fiscal balance;
- Additional flexibility provided by the substantial recent growth in the revenue shortfall reserve (RSR);
- Moderate debt position bolstered by rapid amortization; and
- Proactive management of long-term liabilities through full funding of the state's portion of pension contributions and the creation of other postemployment benefit (OPEB) fund reserves.

According to IHS Global Insight Inc., Georgia's employment growth continued into the second quarter of 2016 with 3.5% growth in private sector payrolls equating to 120,000 jobs. Such strong job gains followed on the heels of solid annual average growth of 2.5% in 2010 to 2014. The state's employment recovery is broad-based with construction jobs increasing 7.8% year over year. Other sectors experiencing impressive year-over-year growth include business and professional services (4.6%), leisure and hospitality (4.5%), and trade, transportation, and utilities (3.1%). Manufacturing, which we've observed is contracting throughout portions of the U.S., has surprisingly grown 2.3% year over year. Georgia's unemployment rate declined to 4.9% in August 2016 (preliminary) from 5.6% a year earlier and favorably is on par with the nation's 4.9%. Over the medium and long term we believe that Georgia's low cost of living, strong transportation network, weather, and favorable business costs are likely to continue attracting business investment and jobs to the state. IHS Global Insight projects Georgia should experience average annual job growth of more than 2.0% between 2015 and 2017, compared with the U.S. rate of approximately 1.6% over the same period. Positive job growth trends should continue to bolster income tax and sales tax receipts, which together contribute approximately 72% of general fund revenue.

The fiscal 2017 budget totals $23.7 billion, $674 million (2.9%) more than the amended fiscal 2016 budget of about $23.1 billion. The budget is funded with $22.5 billion in general revenue and about $1.2 billion in revenue from the lottery ($1.1 billion) and tobacco settlement funds ($125 million). The fiscal 2017 revenue assumption is 3.8%, but fiscal 2016 general revenue grew 8.8%, resulting in a required increase of only 1.3% in fiscal 2017 to meet the budget forecast. In our opinion, the budget is balanced and includes full funding of the pension actuarially defined contribution. The 2016 legislative session produced two bills signed into law by the governor that are expected to have a combined negative impact of approximately $106 million on net general revenue. We do not view these tax changes as material to the state's revenue forecast. Spending priorities include ongoing restoration of education funding, health, and human services, as well as infrastructure projects. For fiscal 2017, kindergarten through 12th-grade education was allotted about $433 million more in funding, of which a portion was allocated to teacher raises. In addition, merit increases and pay for high-turnover positions were funded in the budget at approximately $228 million. The amended fiscal 2017 budget and the fiscal 2018 budget instructions were released in August 2016 for agencies to begin formulating their midyear and subsequent-year spending plans.

The fiscal 2016 budget was based on general fund revenue growth of 6.2% with year-end totals showing preliminary revenue growth of 8.8% to $22.2 billion. Fiscal 2016 preliminary results indicate individual income tax revenue (accounting for nearly 47% of state general fund revenue) increased 7.9%, evidencing Georgia's strong year-over-year employment growth. Corporate income taxes (down 2.0%) and sales taxes (up 1.7%) were relatively flat. Sales tax revenue reflects a structural shift from sales taxes levied on motor fuels to an excise tax, as House Bill 170, or the Transportation Funding Act of 2015, primarily eliminated sales tax on motor fuel taxes and consolidated all motor fuel taxes into an excise tax. We view the modified tax structure as positive for funding transportation projects, as it provides a more stable revenue source less tied to consumption-based activity. Preliminary collections for fiscal 2016 indicate that revenue from the act totaled $794 million. For fiscal 2017 the amount available for transportation projects, including the $825 million generated from the act, is forecast to total nearly $1.7 billion.

In fiscal 2015 the state added nearly $570 million to its RSR, increasing the total at June 30, 2015 to $1.4 billion, or 7% of net general fund revenue. In fiscal 2016 the contribution to the RSR was nearly $617 million, increasing the balance to about $1.83 billion, or 8.2% of the prior year's net general revenue, after a likely mid-fiscal 2017 expenditure adjustment of $222 million for education. We take a positive view of the improvement in the RSR balance given that the state experienced a significant downturn during the Great Recession and lagged the U.S. in recovery. Officials report that the governor's goal for the RSR balance for when he leaves office in January 2019 is $2 billion, which we view as reasonably achievable given the substantial contribution in fiscal 2016. The additional flexibility provided by the RSR will help insulate the state in case of a subsequent downturn or weakening in the economy in the next several years.

The state's overall debt burden remains moderate, in our view, and slightly improved from fiscal 2014. In addition, despite the current and anticipated future issuance, we believe the debt position will remain moderate given 10-year amortization equal to 70% of all principal outstanding. Total debt outstanding as of fiscal year-end 2015 was $9.4 billion: about $8.8 billion in GO debt, $327 million in guaranteed revenue debt, and $243 million in capital leases and loans. Total debt was $919 per capita, 2.3% of per capita personal income, and a low 2.0% of GDP per capita as of fiscal 2015. Without taking into account the effect of the refunding, Georgia has approximately $9.6 billion (unaudited) in GO and guaranteed revenue debt.

The state has two major pension plans: the Teachers Retirement System (TRS) and the Employees' Retirement System (ERS), which are funded at 79.1% and 74.1%, respectively. Georgia has fully funded the annual required contribution (ARC) and since 2012 and has overfunded the actuarially determined contribution by a cumulative amount of more than $3.2 million, including the amount in fiscal 2016. Based on Governmental Accounting Standards Board Statement No. 68 reporting standards, the state's allocable share of the TRS and ERS net pension liability equals 17.6% and 91.2%, respectively, which together represent approximately $6.0 billion of the total unfunded actuarially accrued liability of $16.7 billion. As we've observed nationally, Georgia's preliminary pension fund return for fiscal 2016 was 1.4% for the TRS and ERS--much lower than the assumed rate of return of 7.5% for each fund. We expect that the diminished return relative to plan assumptions will require higher contributions once the actual experience is factored into each plan's valuation. The fiscal 2017 budget includes 100% of the actuarially determined employer contributions for the TRS and ERS, which are $877 million and $375 million, respectively, together accounting for approximately 5.6% of total general fund appropriations.

As plan sponsor, the state reports the OPEB liability for both state employees and school personnel. The state's combined OPEB unfunded liability when considering both state and school employees was $13.9 billion as of June 30, 2015 ($1,365 per capita), up from $11.4 billion a year earlier. Both plans were 0% funded. According to management, the liability reflects the changes in plan design, deductibles and copay requirements, and favorable claims experience but incorporates results of the pension plans experience studies implemented with the June 30, 2015 valuation. We take a positive view of the reserves in the OPEB trust funds, equal to $610 million at fiscal year-end 2016, as they help ensure that costs remain manageable on a pay-as-you-go basis. The OPEB ARC declined to $259 million in fiscal 2016 from $276 million in fiscal 2015 for state employees and remained at $873 million in fiscal 2016 for school personnel. Further declines in contribution requirements are projected for fiscal 2017 with payments for state employees of $202 million and a substantial decrease to $670 million for school personnel. Reflecting the experience study results noted above, the OPEB ARC will increase to $232 million for employees and $825 million for school personnel in fiscal 2018.

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.

Based on the analytic factors we evaluate for states, on a four-point scale on which '1' is strongest, Georgia's composite score is '1.5'.

For more information on the State of Georgia, please see our report published June 2, 2016.

Outlook

The outlook reflects our view of Georgia's active management of its budget and revenue forecast as well as Georgia's willingness to adjust in the face of unforeseen economic events. We expect the state to closely monitor revenue and modify expenditures through its normal midyear budget adjustment process that occurs in December and January. We expect Georgia's economy to continue to strengthen and experience above-average employment growth relative to that of the nation; this should support operating revenue in offsetting higher costs associated with education, Medicaid, and long-term obligations such as pensions and OPEB. With fiscal 2016 general revenue exceeding the forecast, we expect Georgia will easily meet revenue projections for fiscal 2017, which is positive from a budget management perspective and will likely help the state continue to improve its reserve position at year end. However, should Georgia's economic expansion stall or should management reverse its position to improve RSR balances or utilize reserves to cover annual operating expenditures, we could lower the rating.

Ratings Detail (As Of October 11, 2016)		
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 State Rd & Tollway Auth, Georgia		
Georgia		
Georgia State Rd & Tollway Auth (Georgia) GO		
Long Term Rating	AAA/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.