Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aaa RATING TO STATE OF GEORGIA'S APPROXIMATELY $700 MILLION OF GENERAL OBLIGATION BONDS IN SERIES 2009F, 2009G, 2009H AND 2009I

Global Credit Research - 29 Oct 2009

STABLE OUTLOOK APPLIES TO CURRENT ISSUES AS WELL AS $8.8 BILLION OF G.O. AND GUARANTEED REVENUE BONDS OUTSTANDING

State
GA

Moody's Rating

ISSUE		RATING
General Obligation Bonds, 2009F		Aaa
Sale Amount	$85,480,000	
Expected Sale Date	11/02/09	
Rating Description	General Obligation	
General Obligation Bonds, 2009G		Aaa
Sale Amount	$114,520,000	
Expected Sale Date	11/02/09	
Rating Description	General Obligation	
General Obligation Bonds, 2009H (Federally Taxable Build America Bonds -- Direct Pay)		Aaa
Sale Amount	$400,000,000	
Expected Sale Date	11/02/09	
Rating Description	General Obligation	
General Obligation Refunding Bonds, 2009I		Aaa
Sale Amount	$100,000,000	
Expected Sale Date	11/02/09	
Rating Description	General Obligation	

Opinion

NEW YORK, Oct 29, 2009 -- Moody's Investors Service has assigned a rating of Aaa to the State of Georgia's planned offering of approximately $700 million of general obligation bonds in four series as presented above. Proceeds of three tax-exempt series will be used for various public projects and - in the case of the 2009I series -- to restructure outstanding general obligation debt. The largest portion of the bonds consists $400 million of federally taxable Build America Bonds (or BABs). Federal subsidy payments related to the BABs are not pledged to bondholders. Proceeds of these bonds will fund a variety of state purposes, including school and higher education facility and transportation project construction. The highest-quality rating is supported by Georgia's conservative fiscal management, moderate debt burden and well-funded pensions. Budgetary reserves that in fiscal 2007 had risen to $1.5 billion (about 8% of revenues) are expected to be largely used up by the end of the current fiscal year. The outlook for the current issue and $8.8 billion of previously issued general obligation-backed debt is stable, however, based on expectations the state will take appropriate steps to continue managing the economic and revenue challenges it faces.

RATING REFLECTS FINANCIAL MANAGEMENT PRACTICES

Georgia's Aaa general obligation rating is based on conservative financial management enforced by statutory and constitutional provisions that have helped keep financial operations largely balanced and that encouraged recovery from revenue downturns such as in fiscal years 2002 and 2003. 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 long been a key to the state's credit standing. State law requires any fiscal year-end surplus funds to be deposited in the Revenue Shortfall Reserve (RSR), which can hold as much as 10% of prior-year net revenues. A component of the RSR (equal to 1% of prior fiscal year net revenues) can be appropriated by the legislature to meet K-12 education needs. Georgia last year began publishing multi-year financial plans showing out-year budget projections, a practice typically associated with the highest-rated states. The state also has addressed reporting issues that had delayed release of its audited financial statements for several years.

BUDGET RESERVES LIKELY TO BE USED UP IN CURRENT FISCAL YEAR

The RSR is expected to be almost entirely depleted in the course of the current fiscal year. The current cash balance in the reserve is $217.2 million, down from $1.5 billion, or about 8% of prior-year revenues, at the end of fiscal 2007. The fund is expected to decline to just under $50 million by the end of the current fiscal year, excluding any year-end agency surplus. The steep fall in reserves primarily reflects Georgia's revenue shortfalls in fiscal years 2008, 2009 and 2010. In fiscal 2009, the state addressed a year-end deficit by drawing almost $350 million from the RSR. Total draws for that year amounted to about $735 million, including a $200 million appropriation and the use of the portion available for education needs. The state already has appropriated about $259 million of the RSR for the current fiscal year. The projected $50 million year-end balance assumes that the 1% education allocation will be drawn upon, as in past years. Moody's has a negative outlook for the states sector and has anticipated that many issuers would draw on rainy day funds during the current recession. Highly rated states typically rebuild reserves rapidly, as Georgia has done in the past. The extent to which the coming fiscal year's budget allows for reserve rebuilding, through prudent economic assumptions and conservative revenue projections, will be a critical factor to the state's rating and outlook.

REVENUE SLOWDOWN THAT BEGAN IN FISCAL 2008 IS CONTINUING

Georgia's revenues were affected fairly early in the current recession, toward the end of fiscal 2008.Total tax collections for 2008 year fell 0.8% from 2007 levels, compared with 3% growth anticipated. The next year, revenues continued to weaken, led by a decline of 11% in personal income tax collections. To address its weakening revenues, Georgia has imposed spending cuts, drawn down reserves and relied on certain non-recurring measures including the use of federal stimulus funds provided under the American Recovery and Reinvestment Act (ARRA). The state's adopted budget for fiscal 2010, which began July 1, cut spending by 12%, including a reduction of $1 billion, or 8.5% in education funding. In addition, the governor in August imposed 5% cuts to reduce spending by $851 million through the current fiscal year in anticipation of continuing revenue underperformance. The state is currently considering measures -- including additional cuts to education and further across-the-board restraints on state agency spending -- that would result in a total reduction from budgeted levels of 7.4%, including those saving measures already implemented. These measures are based on an informal projection that shows total state general fund revenue falling $1.26 billion, or 6.2%, in fiscal 2010. Non-recurring measures being used in the current fiscal year include accelerated appropriation of $120 million in payments from tobacco companies under the 1998 Master Settlement Agreement, $65 million of agency payments, and $1.39 billion in ARRA funds. Non-recurring measures amount to about $1.8 billion, or almost 10% of appropriations, in fiscal 2010, including the draw on the state's RSR. The current economic assumptions include an employment recovery beginning in the year's final quarter (April through June of 2010), accompanied by a stabilization in personal income trends. The governor may increase withholding of allotments, thereby reducing spending, at any time, if revenue trends continue to worsen. As a last resort, the state could accelerate a portion of the $690 million in ARRA stabilization funds that are currently allocated for fiscal 2011. This action, however, would exacerbate the state's difficulties in the coming budget year. Moody's expects Georgia to make adjustments as necessary to return to structural balance as the recession subsides.

GEORGIA'S RELATIVE ECONOMIC PERFORMANCE IS WEAKENING

Georgia has a somewhat volatile economy, outpacing the nation during expansions and underperforming during contractions. In keeping with this pattern, the state has shown indications of relative weakness in recent months. For most of the past decade, Georgia's unemployment rate was in line with or even substantially lower than the nation's. The preliminary figures for September showed Georgia with a slightly elevated jobless rate of 10.1%, compared with the nation's 9.8%. The state in 2008 lost 1% of non-farm jobs, compared with the nation's 0.4% employment decline. Georgia is on track for steeper job losses in 2009 (about 5%, compared with the nation's 3.8%), based on Bureau of Labor Statistics data through September. Efforts to create jobs by encouraging foreign auto manufacturing investment may be hampered by the recession's impact on sales of both foreign and domestic car sales. However, Korea's Kia Motors Corp. is continuing with construction of a plant in West Point, Georgia, where employment has been estimated at almost 3,000. Kia suppliers are expected to bring even more jobs to the state, helping offset recent losses of jobs from domestic auto manufacturers.

BOND ISSUANCE GOVERNED BY 1972 CONSTITUTIONAL AMENDMENT

Georgia's debt issuance practices are governed by a 1972 constitutional amendment that created the Georgia State Financing and Investment Commission to oversee 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 issues only general obligation bonds or full faith and credit-guaranteed revenue bonds. The state's constitution further 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 issue of such securities equal to about 3% of total debt outstanding. While Georgia in 2005 passed a law allowing interest rate swaps, it has not yet entered any swap agreements.

DEBT BURDEN, WHILE MODERATE, IS RISING

In Moody's 2009 State Debt Medians report, Georgia's debt per capita ranked 21st, at $984, compared with the $865 50-state median. Its 3.0% debt-to-income ratio was 20th, compared with a 2.5% median level. Though still moderate, Georgia's debt burden may rise relative to other states in coming years. For the current fiscal year, Georgia authorized issuance of $1.2 billion of bonds -- about 20% more than it had authorized the prior year - to spur job growth. The $600 million of new-money bonds included in the current offerings account for half of the authorized amount, and an additional sale may follow as soon as December. Issuance of grant anticipation notes by the Georgia State Road and Tollway Authority has added to the state's debt burden. Such securities, which finance Federal Highway Administration-approved road construction projects, are included in the calculation of states' tax-supported debt even though pledged revenues come from the federal government. The authority has issued $1.65 billion of the securities to date and may issue as much as $3 billion in total by the end of fiscal 2011. Georgia is not legally the obligor for these securities.

PENSION PLANS ARE WELL FUNDED; SUBSTANTIAL LIABILITY FOR OPEB IS BEING ADDRESSED

The state's debt profile is bolstered by pension funded status that is among the best in the nation. The largest pension unit, the Employees' Retirement System of Georgia, had a funded ratio of 89.4% as of June 30, 2008; the Teachers Retirement System of Georgia had a funded ratio of 91.9%. The state has reported a $16.5 billion unfunded, actuarial accrued liability (UAAL) for OPEB provided by the State Health Benefit Plan. The annual required contribution (or ARC) to both provide for current service and amortize the liability for past service is $1.38 billion, or about 6.2% of state revenues. About 70% of the ARC is attributable to school systems, and the state is creating a separate retiree health benefit fund to provide for state employees, and another to provide for school district employees. This strategy and others the state is implementing will significantly reduce the state's ARC in future years. The state notes that new accounting standards for reporting retiree health benefit liabilities (GASB Statements 43 and 45) are not funding requirements, and that its OPEB plans will remain subject to appropriation and under the control of state agencies.

MOST RECENT RATING ACTION

The last rating action with respect to the State of Georgia's general obligation bonds was on May 5, 2009, when the rating of Aaa with a stable outlook was assigned to the state's General Obligation Refunding Bonds, Series 2009E.

The principal methodology used in rating this issue was Moody's State Rating Methodology, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Credit Policy & Methodologies directory.

Outlook

The outlook for Georgia's general obligation credit rating is stable, based on Moody's expectation that the state will take appropriate actions to manage the challenging economic conditions and revenue shortfalls it faces, and that Georgia's legal provisions and historically conservative approach to financial management will help preserve balanced operations.

What could move the rating -- Down:

-- Increased use of non-recurring fiscal measures to address revenue shortfalls

-- Reliance on optimistic economic assumptions or revenue forecasts to balance the coming fiscal year's budget

-- Failure to adopt a fiscal plan that will maintain budget balance when federal fiscal stimulus dollars are no longer available

-- Inability to manage financial stress associated with major cost drivers

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