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FITCH RATES GEORGIA'S $700MM GOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-29 October 2009: Fitch Ratings assigns an 'AAA' rating to the State of Georgia's (the state) approximately $700 million general obligation (GO) and GO refunding bonds, expected to consist of:

--$85.48 million GO bonds, 2009 F;
--$114.52 million GO bonds, 2009 G;
--$400 million GO bonds, 2009H (federally taxable Build America Bonds-direct pay);
--$100 million GO refunding bonds, 2009I.

Bond par amounts may change upon final sale, expected via negotiation beginning on or about Nov. 2. Series 2009F matures Nov. 1, 2010-2014, series 2009G and 2009H mature Nov. 1, 2010-2029 and series 2009I matures Nov. 1, 2010-2023. Fitch also affirms the 'AAA' rating on outstanding GO bonds of the state. The Rating Outlook is Stable.

The state's longstanding 'AAA' rating is the result of its conservative debt management, consistent maintenance of sound finances, and a diversified economy, which nonetheless is now experiencing a severe contraction. Revenue collections have underperformed conservative expectations, with the state taking repeated action to return to balance, including spending cuts, use of federal stimulus, and draws from its rainy day fund, the revenue shortfall reserve (RSR). Although the state has already made deep budget cuts and expects to reduce the RSR balance to about $49 million (before deposit of any agency surplus) by June 30, the end of fiscal year (FY) 2010, the state retains significant additional flexibility to reduce spending in order to maintain balance.

Most of the state's tax-supported debt is in the form of GO or guaranteed revenue bonds; amortization is rapid, with 66% due in 10 years. Another $1.5 billion in grant anticipation revenue (GARVEE) bonds is outstanding. Ratios are growing but remain moderate, equal to $1,121 per capita and 3.2% of personal income. Debt management includes policy caps for outstanding debt by personal income and per capita, as well as debt service to prior year receipts; the state expects to exceed the latter policy cap in the near term due to slumping revenues. The state employees' pension system is well funded, at 89%, as of FY 2008.

The state's diversified economy has grown rapidly over time, with its largest metro area, Atlanta, a key business center and transport hub. Nonetheless, the state is experiencing severe recessionary conditions, with employment and personal income affected in excess of national averages. The solid employment gains of recent years reversed in mid-2008; for the year, the state's employment fell 1%, versus 0.4% nationally. Losses have grown in severity in 2009; September 2009 employment was down 5.8% from September 2008, compared to 4.3% nationally. The state's unemployment rate is 10.1%, versus 9.8% nationally. Manufacturing, already in decline prior to the recession, and the large construction sector have been particularly hard hit; manufacturing is down 13.5% in September 2009 compared to September 2008, and construction is down 19.3% over the same period. Second-quarter 2009 personal income fell 3.4% in Georgia, a deeper decline than the 2.6% recorded nationwide. The state's personal income per capita is 87% of the U.S. average, with the state ranking 38th among the states.

The state is continuing to demonstrate conservative fiscal management in its response to the recession. Several years of strong revenue growth had enabled the state to build a $1.5 billion RSR, measuring 8.2% of net revenues as of FY 2007. However, tax revenues slowed in FY 2008 with economic weakness, falling 3.9% below budget and 0.8% from the prior year, to $17.7 billion. To close the year, the state tapped the RSR for $348 million. The revenue outlook in FY 2009, which ended on June 30, and in FY 2010, have been revised downward several times. FY 2009 tax revenues are estimated to have fallen 10.8% from FY 2008, to $15.8 billion.

Despite a revised FY 2009 budget incorporating $2.4 billion in balancing actions, including across-the-board agency spending cuts, and use of $200 million in RSR funds and $667 million in federal stimulus funds, the year ended with a $348.7 million shortfall, requiring a further draw from the RSR. The state currently expects FY 2010 general fund revenues to decline 6.2% from FY 2009, to $15.7 billion. Since the start of the fiscal year, the state has implemented 5% spending cuts (3% in education and Medicaid) and employee furloughs in the first half of the year. Continued underperformance would likely lead to further cuts; the RSR balance is forecast to be $49 million, or 0.3% of current-year revenues, prior to deposit of any agency surplus from FY 2009.

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