STANDARD & POOR'S

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Summary:

Georgia; General Obligation

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Credit Profile		
US$400. mil GO bnds (federally taxable Build America bnds) ser 2009H due 11/01/2029		
Long Term Rating	AAA/Stable	New
US$300. mil GO & GO rfdg bnds ser 2009FG&I due 11/01/2029		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' rating and stable outlook to Georgia's series 2009F and G tax-exempt general obligation (GO) bonds, series 2009G taxable Build America Bonds, and series 2009I GO refunding bonds. Standard & Poor's also affirmed its 'AAA' rating on the state's debt outstanding. The outlook is stable.

The 'AAA' rating reflects what we view as the state's:

- Well-diversified economy, which although currently experiencing a sharp downturn associated with the housing-, credit-, and financial market crises and the national recession, remains well positioned to recover in the medium term;
- History of making difficult decisions, mainly through expenditure reductions, to restore fiscal balance;
- Strong financial monitoring and oversight;
- Remaining financial cushion, which includes a nearly depleted revenue shortfall reserve, approximately $1 billion in ARRA stimulus funds, and $1.3 billion in trust funds.

Georgia has a well-diversified economy with a growing education and health sector, a healthy aerospace and defense industry, and a healthy trade and transportation sector anchored by Atlanta Hartsfield Airport (the world's busiest) and the port of Savannah (the second-busiest in the east coast). Georgia is also home to several large U.S. companies including Delta Air Lines, UPS, Georgia-Pacific, and Coca-Cola. Although Georgia was somewhat late into the recession, it is now well into it and experiencing a sharp downturn. The state experienced a 6% year-over-year decline in employment as of August 2009. The downturn is geographically widespread and has affected all sectors of the economy, except education and health, which grew 3% year over year. Construction and manufacturing are the hardest hit with 18.5% and 13.7% year-over-year employment losses, respectively. IHS Global Insight projects employment declines of 5% for 2009. IHS also projects Atlanta, the state's economic engine, to experience a 5.2% decline this year. Unemployment was 10.1% in August and remained unchanged for September; however, it is not clear that the economy has hit bottom. Unemployment in September reflected the loss of 8,000 jobs being offset by a labor force reduction of approximately 5,400. Although home prices in the Atlanta metro region have begun to recover, state management attributes it to the first-time home buyer's incentive and lower inventory as sellers pull their homes from the market. Both foreclosures and mortgage delinquencies continue to trend upward, with new foreclosures more likely a byproduct of income-related pressures than subprime and alternative mortgages. On a positive note, the state's unemployment rate is the lowest in the southeast region, with unemployment rates in neighboring states ranging from 10.5% to 11.6%. The opening of the Kia manufacturing plant and associated suppliers in Troup County at the end of the year will contribute 5,500 new jobs to Georgia's economy. Likewise, the development of a Volkswagen plant in neighboring Chattanooga, Tenn., as well as a $1 billion investment by Georgia State University will bode well for the local economy. We believe that over the long term, Georgia's strong transportation network, low cost of living, and favorable climate make it attractive. Although water supply issues could temper growth in the Atlanta area, the state's economic engine, the resolution of the Tri-state water wars is not likely for another three years. IHS Global Insight is forecasting a recovery of Georgia's economy in 2010 and above-average growth over the next five years.

Georgia's revenues clearly reflect the downturn in its economy. The state closed fiscal 2009 (unaudited) with a $349 million revenue shortfall after revenues underperformed in the second half of fiscal 2009. Actual fiscal 2009 general fund revenues came in at $680.7 million, or 10.47% below budget. The state, which had already included the use of $387 million in revenue shortfall reserves to balance the budget, used an additional $349 million to close the revenue shortfall gap. After budgeting the use of $258 million to balance the 2010 budget, the revenue shortfall reserves declined to $217 million, or 1.3% of fiscal 2010 appropriations. The fiscal 2010 budget was adopted in May 2009 and assumed a 2% decline in revenues compared with fiscal 2009. However, continued weakness in revenue performance in the second half of 2009 and the beginning of fiscal 2010 has caused the state to re-examine its current revenue projections. Management currently anticipates a 6.2% decline in revenues from fiscal 2009 actuals. This projection assumes an economic recovery in the fourth quarter of fiscal 2010. Currently management is withholding 5% of appropriation except for K-12 education and Medicaid, for which it is withholding 3%. Management has also imposed a three-day statewide furlough and will be tapping into its other postemployment benefits (OPEB) trust to fund current year OPEB expenditures. The governor's revised revenue estimates will be available in January and will allow management to incorporate any additional changes to the forecast into the amended fiscal 2010 budget. If the current 6.2% decline in revenues holds, management would have to implement total spending reductions of $1.26 billion, or 7.4%, to bring the budget back into balance. To achieve this level, management would have to implement an additional 3% appropriation withholding and use $167 million of the revenue shortfall reserve to replace current appropriations. Year-to-date revenues are coming in at $585 million, or 14.2% below budgeted amounts. Should revenues continue to underperform, as they did at the end of fiscal 2009 and continued to do in the first quarter of 2010, management would have to implement additional reductions, and potentially tap into its remaining reserves and ARRA stimulus funds. Management projects the revenue shortfall reserve at $49 million, or 0.3% of expenditures at the end of fiscal 2010; however, the state has approximately $1.3 billion in additional trust fund reserves. Remaining stimulus funds targeted for fiscal 2011 are approximately $1 billion.

For fiscal 2011, management anticipates tax revenue growth of 3.9%, although this assumption might be revised based on current performance. Management has instructed its agencies to identify additional reductions of 4%, 6%, and 8%. In addition, the state could go after several revenue enhancements, mostly hospital provider fees, which were not approved for the fiscal 2010 budget. To the extent that the economic recovery expected in the second half of 2010 and the beginning of fiscal 2011 does not materialize, increased pressure would be placed on the fiscal 2011 budget.

Standard & Poor's considers Georgia's management practices "good" under its Financial Management Assessment, indicating that practices exist in most areas, although not all may be formalized or regularly monitored by government officials. While the state lacks comprehensive policies in some areas, including long-term financial and capital planning, it does have written investment, reserve, and debt-management polices.

In formulating its budget, Georgia has historically based its revenue estimates on an independent recommendation from the state's chief economist to the governor. The state legislature cannot change the governor's official revenue estimates. Once enacted, the state budget is monitored on a monthly basis for both revenues and expenditures. The state has a revenue shortfall fund that acts as a "rainy day" fund, established by statute, which cannot exceed 10% of the net revenues of the preceding fiscal year; however, the governor may release for appropriation any excess of more than 4% of net revenues. The state budget includes a five-year revenue and expenditure forecast. Georgia has a formal debt-management policy measured by key indices including debt service against spending for all GO and guaranteed debt, debt to personal income, and debt per capita. The state formulates a five-year capital plan that identifies major capital areas, but provides funding on an annual basis.

Total GO debt as of June 2008 was $8.3 billion, with an additional $589.9 million in guaranteed debt, for an estimated total of $8.9 billion. Based on recent issuance and debt amortization in fiscal 2009, the state GO totaled $8.59 billion, with $563 million in guaranteed debt bringing the total to $9.15 billion at the end of fiscal 2009 (unaudited). The state's overall debt burden remains manageable, in our view, at $939 per capita and 2.8% of personal income. The 2010 budget authorized the issuance of $1.2 billion in debt, in addition to $164 million remaining from prior appropriations, of which approximately two-thirds was for K-12 and higher education. After this issuance of $600 million in new money, the state will have $776 million in authorized but unissued debt. The state anticipates an additional GO sale in December followed by another one in the spring. Based on current revenues, management expects to exceed its debt affordability model limitations on debt. Debt amortization is rapid, with 68.2% of the state's debt retired within 10 years.

Georgia's pension funds are well funded despite recent market losses. As of June 30, 2008, the employees retirement system was 89% funded and the teachers' system was 92% funded. The General Assembly passed SB 122, which separates the liability for school system retirees from state employee retirees; this allows the state to remove the school system retirees liability from the state's financial statements. The total liability for both systems is $16.45 billion, with the liability for state government employees estimated at $4.5 billion. In fiscal 2010, management will use funds that were set aside to pay future OPEB liabilities to fund current OPEB liabilities.

Outlook

The outlook is stable. Georgia's economy was late to enter into the recession, but it has taken a sharp downward turn, creating short-term budgetary pressure. The proposed 2010 budget is balanced through expenditures reductions, the use of a portion of the state's ARRA stimulus funds, the use of fund balance, and some revenue enhancements. The state is projecting an economic recovery in the fourth quarter of fiscal 2010. To the extent that management's forecasts tend to be optimistic, Standard & Poor's expects that management will continue to closely monitor revenue and expenditure trends and take the necessary action to ensure long-term structural balance. In light of the potential for continued sharp declines in revenues in the short term, management's efforts to identify and address revenues shortfalls and expenditure reductions for fiscal 2011 and 2012 are important from a credit standpoint.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

Ratings Detail (As Of October 30, 2009)		
Georgia GO		
Long Term Rating	AAA/Stable	Affirmed

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