FITCH RATES GEORGIA'S $1.3 BILLION GENERAL OBLIGATIONS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-05 June 2015: Fitch Ratings has assigned an 'AAA' rating to the following state of Georgia bonds:

--$563,350,000 general obligation (GO) bonds 2015A;
--$447,830,000 GO bonds 2015B (federally taxable);
--$279,145,000 GO refunding bonds 2015C.

The bonds will sell via competitive bid, on or about Jun. 9, 2015.

Fitch has also affirmed the 'AAA' ratings on $9.8 billion of outstanding GO ($9.5 billion) and guaranteed revenue bonds of the state (Georgia State Road & Tollway Authority, $327.1 million).

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the state of Georgia, secured by a pledge of the state's full faith and credit.

KEY RATING DRIVERS

LOW LIABILITY BURDEN: The state's long-term liability burden is low, and overall debt management is conservative. While Georgia issues bonds regularly for capital needs, amortization of principal is rapid. Additionally, the state fully funds its actuarially determined employer contributions (ADECs, formerly ARC) for pensions, keeping the unfunded liability very manageable.

FISCALLY CONSERVATIVE: Georgia has a long history of conservative revenue estimation and balanced operations, and consistently takes timely action to address fiscal weakness. The state capitalized on recent revenue growth to make substantial progress in rebuilding reserves.

DIVERSIFIED ECONOMY: After a sharp recessionary downturn, the state's diverse economy has accelerated with employment growth outpacing national trends.

RATING SENSITIVITIES

The 'AAA' rating is sensitive to changes in the fundamental credit characteristics of the state, including timely fiscal responses to economic cyclicality, and a well-managed modest debt profile.

CREDIT PROFILE

The longstanding 'AAA' rating and Stable Rating Outlook on Georgia's GO bonds reflect its conservative debt management, a proven willingness and ability to support fiscal balance and a diversified economy. The state took repeated action during the recession to maintain fiscal balance through steep spending cuts, use of federal stimulus and draws from its rainy-day fund; the revenue shortfall reserve (RSR). Since then, it has maintained a conservative approach to fiscal management, curbing spending growth and making progress in rebuilding the RSR balance. The state's long-term liability burden is moderate as a percentage of personal income.

LOW LONG-TERM LIABILITIES

Most of the state's tax-supported debt is in the form of GO or guaranteed revenue bonds ($9.8 billion on an estimated pro-forma basis as of July 9, 2015 after the closing date on the series 2015 bonds), and amortization of principal is rapid, with approximately 70% maturing within 10 years. Other outstanding obligations include $772.2 million in federal grant anticipation revenue (GARVEE) bonds and $252.8 million in capital leases. Including the current sale, debt remains moderate at 2.7% of 2014 state personal income.

Georgia's major pension systems covering both state employees and teachers have benefitted from consistent full funding of ARCs. As of the June 30, 2014 valuation and under the new GASB 67 reporting standard, system-wide ratios of assets to liabilities for the state employees and teachers' plans were reported at 72.8% and 81.9%, respectively. Both ratios were consistent with prior year results under the prior GASB reporting standard. Using Fitch Ratings' more conservative 7% discount rate assumption, the state employees and teachers' plans are funded at 69% and 77.6%, respectively, as of June 30, 2014. As reported in Fitch's May 2014 state pensions update, Georgia's net tax-supported debt and Fitch-adjusted unfunded pension liability attributable to the state totaled 4.7% of 2013 personal income, below the median of 6.1% for U.S. states.

Broad and Recovering Economy

While the recession was more severe in the state than the nation overall, Georgia's economic recovery has outpaced that of the nation over the past few years. Statewide employment began showing year-over-year (YOY) gains in fall 2010, shortly after those of the nation. While the initial growth rate was tepid and volatile, the growth trend outpaced national YOY employment gains in 2013 (2.1% versus 1.7%), and Georgia's three-month moving average April 2015 YOY gain of 3.3% was ahead of the nation's 2.3% rate. Similarly personal income growth in Georgia has been strong, exceeding the national rate in 2013 and 2014.

However, unemployment remains elevated, and the state's overall wealth levels still lag those of the U.S. As of April 2015, the state's unemployment rate was 6.3% versus the national 5.4% rate. Georgia's per capita personal income ($39,097) ranks 41st among the states at 84.8% of the U.S. level, and its poverty rate of 18.2% exceeds the nation's 15.4%.

Conservative Financial Management

Georgia has demonstrated its commitment to budgetary balance and maintaining flexibility in the form of RSR balances. Strong revenue performance through fiscal 2007 (ended June 30) enabled the RSR balance to reach $1.5 billion (8.2% of net revenues) by fiscal 2007. During the recession, the state drew down the RSR to a low of $103.7 million (0.6% of net revenues) in fiscal 2009. Through spending restraint and conservative revenue estimates, Georgia has since steadily rebuilt the RSR.

The state ended fiscal 2014 with a solid RSR balance just over $1 billion, supported by strong revenue growth and expense management. After accounting for the customary 1% midyear appropriation for education spending, the net RSR balance was $862.8 million (4.5% of fiscal 2014 net general fund revenues). Total net general fund revenues increased 5.1% from the prior year, ahead of the 3.7% amended budget estimate.

Strong corporate income tax growth (nearly 20% YOY) buttressed modest personal income tax growth (2.2% YOY). Georgia's 2014 projections prudently incorporated a significant slowdown in YOY personal income tax growth, after fiscal 2013's sharp increase of nearly 8%, to account for the effects of federal tax changes.

The structurally balanced fiscal 2015 original and amended budgets assume moderate economic and revenue growth. Amended fiscal year (AFY) 2015 budget estimates are for 3.6% growth in net tax revenues (Department of Revenue-reported tax collections, which exclude the insurance premium tax) from fiscal 2014. Through April, the state's tax revenues are up nearly twice that rate at 7% YOY. Personal income, sales, and corporate revenues are all outpacing budgeted expectations. The strong growth allowed the state to meet mid-year expense adjustments including $39.2 million in additional Medicaid and PeachCare for Kids funding. Georgia has not expanded Medicaid under the Affordable Care Act but attributes part of the increased healthcare spending to Medicaid enrollment growth ahead of projections for the previously eligible but unenrolled population.

Georgia's fiscal 2016 adopted budget reflects continued improvement in fiscal flexibility. The state again increased K-12 funding by over $500 million to support enrollment growth and continued restoration of recession-related cuts in staffing and school days. The fiscal 2015 budget did not include broad-based expenditure reductions from current-year funding levels. Fitch views the budget as structurally balanced and in line with the state's historically conservative budgeting practices.

Education funding will be a key topic in future years as the Governor recently created an Education Reform Commission to evaluate Georgia's school funding practices. The Commission will make its recommendations, which could include substantial changes to how the state and local governments fund schools, in time for consideration during the fiscal 2018 budget cycle.

TRANSPORTATION FUNDING CHANGES

During the 2015 legislative session, the legislature adopted HB 170, providing a significant new stream of transportation funding. Most significantly, the bill revised Georgia's motor fuel tax structure, resulting in a net change to state revenues of $600 - $700 million in fiscal 2016. Fitch notes this includes a loss of $167.8 million in general fund revenues, which the fiscal 2016 budget reflects and should not materially affect financial performance. In total, the state projects HB 170 will provide $800 - $900 million in new transportation spending in fiscal 2016. By fiscal 2020, Georgia projects the additional resources could reach nearly $1.3 billion.

The legislation also created a legislative Special Joint Committee on Georgia Revenue Structure to develop comprehensive tax reform legislation. The bill requires the legislation be considered by the committee during next year's legislative session. If the committee approves any bills or resolutions, they will be sent to the state House and Senate for up or down votes with no amendments permitted. Fitch believes this unique approval process will likely limit the scope of any tax reforms to those with broad support, and we will assess the implications of any changes once enacted.

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Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was additionally informed by information from IHS.

Applicable Criteria
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. State Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686033