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March 23, 2012

Atlanta, Georgia; General Obligation; General Obligation Equivalent Security; Miscellaneous Tax

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Credit Profile		
Atlanta GO		
Long Term Rating	A/Stable	Outlook Revised

Rationale

Standard & Poor's Ratings Services has revised the outlook to stable from negative on its ratings on Atlanta, Ga.'s general obligation (GO) debt and on GO and appropriation-backed debt issued for the city by various issuers. Standard & Poor's also revised the outlook to stable from negative on its ratings on Atlanta and Fulton County Recreation Authority's GO and appropriation-backed debt. The outlook revision reflects our view of the city's measures to eliminate its general fund structural imbalance, curtail its future pension obligation growth, and improve its cash flow. Standard & Poor's has affirmed its 'A' ratings on the debt.

The ratings reflect our view of the city's:

- Highly diversified local economy that serves as the core of a broad 28-county metropolitan area;
- Positive general fund operations for fiscals 2010 and 2011 with another addition to fund balance projected for fiscal 2012;
- Standard management policies, with a formal five-year financial projection; and
- Moderate debt levels.

In addition, offsetting rating factors include the city's:

- Sizable receivables balance;
- Continued deficit fund balances outside of its general fund; and
- Weakened tax base that is expected to fall another 5% next year.

The full faith and credit of the city secures the GO bonds. The series 2007 and 2010 revenue bonds are in the first instance secured by certain revenues. To the extent these revenues are not sufficient, bonds are ultimately secured by payments to the Atlanta and Fulton County Recreation Authority made by the City of Atlanta and Fulton County. Under governmental agreements among the city of Atlanta, Fulton County, and Atlanta and Fulton County Recreation Authority, the city and the county each pledge their full faith and credit to pay a portion of the debt on the bonds. The obligation to pay is several and not joint; therefore, there is no step-up provision, and a default by either the city or the county does not require a higher payment by the other party. Due to the several-not-joint obligation, Standard & Poor's rates the 2007 and 2010 bonds based on the weakest-link approach, which in this case is the city of Atlanta's GO pledge.

Atlanta retains a highly diversified local economy and serves as the core of the broad 28 county Atlanta-Sandy Springs-Marietta metropolitan area. Its strong location at the intersection of several major interstates and railroad

lines supports its position as a major regional transportation and distribution center. Its airport, Hartsfield-Jackson International Airport is the world's busiest, with about 90 million passengers a year.

The city's strong population growth (estimated at roughly 543,000) was spurred by steady in-migration and abundant housing stock. After the housing collapse, the metropolitan area suffered tremendously due to its participation in the construction, real estate banking, and related financial activities. Job growth has remained weak, but there are some indications of some growth for 2012. The city's jobless rates have steadily risen since 2009 and have tracked above national averages for 2010 and 2011. The city's jobless rate was 10.6% (not seasonally adjusted) for December 2011. Income indicators for the city are strong, with per capita effective buying income at 122% of the U.S. level for 2011.

According to IHS Global Insight, the median home price in the broad Atlanta metropolitan area was down 3.9% in the first quarter of 2011, to $124,300. This brings the year-over-year depreciation to 13.6% and the total price reduction to 31.3% since its peak in the second quarter of 2007. Sales price data for the city itself support continued reductions in home sale prices with a roughly 16% decrease year over year through February 2012. Correspondingly, AV has decreased since 2008. The city's tax base has contracted a full 16% since fiscal 2008 to $23.1 billion for fiscal 2011. Market value totals $57.8 billion, which translates into a still very strong $107,000 per capita. Management has indicated that it expects another 5% decrease in values for next year. Property tax collections, however, have remained strong and are expected to be about 97% on a current-year basis for fiscal 2012.

The city's financial position improved during fiscals 2010 and 2011, but some challenges remain with respect to external negative fund balances and a high general fund receivables balance. The city benefits from a diverse revenue base, with property taxes making up 34% of general fund revenues, followed by sales, public utility, alcohol and other taxes (20%), and then local option sales taxes (LOST) (18%). After many years of general fund reductions, the city posted its second consecutive addition to reserves and added about $21.9 million to its fund balance, increasing total fund balance to $94.3 million. Of this balance, $80.1 million is available within its assigned and unassigned balances. This is equal to a strong 18% of general fund expenditures, or 16% of expenditures and transfers out. We understand the city was able to achieve this surplus through rate increases for alcohol/business licenses and expenditures coming in well under budget. However, a large portion of its general fund assets are due from receipts from other governmental funds. At fiscal year-end 2011, the city recorded $132 million of these receivables, or about 50% of its total general fund assets. Of the $132 balance, $98.9 million is related to the general fund's support of a few enterprise funds, including its emergency E911 fund, sanitation fund, Underground Atlanta revenue fund, and parks and recreation facilities fund, which each have negative fund balances. Management has indicated that it is continuing to work toward eliminating these negative fund balances, but negative balances likely will remain for a few years in some funds.

The city's unrestricted cash position remains low, but the city did not issue a TAN in 2011 and does not expect to issue cash-flow notes for fiscal 2012. At fiscal year-end 2011, the city's cash and cash equivalents (including pooled cash) totaled $63 million, or 52 days' cash on hand.

The city's adopted fiscal 2012 budget is 2% less than its fiscal 2011 adopted budget. This budget incorporates the use of $6.9 million of fund balance, but the city budgeted for the use of $9.9 million of fund balance in fiscal 2011 that it did not use. Based on general fund actual results through Jan. 31, 2012, the city's revenues are largely in line with the same point last year, and general fund expenditures are about $17 million lower year over year.

Management further reports that it expects to add roughly $27 million to fund balance at year end.

The city's five-year plan shows decreasing property tax revenues in fiscal 2013 and sluggish revenue growth through fiscal 2017. Third party economic forecasts indicate continued weakness in the region's property values and likely continued contraction. The city's baseline projections assume continued spending levels and modest growth in general fund revenues. As such, the projections show structural imbalance between revenues and expenditures through fiscal 2017.

Standard & Poor's considers Atlanta's financial management practices "standard" under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Overall debt levels are moderate at about $3,500 per capita, or 3.3% of market value. Management has indicated that it has no plans for additional general-fund-related debt. Carrying charges have been moderate at about 15% of total governmental expenditures since fiscal 2009.

Outlook

The stable outlook is based on the city's return to structural balance within its general fund, decreased reliance on multiyear cash-flow notes for liquidity, and recent changes to its pension plan that subsequently reduced its future liabilities. The outlook further reflects our expectation that the city will maintain at least balanced general fund operations over the near term, make progress on its sizable receivables balance, and build its cash position. In our view, the city still needs to contend with a soft revenue environment, ongoing expenditure growth in part due to delayed capital needs, and a weakened underlying economy. Should the city shrink reserves to deal with these fiscal challenges, we would consider lowering the rating over the two-year outlook period. A significant improvement to its pension and other postemployment benefit (OPEB) liabilities coupled with a continued trend of structurally balanced general fund operations could drive the rating upward.

Major Pension Overhaul Will Help City's Finances Over The Long Term

In June 2011, the city successfully implemented a major overhaul to its three pension plans for police, fire, and general employees. The city increased contribution rates across all police, fire, and general employees' plans. The mandatory contribution rates are between 12% and 13%, and for employees hired after September 2011, there are some reductions in benefits. In addition, the city implemented a hard cap on the city's pension contributions at 35% of payroll. If the city must exceed this cap, the city funds this overage from reserves and after the second 12 months, the city and participants will split the cost of the overage. Also, the city closed the closed amortization period to eliminate the unfunded actuarial accrued liability (UAAL) by July 1, 2042.

The city is now undergoing new actuarial studies for its three pension plans. For audited fiscal 2011, the city contributed a total of $110 million for its pension costs, or 25% of general fund expenditures.

However, the city's OPEB obligations remain as an ongoing sizable financial constraint for the city. The city funds its OPEB costs on a pay-as-you-go basis and as of June 30, 2010, the UAAL is $1.4 billion. For 2011, the city paid $36.2 million for OPEBs, equal to 8% of general fund expenditures.

Memoranda Of Understanding Repayments

In December 2008, the city and Department of Watershed Management (DWM) executed Memoranda of Understanding (MOU) related to amounts owed to the DWM by the general fund. One MOU related to amounts owed to DWM and established a repayment plan in the amount of $10 million per year plus interest until paid and in full for amounts borrowed by various governmental funds from DWM equity in the cash pool. The balance owed to the DWM by the city's General Fund under this MOU on June 30, 2011, is approximately $96 million in principal and approximately $2.9 million in interest.

A second MOU related to amounts owed to the DWM by the general fund was paid off during fiscal 2011.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Ratings Detail (As Of March 23, 2012)		
Atlanta & Fulton Cnty Recre Auth (Downtown Arena Private Imp Proj) (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
Atlanta GO		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
Atlanta GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
Atlanta GO (ASSURED)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
Atlanta GO (MBIA) (National)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
Atlanta & Fulton Cnty Recre Auth (Zoo Proj)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
Atlanta Downtwn Dev Auth, Georgia		
Atlanta, Georgia		
Atlanta Downtwn Dev Auth (Atlanta) (Downtown Parking Deck Project)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
Atlanta Downtwn Dev Auth (Underground Atlanta Proj) ser 2009A (ASSURED GTY)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
Atlanta Pub Safety & Judicial Facs Auth, Georgia		
Atlanta, Georgia		
Atlanta Pub Safety & Judicial Facs Auth rev (Pub Safety Fac Proj) ser 2006 (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised

Ratings Detail (As Of March 23, 2012) **(cont.)**		
Atlanta Solid Waste Mgmt Auth, Georgia		
Atlanta, Georgia		
Atlanta Solid Waste Mgmt Auth (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
Atlanta Urban Residential Fin Auth, Georgia		
Atlanta, Georgia		
Atlanta Urban Residential Fin Auth (Hsg Opportunity Prog) (MBIA) (National)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised
Atlanta & Fulton Cnty Recre Auth, Georgia		
Atlanta, Georgia		
Atlanta & Fulton Cnty Recre Auth park (MBIA) (National)		
Unenhanced Rating	A(SPUR)/Stable	Outlook Revised

Many issues are enhanced by bond insurance.