

ACCG Questions and Concerns with Selling off GEFA's Georgia Fund Assets

ACCG staff has met with GEFA officials and the Governor's staff over the past several weeks and while they have made many assurances regarding the future viability of the Georgia Fund to continue making loans, several important questions remain:

Let's look at the math:

Overall numbers:

\$676 million in GEFA Georgia Fund loans outstanding:

- \$446 million loans currently in active repayment status
- \$229 million of construction loans, where payment has not yet started

\$288 million – what the Governor hopes to get for FY 2011 budget by selling off all or part of the GEFA Georgia Fund portfolio assets (\$676 million).

The Governor's office has stated that they will only be selling off the loans of bond-rated local governments to generate the \$288 million; however:

- Only 20 percent of the \$676 million total value is owed by rated governments
- 80 percent of the \$676 million is owed by non-rated governments

This raises some interesting questions:

1. Twenty (20) percent of \$676 million is \$135 million. How will this generate the \$288 million the FY 2011 budget is based on?
2. What kind of price for the non-rated loans is expected?
3. What price would the state be willing to accept for this asset? Is the goal receiving a fair price or any price as long as it produces \$288 million?
4. Even if the state sells off the entire \$676-million portfolio, why would anything less than par be accepted since they are all performing and the state expects to receive 100 percent of the principal plus interest over the life of the loans?
5. Many with knowledge in this area believe that in order to generate the \$288 million, the state would have to sell off (or give away) around \$600 to \$676 million in loans from the Georgia Fund, thus netting only about 50 cents on the dollar for the amount sold. If this is correct, how can this be acceptable?
6. How will the various legal and underwriting fees be paid – estimated to be around \$2 million?
7. The Governor and the RFP have indicated that they want to leave \$20 million in GEFA's Georgia Fund to be available for future local government loans; however, reports persist that the state budget office (OPB) has also targeted the Georgia Fund for other FY 2011 expenditures in the below approximate amounts:
 - \$2 to \$3 million to operating the GEFA agency (no other funds appropriated);
 - \$5 to \$10 million for the Statewide Water Management Plan;
 - \$3 million to fund attorneys for Tri-State water conflict litigation;
 - \$300,000 for Metropolitan North Georgia Water Planning District; and
 - \$300,000 for the Georgia Rural Water Association.

If these are indeed the budgeted plans for much of the remaining \$20 million, this greatly reduces available funding for water and sewer loans.

8. The Governor's FY 11 budget proposes \$25 million in GO bonds for GEFA, and staff has indicated that this is for the GEFA Georgia Fund to continue making water and sewer loans. However, this money specifically can be used for water and sewer loans or land conservation. Is this money going to be used for a large land conservation project?

9. The Governor's FY 11 budget also proposes \$19 million in GO bonds for water/sewer loans for GEFA. Is the intent to use this \$19 million statewide for water and sewer loans to communities without credit ratings or is it a part of the continuing \$50 million package earmarked for Atlanta – which is currently receiving about a \$19 million GEFA Georgia Fund loan annually?

10. In the proposed FY 11 budget, two \$7.5 million bond proposals are going to be used as a match for federal revolving loan programs. Since the SRF funds have many more strings and are subject to many restrictions, how can they be used for the Georgia Fund? If they cannot, why are these monies continually referred to as helping make up for the Georgia Fund sell off? Shouldn't it be made clear that this is not for the Georgia Fund?

11. The GEFA director has raised the possibility of selling \$20 million in GO bonds each year to continue to keep the Georgia Fund solvent and able to make future water and sewer loans. We all know that FY 2012's state budget will probably be worse than FY 2011. Do we know if the next administration will be committed to this? If leading by example, is the \$20 million provided for FY 2011 supposed to fund water and sewer projects (statewide) or are these bonds earmarked for other purposes and/or projects as may possibly be the case as outlined in questions 8-10 above? Additionally, these bonds would have to be paid off – likely with the money coming back in from local government loans. Accordingly, that money will not be available for future Georgia Fund loans.

12. If ACCG's assumption is correct that this Wall Street sell off will indeed decimate the Georgia Fund, who will our local governments without credit ratings turn to for providing loans for their water and sewer infrastructure needs? Will community banks be willing to take this risk and, if so, at what interest rates? If not banks, will these communities be able to issue bonds if they are not rated?

13. Is completing this sell off possible by June 15, 2010? Is this too quick of a turnaround and, if so, will this negatively impact the amount of money that is to be raised by this short sale? Why is the state seeking this money right at the end of the FY 2010 fiscal year if the Governor's plans are to plug the FY 11 budget?

14. Last, but certainly not least, what impact will selling off this state asset for a one-time, quick fix for the state budget have on Georgia's AAA bond rating?

In Summary:

With the above questions not clearly answered, one reasonably has to conclude that this is a quick sale of a sound state asset (for whatever Wall Street investors will offer in a distress sale) that may well decimate GEFA's Georgia Fund. Immediately, Georgia will lose an ongoing, continually-growing asset worth over \$600 million for a \$288-million one-shot cash infusion to balance its budget.