



April 26, 2018

Mr. Larry Hanson
Executive Director
Georgia Municipal Association
P.O. Box 105377
Atlanta, GA 30348

Dear Mr. Hanson:

Capital One recognizes the valuable voice that the Georgia Municipal Association (GMA) provides in advocating for Georgia's municipalities. We wanted to share with you our concerns related to pending legislation in Georgia including the potential downstream implications to your membership. Based on the issues with this legislation detailed and laid out below, we ask that you request a veto by Governor Deal.

We are an active lender to municipalities nationwide. Currently, we hold the bonds of over 1,000 U.S. municipalities in a portfolio that exceeds \$5 billion. Our holdings include a wide variety of Georgia municipal debt obligations, including most of the outstanding bonds of the City of Stockbridge.

Capital One also has over \$430 million in investments in Georgia through our multi-investor fund platform that has led to nearly 10,000 units of affordable housing with diversification among rural, urban and suburban locations.

Our Stockbridge holdings are secured by the City's pledge, to the extent necessary, to "levy an annual ad valorem tax on all taxable property located within the corporate limits of the [City], **as now existent and as the same may hereafter be extended**, at such rate or rates, without limitation as to rate or amount, as may be necessary to produce in each year revenues that will be sufficient to fulfill the [City's] obligations..." (emphasis added). This, and similar "general obligation" language, is used extensively in bond documents throughout Georgia, and nationally, to provide long-term security and a reliable revenue source to bondholders.

As you may know, in response to the recession that began in 2008, state governments enacted legislation to *strengthen* the tax-backed obligations of their local governments and provide existing and potential bond purchasers *greater* assurance that their obligations would be secure. For example, when the State of Rhode Island was faced with the impending bankruptcy of the City of Central Falls, its legislature and governor approved a bill granting a statutory lien in favor of bondholders.

Similarly, after Detroit's filing of its Chapter 9 municipal bankruptcy, issuers of general obligation municipal bonds throughout the U.S. faced an unfriendly market and paid interest rate premiums. In response, the California legislature enacted a provision that confirmed general obligation bondholders' statutory lien on the *ad valorem* taxes securing the bonds.

Unfortunately, the State of Georgia's Senate Bills 262 and 263, which have passed the General Assembly and are pending consideration by Governor Nathan Deal, would have the opposite effect. They would allow a new municipal entity (Eagle's Landing) to be carved out of an existing jurisdiction (the City of Stockbridge) *without a pro rata apportionment of debt*. By impairing the bargain originally agreed upon by the parties, this legislation tramples a bedrock principle of municipal credit analysis: that state governments will enact no legislation impairing the financing contracts of their municipalities.

Further, it sets a broad and dangerous precedent for all existing and prospective purchasers of Georgia municipal bonds, and lastly, violates the Contracts Clause of both the federal and Georgia constitutions, as well as longstanding U.S. Supreme Court¹ and Georgia Supreme Court legal precedent².

The legislation, if enacted, will not only impair Capital One's bonds, but also create new, unprecedented risks for existing holders and prospective purchasers of State of Georgia local debt. Specifically, lenders would be required to consider, and price in, the potential loss of security from future de-annexations that, as in Stockbridge, fail to provide for debt apportionment. GMA's members would bear the burden of this new, Georgia-specific risk in the form of higher interest costs. The uncertainty created by such a shift sets a dangerous precedent and could produce additional negative unintended consequences as lenders consider municipal financing opportunities within the State.

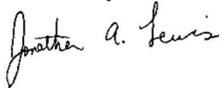
A recent article in *The Bond Buyer*³ indicates that nearly 100 Georgia cities have passed resolutions opposing Senate Bills 262 and 263, citing concerns about the procedure lawmakers used as well as future bonding capacity.

We recognize that the GMA has expressed concerns about de-annexation as part of its 2018 Legislative Policies. We believe that Capital One, all current and prospective purchasers of Georgia municipal bonds, and your members have mutual concerns regarding the legislation.

For these reasons, we ask that you request Governor Deal to veto this bill.

Capital One looks forward to working with the Georgia Municipal Association to ensure that your membership continues to have financing access at competitive terms. I am available to discuss these issues with you and your members at your request.

Sincerely,



Jonathan A. Lewis
President
Capital One Public Funding, LLC

CC: Georgia Municipal Association Board
Officers
Active Past Presidents
Directors At Large

¹ *Port of Mobile v. Watson*, 116 U.S. 289 (U.S. 1886).

² *See Bond v. Pattillo*, 174 Ga. 571 (1932).

³ "Georgia's small city de-annexation bill raises red flags for the state's municipalities" by Shelly Sigo, April 11, 2018