

Rating Action: Moody's upgrades rating on Georgia Advanced Technology Ventures revenue bonds to A2 from A3 and assigns A2 rating to \$111.8 million of Series 2013 refunding revenue bonds; outlook is stable

Global Credit Research - 12 Jun 2013

Georgia Advanced Technology Ventures has \$111.8 million of pro forma rated debt; Moody's rates \$960 million of direct debt of Georgia Tech and its affiliated organizations

New York, June 12, 2013 --

Moody's Rating

Issue: TUFF-GATV Revenue Bonds (Georgia Tech Centergy Building Project), Series 2013A-1; Rating: A2; Sale Amount: \$42,025,000; Expected Sale Date: 6/26/2013; Rating Description: Revenue: 501c3 Secured General Obligation

Issue: TUFF-GATV Taxable Revenue Bonds (Georgia Tech Centergy Building Project), Series 2013A-2; Rating: A2; Sale Amount: \$5,605,000; Expected Sale Date: 6/26/2013; Rating Description: Revenue: 501c3 Secured General Obligation

Issue: TUFF-GATV Revenue Bonds (Georgia Tech TEP1 Building Project), Series 2013B-1; Rating: A2; Sale Amount: \$15,230,000; Expected Sale Date: 6/26/2013; Rating Description: Revenue: 501c3 Secured General Obligation

Issue: TUFF-GATV Taxable Revenue Bonds (Georgia Tech TEP1 Building Project), Series 2013B-2; Rating: A2; Sale Amount: \$45,875,000; Expected Sale Date: 6/26/2013; Rating Description: Revenue: 501c3 Secured General Obligation

Issue: TUFF-GATV Revenue Bonds (Georgia Tech Research Building Project), Series 2013C-1; Rating: A2; Sale Amount: \$3,030,000; Expected Sale Date: 6/26/2013; Rating Description: Revenue: 501c3 Secured General Obligation

Opinion

Moody's Investors Service has upgraded its ratings on Georgia Advanced Technology Ventures (GATV) Revenue Bonds (TUFF ATDC Project) Series 2002A, 2002B, 2005A, 2005B and 2005C to A2 from A3. At this time we have also assigned an A2 rating to \$111.8 million of tax-exempt and taxable Series 2013A, 2013B and 2013C refunding revenue bonds to be issued through the Atlanta Development Authority. The rating outlook is stable.

SUMMARY RATING RATIONALE

The upgrade to A2 from A3 reflects the strengthened commitment of Georgia Institute of Technology (Georgia Tech's lease revenue bonds rated Aa3 stable) to support GATV. This strengthening has been made manifest through its decision to lease a portion of GATV's Technology Enterprise Park 1 Building (TEP1) previously made vacant following the bankruptcy of a commercial tenant. Previously, Georgia Tech management had clearly stated they would not directly support the TEP1 project, but given the space needs of their growing research enterprise and the strategic importance of the Technology Enterprise Park, management has revised that strategy. Georgia Tech will pay rent of approximately \$1.5 million per year related to use of a portion of the TEP1 project. Other strengths include GATV's role in developing facilities related to Georgia Tech's economic development mission and the real estate value of its assets near the Georgia Tech campus. Credit challenges include GATV's remarkably thin liquid assets, negative financial resources, high operating leverage and reliance on subrental income from tenants with limited financial history for debt service coverage. The stable outlook reflects expectations of Georgia Tech's ongoing support for GATV and its role in supporting economic development.

STRENGTHS

*Governance, strategic and operational ties to Georgia Institute of Technology (lease debt of affiliated organizations rated Aa3 stable.) GATV aids Georgia Tech in its economic development mission, an important component of Georgia Tech's role within the State of Georgia (Aaa stable).

*Favorable market position for Georgia Tech with over 20,000 full-time equivalent (FTE) students in fall 2012, net tuition per student of \$11,900 in fiscal 2012, and a Moody's adjusted operating revenue base of \$1.3 billion.

*Uncommonly large sponsored research enterprise for Georgia Tech with \$640 million in new awards in FY 2012 and sponsored and unsponsored research expenses at 45% of Georgia Tech's expense base. While 71% of the sponsored research expenditures were tied to federal sources and federal funding may be reduced, management has the ability and willingness to adjust and redirect its expenses should any area see a decrease in funding.

*Real estate value of properties developed near the campus of Georgia Tech with book value property, plant and equipment of \$116 million as of June 30, 2012.

*Improving prospects for sub-rental revenues with decision by Georgia Tech to rent a portion of its TEP1 Building.

*Contribution receivable of approximately \$8.7 million from The University Financing Foundation, demonstrating a commitment to the success of GATV. The gift is expected to aid GATV's working reserves over the next few years.

CHALLENGES

*GATV is a small organization with a \$21.5 million operating revenue base in fiscal year (FY) 2012 and total cash and investments of \$3 million. Expendable financial resources were negative \$1.9 million for FY 2012.

*GATV has high operating leverage with pro forma debt to operating revenues of 5.5 times and little room to absorb operating disruptions with monthly days cash on hand of 39 times and a history of reliance on operating lines to manage cash needs. Pro forma maximum annual debt service is approximately 30% of FY 2012 operating expenses, requiring uncommonly high cash flow margins to generate sustainable debt service coverage.

*Ongoing exposure to sub-rental revenue streams from various private tenants with varied credit quality combined with history of vacancy through tenant bankruptcy.

*Through the current plan of finance GATV is extending the financing terms of its Centergy Building project. The prior bonds were scheduled to be paid off in 2035, while the new bonds will be paid off in 2044. While the related debt service relief is partially credit positive, the project will be encumbered with debt repayment for four decades, potentially pressuring capital renewal funding as the project enters its third decade of service.

*Unlike the prior bonds, the Series 2013 bonds do not have a debt service reserve fund requirement. The absence is notable in light of GATV's thin reserves, that were \$2 million as of June 30, 2012.

OUTLOOK

The stable rating outlook reflects Georgia Tech's support for and strategic interest in GATV and its projects, as well as our expectations of an improving cash position for GATV over time, no additional debt and the ability to generate operating cash flow sufficient for debt service coverage.

WHAT COULD MAKE THE RATING GO UP

Material growth in the financial resources of GATV combined with ongoing fundamental health of Georgia Tech and its economic development mission.

WHAT COULD MAKE THE RATING GO DOWN

Inability to achieve sufficient debt service coverage from operating cash flow; reduction in working cash; unwillingness or inability for Georgia Tech to provide support for GATV; increase in debt

RATING METHODOLOGY

The rating was assigned by evaluating factors believed to be relevant to the credit profile of Georgia Advanced Technology Ventures such as 1) the business risk and competitive position of the issuer versus others within its industry or sector, ii) the capital structure and financial risk of the issuer, iii) the projected performance of the issuer over the near to intermediate term, iv) the issuer's history of achieving consistent operating performance

and meeting budget or financial plan goals, v) the nature of the dedicated revenue stream pledged to the bonds, vi) the debt service coverage provided by such revenue stream, vii) the legal structure that documents the revenue stream and the source of payment, and viii) the issuer's management and governance structure related to payment. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

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Dennis M. Gephardt
Vice President - Senior Analyst
Public Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Erin Veronica Ortiz
Analyst
Public Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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