

HADDOW'S REAL NEWS

QUARTERLY MARKET INSIGHTS

SECOND QUARTER 2011

THORNY ISSUES

The City of Atlanta faces some very challenging issues that impact quality of life, economic development, and service delivery. Real progress has been achieved on several fronts, but there is still much work to be done. The following is a brief update.

Public Schools. Atlanta's public school system is at risk of losing its accreditation if board governance problems are not addressed by September 30, 2011. This threat spurred the State of Georgia into action, enacting a law that gives the governor the power to suspend the entire school board. Mayor Kasim Reed encouraged this state initiative, which was upheld by the U.S. Justice Department on June 28, 2011. In the meantime, the chairman and vice chairman of the Atlanta School Board have been replaced, although they still serve as board members. Erroll Davis, former chancellor of the University System of Georgia, has assumed the role of school superintendent for at least a year. On July 5, 2011, the special investigator's report into the cheating scandal was released, implicating 178 educators. Evidence of cheating on test scores was found in 44 of 56 schools examined, and 38 school principals have been cited as complicit. The cheating scandal was brought to light after the Atlanta Journal-Constitution conducted an analysis of the huge increase in test results on the Criteria-Referenced Competency Test (CRCT) in 2009.

Pension Reform. The Atlanta City Council recently voted unanimously to approve sweeping pension reforms in order to address the unfunded \$1.5 billion liability in its current system. This will reportedly save \$270 million over 10 years and provide much needed relief to the city's strained general fund budget. Mayor Reed led the charge on pension reform, forming a committee to address this issue even before his inauguration. He had set a June 30th deadline to approve a reform bill, and through stern and persistent leadership was able to meet this lofty goal. The benefit is already evident in next year's budget, including the hiring of an additional 100 police officers.

Sewer Upgrades. A Federal Consent Decree was entered into in July, 1998, that required the City of Atlanta to develop and implement a solution that would end water quality violations resulting from combined sewer overflows. An amended decree a year later added a requirement to also address sanitary sewer overflows. Approximately \$1.6 billion has been spent thus far in this effort, resulting in a tripling of water and sewer rates and the addition of a 1.0 percent sales tax. The problem with combined sewer overflows has been corrected, but work remains to be done on sanitary sewer overflows. The city has recently requested a 15-year extension to complete the remaining sewer upgrades due to financial constraints.

Transportation. Atlanta has long been plagued with traffic congestion. The Transportation Investment Act of 2010 (HB 277) is a bold initiative by the state that was signed into law by Governor Perdue in June, 2010. Twelve (12) special tax districts have been created that correspond to the state's regional commissions. Local governments will develop lists of transportation projects that will be presented to the Georgia Department of Transportation in October, 2011. Voters will go to the polls in July, 2012, to approve or reject a 1.0 percent sales tax for 10 years to fund the approved projects. Early indications are that this referendum will be hotly contested, so the outcome is uncertain despite the obvious need.

Water Supply. Ever since Judge Paul Magnuson's ruling in July, 2009, which declared that it was illegal for the U.S. Army Corps of Engineers to remove water from Lake Lanier to meet metro Atlanta's needs, uncertainty has existed about future water supply. On June 28, 2011, the 11th U.S. Circuit Court of Appeals overturned this decision, saying that supplying metro Atlanta's water needs was an intended use for the lake. The appeals court directed the U.S. Army Corps of Engineers to "determine, once and for all, how much of Lake Lanier's water metro Atlanta should get," and gave the Corps one year to deliver a definitive report. While this action does not resolve the situation, it certainly places the State of Georgia in a much better position to negotiate a final settlement with Florida and Alabama, which have fought for years to limit water withdrawals.

Census Count. Perhaps the thorniest issue facing the City of Atlanta at present is the 2010 population count of 420,003 that was reported by the U.S. Census Bureau a few months ago. This represents a meager 3,529 increase from the 2000 population. The city's own population estimate for 2010 was 538,640, and the U.S. Census Bureau had estimated the population at 540,922 in 2009. The lack of population growth reported by the census defies the obvious surge in intown residential development that occurred from 2000 to 2010, when an estimated 40,000 apartments and condominiums were built in the city. The financial implications of an undercount are grave because federal funds are allocated to states based on the census. According to former mayor Shirley Franklin, the U.S. Conference of Mayors estimates that this could mean \$2,000 per person annually in federal funds. Mayor Reed, with the full support of the Atlanta City Council, is considering a formal challenge of the census figures.

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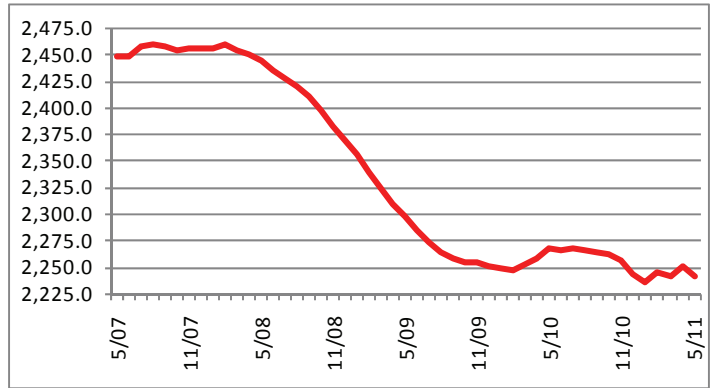
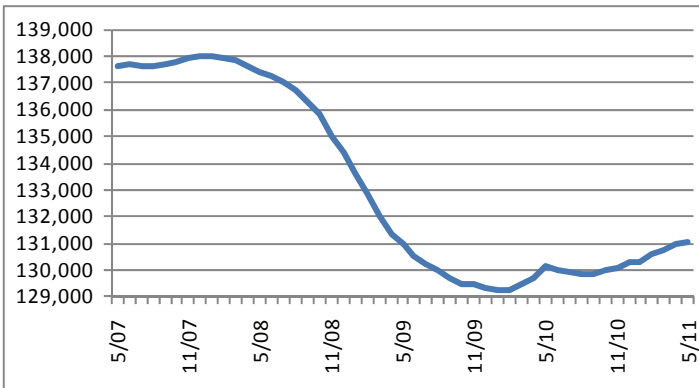
ECONOMIC RECOVERY SCORECARD

The graphs below do not paint a rosy picture of Atlanta's economic recovery. Subtle differences exist between the U.S. and Atlanta in terms of job growth and unemployment rate, although overall trends have been similar. The U.S. economy actually experienced a 0.7 percent increase in employment from May, 2010 to May, 2011, while metro Atlanta had a 1.1 percent decline. During the same period, U.S. unemployment dropped from 9.6 to 9.1 percent, while metro Atlanta had a far more modest drop (9.8 to 9.7 percent) after rising above 10 percent in the interim. House prices seem to have bottomed, although false bottoms have previously been recorded at the national and local levels.

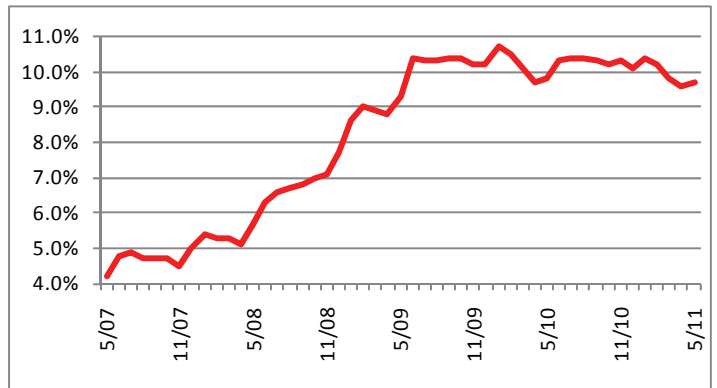
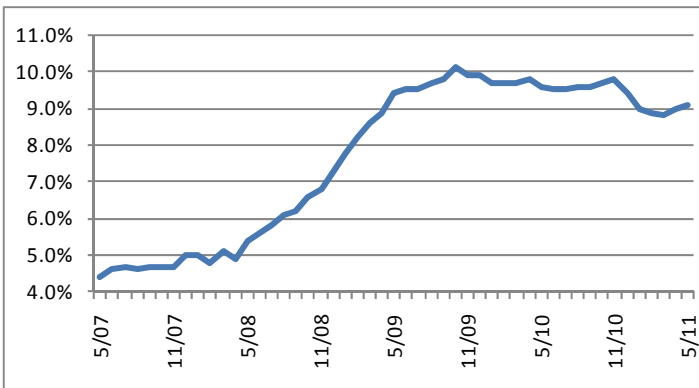
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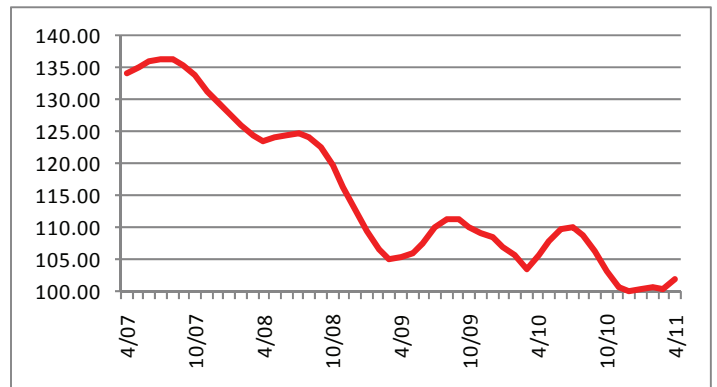
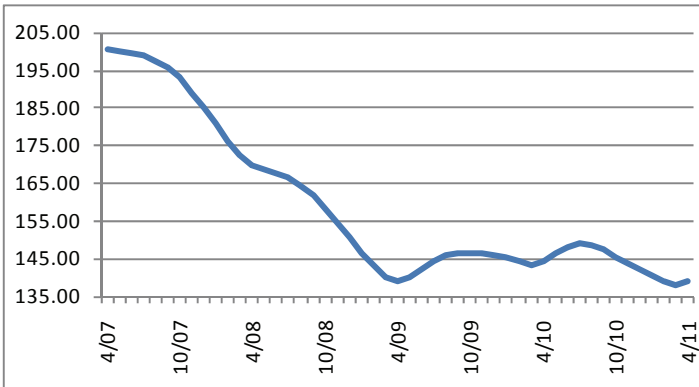
Non-Agricultural Employment (000s)



Unemployment Rate



S&P/Case-Shiller Home Price Index



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