

CITY OF GARLAND, TEXAS FINANCIAL CONDITION REPORT

ANALYSIS AND DISCUSSION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2013



CITY HALL



WALNUT PEDESTRIAN CORRIDOR



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**CITY OF GARLAND, TEXAS
FINANCIAL CONDITION REPORT
SEPTEMBER 30, 2013**

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Introduction

The City of Garland strives to keep the City Council and interested parties informed on the City's financial standing with monthly and annual reports. Examples of such efforts include the Management Dashboard Reports, Investment Portfolio Reports, Quarterly Budget Reports, Comprehensive Annual Financial Report (CAFR), and periodic briefings. This year, prompted by a desire to increase financial transparency, a report of the City's fiscal sustainability has been developed. This first annual Financial Condition Report is an analysis and discussion of various data reported in the City of Garland, Texas, Comprehensive Annual Financial Reports for fiscal years 2009 through 2013. Financial indicators contained in the Financial Condition Report have been identified by governmental associations and credit rating agencies as factors most relevant in determining the financial sustainability and condition of a local government. The sound financial condition of the City of Garland depends on its ability to balance the demands for service with available financial resources. Monitoring the financial condition allows City leadership to identify existing and emerging financial concerns and develop solutions in a timely manner. Effective monitoring can also provide additional information for the annual budget process, give City Council a wider context for decision-making, and establish a starting point for setting financial policies and goals.

In a broader sense, financial condition means a government's ability over the long term to pay all the costs of conducting business, including expenditures that normally appear in each annual budget as well as those that will appear in future years when they must be paid. An example is accrued costs for pensions and health benefits which are liabilities that will require payment at some point in the future. The CAFR reports financial information on a year-by-year basis and has a short-term focus. It is inadequate for determining long-term trends in financial condition.

This report compares the City of Garland's finances over a five-year period, from fiscal year 2008-09 through fiscal year 2012-13. Data presented in the tables and in the charts is from City of Garland Comprehensive Annual Financial Reports (CAFR). The data has not been adjusted for inflation.

The methodology used in this report is based on accepted financial indicators which evaluate financial condition and sustainability of a local government. No universally accepted definition of fiscal sustainability exists. According to the Governmental Accounting Standards Board (GASB), however, the term goes hand-in-hand with the idea of inter-generational equity or fairness, which considers the degree to which future generations of taxpayers and ratepayers will have to address the fiscal consequences of current policies. GASB's definition of fiscal sustainability is as follows:

Fiscal sustainability is a government's ability and willingness to generate inflows of resources necessary to honor current service commitments and to meet financial obligations as they come due, without transferring financial obligations to future periods that do not result in commensurate benefits.

A fiscally sustainable city is able to meet its financial obligations and support public services on an ongoing basis. Fiscally sustainable cities can withstand economic disruptions when they occur, and they are able to respond to changes in the underlying environment in which they operate. It must collect enough revenue to pay short-term and long-term expenses and finance major infrastructure needs without shifting disproportionate costs to future generations.

The City of Garland provides diverse municipal services. The major service areas include the General Fund, Electric Utility, and Water and Sewer Utilities. The City's major revenues, expenditures, and liabilities are discussed and evaluated in this report. Non-major service areas and activities are excluded. The CAFR is the source of information for all financial activities of the City.

The City of Garland Financial Condition Report has not been audited by the City's independent auditor nor do they express an opinion on this report. Analysis in this report is not intended to guide prospective investors in securities offered by the City of Garland, and no decision to invest in such securities should be made without referring to the City's CAFR and the offering documents relating to the securities.

Elected Officials and Staff

Elected Officials

City Council

Douglas Athas
Marvin "Tim" Campbell, Deputy Mayor Pro Tem
Anita Goebel
Stephen W. Stanley
B.J. Williams
Billy Mack Williams
Lori Barnett Dodson
Scott LeMay
Jim Cahill, Mayor Pro-Tem

District

Mayor
District 1
District 2
District 3
District 4
District 5
District 6
District 7
District 8

Selected Administrative Staff

Name

William E. Dollar
Martin Glenn
Bryan Bradford

Position

City Manager
Deputy City Manager
Assistant City Manager

Financial Services Department

David Schuler, Managing Director
Steve Anderson
Tana Daniels
Don Daugherty
Lucy De Laplata
Nancy Guerra
Robin Hayles

Judy Hearne
Laura Hendershot
Jose Mendoza
Elizabeth Morales
Kathryn Ritchie
Debbie Smith
Donna Smith

Executive Summary

Liquidity

Liquidity is a measure of short-term financial condition, generally less than one year. Liquidity is measured by combining the liquid assets such as cash, investments, and accounts receivable and subtracting current liabilities.

- General Fund – favorable. The most recent two fiscal years report a modest upward trend.
- Electric Utility – favorable. The Utility has executed strategic initiatives in recent years to capitalize on its strong liquidity.
- Water Utility – favorable. The modest declining trend is due to the need to balance significant cost and rate pressures.
- Wastewater Utility – favorable. The Utility is very stable and operates within a very tight liquidity range.

Net Assets to Total Assets

Net Assets to Total Assets measures long-term financial strength and solvency. The Net Assets indicator measures the difference between what is owned (assets) and what is owed (liabilities). This indicator is very useful in monitoring several years of change. It indicates how much the financial position has improved or worsened as a result of events or transactions over time.

- General Fund – favorable. Improvement from fiscal year 2011 has been made in the last two fiscal years.
- Electric Utility – favorable. Large debt issues in fiscal years 2010 and 2013 related to Texas Municipal Power Agency (TMPA) and transmission projects have caused modest declines.
- Water Utility – favorable. A gradual decline is occurring due to increased long-term debt.
- Wastewater Utility – favorable. The modest rise in the trend is the result of a reduction in long-term debt.

Operating Revenues

Revenues determine the capacity of the City to provide services, fund infrastructure, pay debt service, and maintain adequate reserves.

- Total General Fund Revenues – neutral. Revenues are experiencing modest increases in fiscal years 2012 and 2013.
- Property Tax Revenue per Capita – unfavorable. The per capita trend reflects a steady decline during the last five years.
- Top 5 Taxpayers – favorable. Top taxpayers are well diversified and not concentrated by industry.
- Property Tax Levy and Collections – favorable. Collection of current year levies is consistently high.
- Sales Tax per Capita – unfavorable. Modest upward trend in the two most recent years is indicative of the subdued recovery from the economic downturn. Significant growth is required to be comparable to other DFW Metroplex cities.
- Intergovernmental Revenue – favorable. Intergovernmental revenues comprise only a small portion of total revenue.

Expenditures

Expenditures measure the City’s service output and infrastructure improvements.

- General Fund Operating Expenditures per Capita – favorable. Expenditures are very consistent year to year and conform to current economic circumstances.
- Total Capital Expenditures Tax-Support projects funded through the annual CIP have declined in response to declining property tax revenues.

Unfunded Liabilities

An Unfunded Liability is the current value of future payments for which reserves have not been set aside – primarily pension and retiree health care costs. At some future date, the liability will have to be paid or benefits altered. Significant improvements in the retirement system liability are attributable to major changes by both TMRS and the City. Despite changes and proactive steps taken by the City in 2009, the OPEB liability is increasing steadily. The trend for the OPEB liability is unfavorable.

- Introduction to Unfunded Liabilities is included on Page 23.
- Retirement System – favorable. Significant funding progress has been made in the most recent three fiscal years.
- Other Post-Employment Benefits – unfavorable. The unfunded liability is rising steadily.

Long-Term Debt

The City borrows money in the markets to pay for capital items ranging from buildings and streets to Electric, Water, and Wastewater Utility improvements. By City policy, debt is not used to fund current operations. The City’s debt program is guided by a strategy which utilizes fixed and variable debt. In addition, short-term Commercial Paper programs for tax-supported and Electric Utility improvements are cost-efficient mechanisms which lower total borrowing costs.

- Debt per Capita – stable. Strong revenue streams provide sufficient debt service capacity.
- Tax-Supported Debt per Capita – favorable. The per capita trend is very consistent.
- Electric Utility Debt per Account – favorable. The Utility has a solid financial profile, and long-term debt is well managed.
- Water Utility Debt per Capita – unfavorable. Debt service has approached the upper limit in terms of maintaining its credit rating analysis. The amount of debt issuance is projected to decrease in fiscal year 2017.
- Wastewater Utility Debt per Capita – very stable. Debt requirements will decline for several years until new regulatory requirements will mandate capital spending for the treatment plants.
- Future Debt Service – stable. The debt service trend line is gradually declining.
- Underlying Ratings for Outstanding Debt – favorable. The City has a solid financial profile.

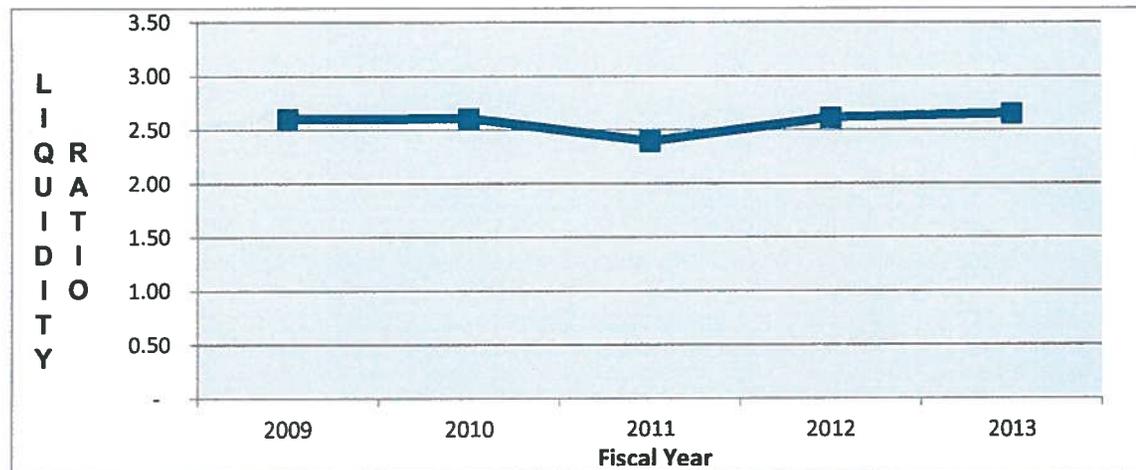
Summary

In the final analysis, “Is the City better off financially than it was last year?” In most respects, the Financial Condition Report reflects favorable indicators for the fiscal year ended September 30, 2013. Liquidity and financial reserves are at levels that demonstrate financial strength. During the five-year period since the 2008 economic downturn, the City has weathered material financial challenges and is now experiencing sustained recovery. Financial resources have been efficiently managed in order to deliver public services at reasonable costs. Furthermore, credit ratings are favorable which allows for low borrowing costs for adding infrastructure and utility system improvements and extensions.

**City of Garland, Texas
Liquidity - General Fund**

| | September 30 | | | | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Cash & Cash Equivalents | \$ 14,530,176 | \$ 14,906,028 | \$ 12,613,353 | \$ 9,890,355 | \$ 9,246,724 |
| Marketable Securities | 3,639,651 | 5,601,226 | 7,904,738 | 11,440,576 | 17,754,937 |
| Accounts Receivable | 12,504,147 | 12,256,148 | 12,758,914 | 14,383,060 | 11,965,329 |
| Total Current Assets | \$ 30,673,974 | \$ 32,763,402 | \$ 33,277,005 | \$ 35,713,991 | \$ 38,966,990 |
| Current Liabilities | \$ 11,799,039 | \$ 12,558,878 | \$ 13,902,511 | \$ 13,650,470 | \$ 14,703,120 |
| Liquidity Ratio | 2.60 | 2.61 | 2.39 | 2.62 | 2.65 |

Liquidity Ratio - General Fund



Commentary

The City's General Fund liquidity ratio is stable and demonstrates a favorable financial condition.

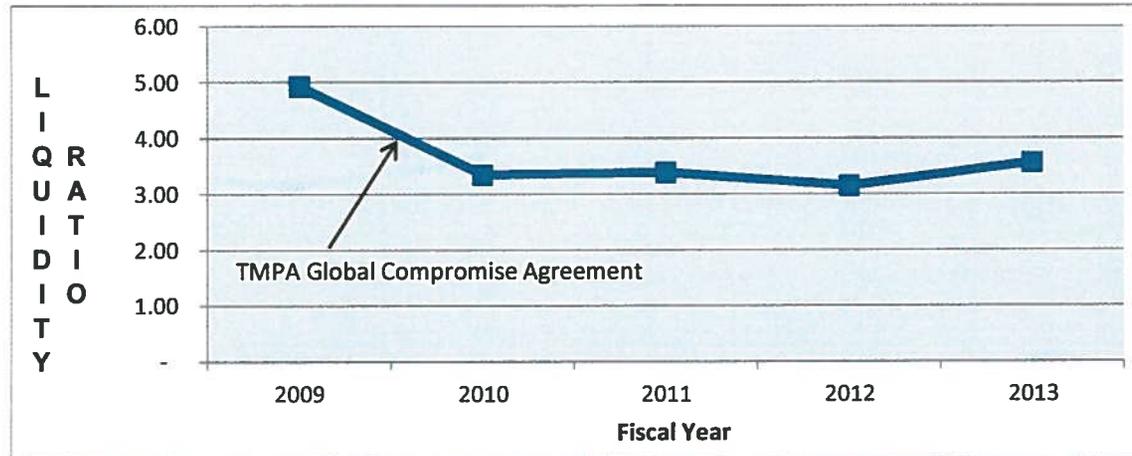
Liquidity is a good measure of the City's short-term financial condition. Poor liquidity is associated with insufficient cash to pay obligations like payroll and accounts payable that are due within one year. A liquidity ratio above 1 is considered to be a positive factor. The liquidity ratio is the ratio of cash, short-term investments, and accounts receivable to current liabilities. A low or declining liquidity ratio is a warning sign that may preclude long-term financial stress.

Since 2011, the General Fund liquidity ratio is indicating a modest upward trend. The liquidity ratio is a lagging indicator. Fiscal years 2012 and 2013 are reflecting a recovery from the economic downturn. A variety of revenue sources are showing improvement which results in higher cash and cash equivalent balances in current assets.

City of Garland, Texas
Liquidity - Electric Utility Fund

| | September 30 | | | | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Cash & Cash Equivalents | \$ 47,496,272 | \$ 32,159,999 | \$ 26,489,898 | \$ 20,262,212 | \$ 16,786,643 |
| Marketable Securities | 11,883,140 | 12,285,576 | 15,395,078 | 23,594,185 | 30,979,650 |
| Accounts Receivable | 28,782,353 | 29,303,290 | 32,666,607 | 37,373,122 | 60,681,407 |
| Total Current Assets | \$ 88,161,765 | \$ 73,748,865 | \$ 74,551,583 | \$ 81,229,519 | \$ 108,447,700 |
| Current Liabilities | \$ 17,906,546 | \$ 22,039,044 | \$ 22,026,966 | \$ 25,813,966 | \$ 30,464,032 |
| Liquidity Ratio | 4.92 | 3.35 | 3.38 | 3.15 | 3.56 |

Liquidity Ratio - Electric Utility Fund



Commentary

The Electric liquidity ratio is very favorable and trending higher.

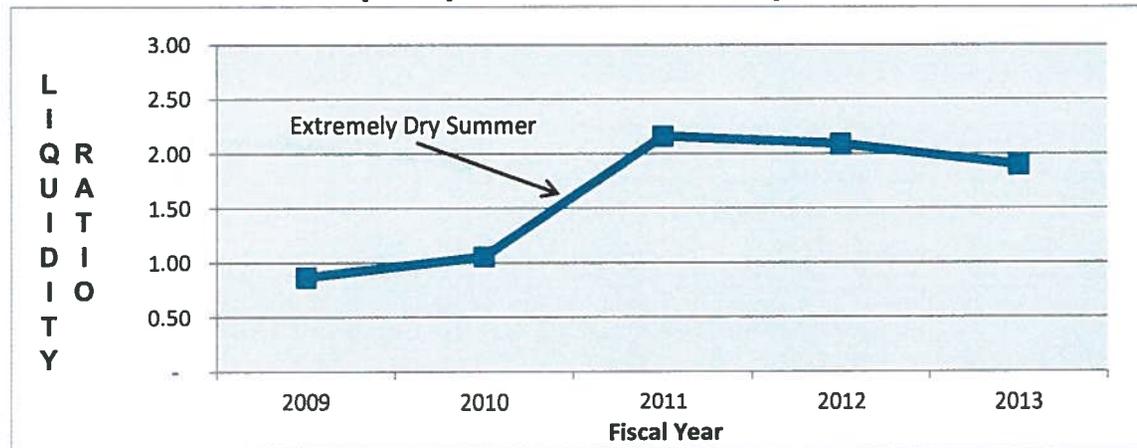
The Electric liquidity ratio experienced a decline in fiscal year 2010. The indicator has since stabilized and reflects a modest improvement in 2013. The drop since 2009 is the result of several factors. First, the TMPA Global Compromise Settlement Agreement in 2010 has resulted in additional debt being reported in current liabilities. Also, Off-System Sales related to additional customers has increased expenditures. Expenditures that have been incurred but not yet paid have increased current liabilities. The modest increase in fiscal year 2013 is again due to Off-System Sales activity. Invoices pending payment for these services have increased the accounts receivable in current assets.

Because of sufficient liquidity, the Utility has been able to execute strategic initiatives. The Compromise Agreement improved the financial condition of TMPA. Also, the Utility is marketing their services which will continue to expand revenue opportunities.

City of Garland, Texas
Liquidity - Water Utility Fund

| | September 30 | | | | |
|-----------------------------|---------------------|---------------------|----------------------|----------------------|----------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Cash & Cash Equivalents | \$ 194,115 | \$ 183,522 | \$ 4,577,880 | \$ 4,167,840 | \$ 3,110,197 |
| Marketable Securities | 66,602 | 69,843 | 2,658,466 | 4,711,455 | 5,973,319 |
| Accounts Receivable | 4,609,674 | 5,566,252 | 7,228,166 | 6,540,952 | 6,932,667 |
| Total Current Assets | \$ 4,870,391 | \$ 5,819,617 | \$ 14,464,512 | \$ 15,420,247 | \$ 16,016,183 |
| Current Liabilities | \$ 5,624,129 | \$ 5,512,610 | \$ 6,688,513 | \$ 7,378,861 | \$ 8,435,320 |
| Liquidity Ratio | 0.87 | 1.06 | 2.16 | 2.09 | 1.90 |

Liquidity Ratio - Water Utility Fund



Commentary

The Water Utility liquidity ratio is favorable.

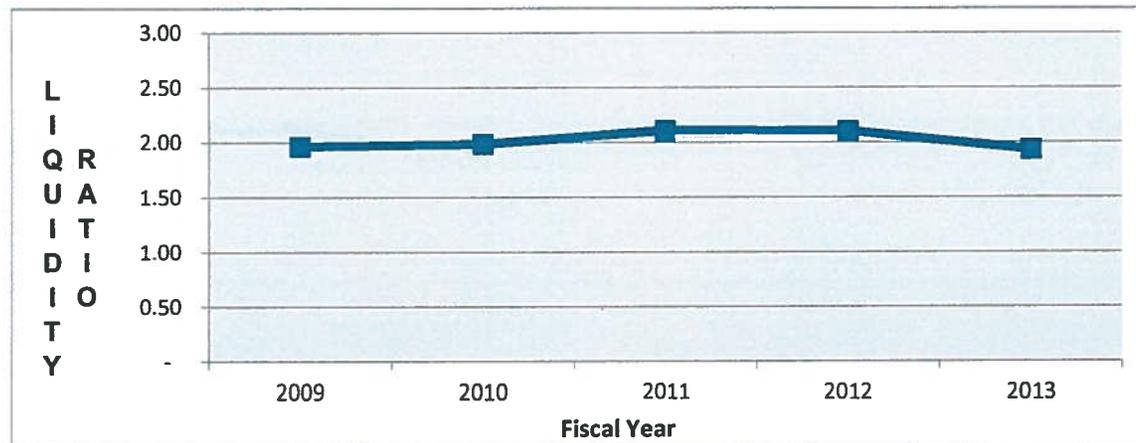
The Water Utility liquidity ratio is experiencing a slight declining trend over the past two fiscal years. The trend is not alarming, but it is another indication that the utility is experiencing several structural issues. The water system has been issuing greater amounts of long-term debt to address the maintenance needs of an aging infrastructure. Additional debt service requirements has caused cash reserves to level off. Also, the current portion of debt has increased the current liabilities balance. While water rates have risen, the additional operating revenues have been offset by higher expenditures. The Utility's largest expenditure, the NTMWD "take-or-pay" demand charge, has risen due to NTMWD's capital requirements. The Utility has refrained from increasing water rates that would fully recover the NTMWD increases. Also, Garland water customers have responded to conservation initiatives. As a result, the Utility anticipates it will continue to pay for a larger quantity of water than it will sell.

Although the Water Utility is in a strong financial condition, strategic initiatives, primarily in capital financing practices, are being put in place to address areas of marginal strain. Practices include bond refundings to lower debt service costs and the establishment of a Commercial Paper program.

City of Garland, Texas
Liquidity - Wastewater Utility Fund

| | September 30 | | | | |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Cash & Cash Equivalents | \$ 10,625,204 | \$ 10,923,000 | \$ 10,720,736 | \$ 8,476,014 | \$ 5,867,068 |
| Marketable Securities | 2,648,153 | 4,171,946 | 6,229,979 | 9,585,573 | 11,273,255 |
| Accounts Receivable | 4,182,356 | 4,400,450 | 4,492,648 | 4,253,121 | 4,495,021 |
| Total Current Assets | \$ 17,455,713 | \$ 19,495,396 | \$ 21,443,363 | \$ 22,314,708 | \$ 21,635,344 |
| Current Liabilities | \$ 8,895,871 | \$ 9,831,060 | \$ 10,183,622 | \$ 10,620,318 | \$ 11,194,356 |
| Liquidity Ratio | 1.96 | 1.98 | 2.11 | 2.10 | 1.93 |

Liquidity Ratio - Wastewater Utility Fund



Commentary

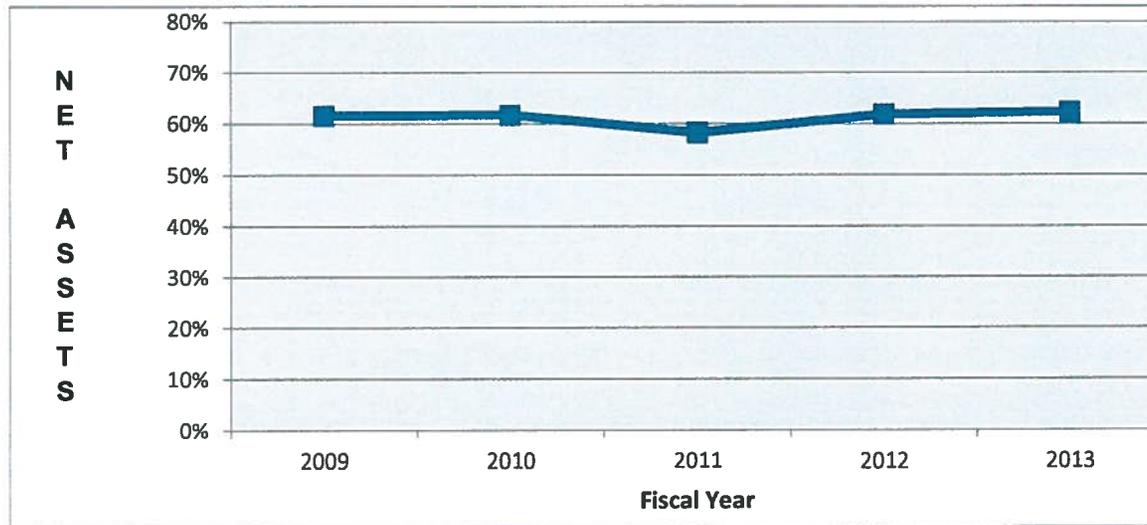
The Wastewater Utility liquidity ratio is very favorable.

The Wastewater Utility liquidity ratio is very stable and favorable over the five years being analyzed. The Utility has sufficient resources to absorb increased debt service requirements. Increased debt service is related to significant capital investments in the Utility's two Wastewater Treatment Plants and system infrastructure.

**City of Garland, Texas
Net Assets to Total Assets
General Fund**

| | September 30 | | | | |
|----------------------------|---------------------|---------------|---------------|---------------|---------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Net Assets to Total Assets | 61.53% | 61.67% | 58.22% | 61.78% | 62.27% |
| Net Assets | \$ 18,874,935 | \$ 20,204,524 | \$ 19,374,494 | \$ 22,063,521 | \$ 24,263,870 |
| Total Assets | \$ 30,673,974 | \$ 32,763,402 | \$ 33,277,005 | \$ 35,713,991 | \$ 38,966,984 |

Net Assets to Total Assets - General Fund



Commentary

The financial condition of the City of Garland General Fund is stable. The City is able to weather economic challenges if and when they occur.

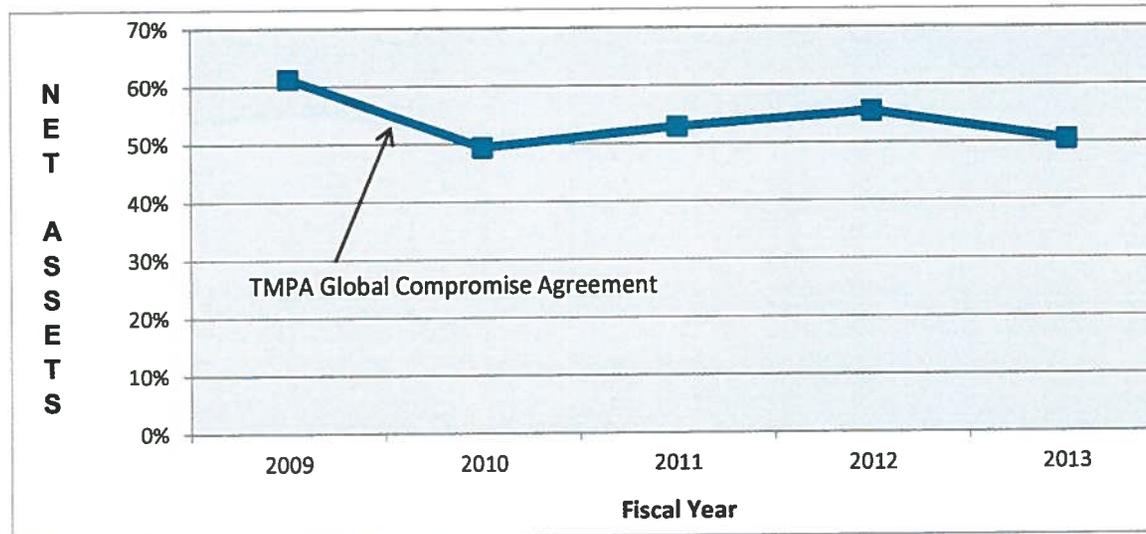
The Net Assets to Total Assets ratio measures long-term financial strength and solvency. Sufficient resources are essential for the City to withstand financial challenges resulting from economic slowdowns, natural disasters or the loss of a major tax payer. The Net Assets ratio is calculated by dividing Total Net Assets by Total Assets. Net Assets are the remaining financial resources after all liabilities have been offset. In private entities, the ratio is often referred to as "Shareholder Equity to Total Assets ratio."

The Net Assets to Total Assets ratio for the General Fund has remained stable over the most recent five-year period with the exception of fiscal year 2011. The one-year decline represents the impact of the economic slowdown that began in 2008. This ratio is a lagging indicator. Therefore, it is important to monitor trends in this indicator instead of the results for a single year.

**City of Garland, Texas
 Net Assets to Total Assets
 Electric Utility Fund**

| | <u>September 30</u> | | | | |
|----------------------------|---------------------|----------------|----------------|----------------|----------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Net Assets to Total Assets | 61.28% | 49.35% | 52.85% | 55.40% | 50.45% |
| Net Assets | \$ 286,422,741 | \$ 306,298,114 | \$ 348,840,309 | \$ 388,125,808 | \$ 395,007,398 |
| Total Assets | \$ 467,417,202 | \$ 620,611,594 | \$ 660,004,961 | \$ 700,543,146 | \$ 782,901,640 |

Net Assets to Total Assets - Electric Utility Fund



Commentary

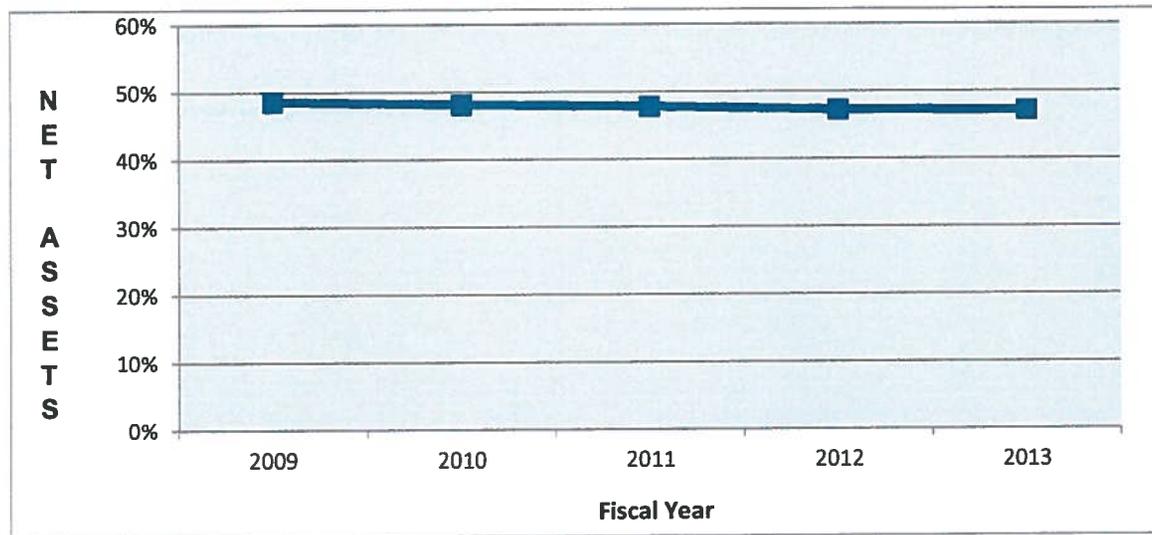
The City of Garland Electric Utility Net Assets to Total Assets indicates a strong financial condition. The Electric Utility is able to execute strategic initiatives without straining current operations.

The Net Assets to Total Assets for the Electric Utility Fund has remained relatively stable, with one exception. The noticeable decrease from 2009 to 2010 was related to the TMPA Global Compromise Settlement Agreement. In March 2010, the Electric Utility issued approximately \$127 million in long-term debt. The debt proceeds, along with proceeds from other TMPA member cities, were used to fund improvements at Gibbons Creek. As a result of the transaction, the Electric Utility reported a large increase in total assets causing the Net Assets ratio to decline. The 20-year amortization of the debt will allow the Electric Utility to maintain a healthy financial position. The modest decline in fiscal year 2013 results from the additional short-term debt that is financing the Competitive Renewable Energy Zone transmission lines.

**City of Garland, Texas
 Net Assets to Total Assets
 Water Utility Fund**

| | September 30 | | | | |
|----------------------------|---------------------|----------------|----------------|----------------|----------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Net Assets to Total Assets | 48.62% | 48.13% | 47.83% | 47.25% | 47.17% |
| Net Assets | \$ 75,435,451 | \$ 78,077,570 | \$ 86,031,813 | \$ 88,384,764 | \$ 91,252,144 |
| Total Assets | \$ 155,168,297 | \$ 162,232,815 | \$ 179,857,271 | \$ 187,061,914 | \$ 193,471,507 |

Net Assets to Total Assets - Water Utility Fund



Commentary

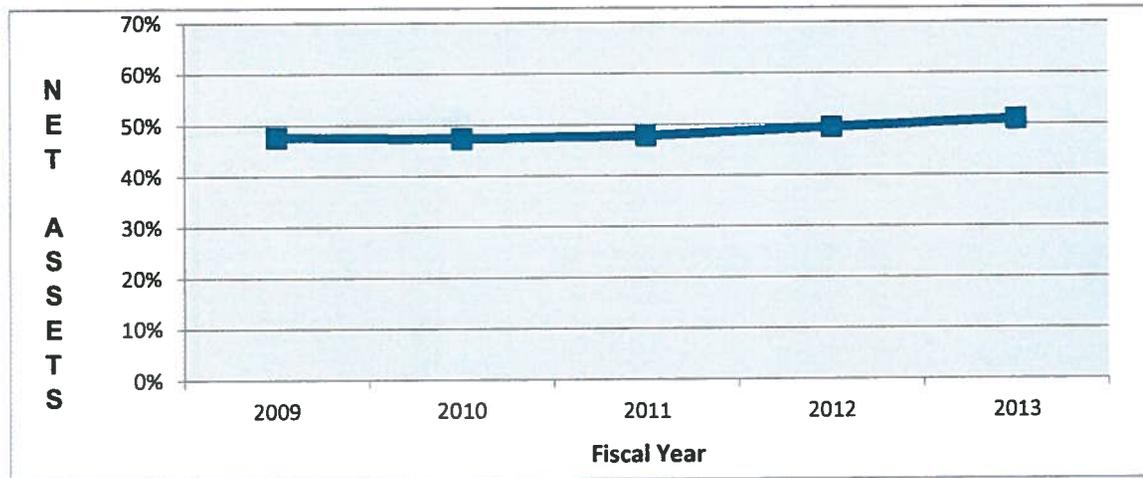
The Water Utility Net Assets to Total Assets is very stable.

The Net Assets to Total Assets ratio for the Water Utility Fund indicates a very gradual declining slope. The primary cause is the issuance of long-term debt. To fund required system improvements and replacements, the Utility is currently issuing greater amounts of debt annually than what is being repaid through debt service. The ability to adequately cover debt service requirements is a measure closely monitored by the credit rating agencies. Water Utility debt management practices are being enhanced by staff.

**City of Garland, Texas
 Net Assets to Total Assets
 Wastewater Utility Fund**

| | September 30 | | | | |
|----------------------------|---------------------|----------------|----------------|----------------|----------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Net Assets to Total Assets | 47.64% | 47.34% | 47.87% | 49.39% | 50.99% |
| Net Assets | \$ 147,028,074 | \$ 148,685,716 | \$ 151,269,380 | \$ 152,154,704 | \$ 153,005,018 |
| Total Assets | \$ 308,600,260 | \$ 314,099,300 | \$ 316,013,720 | \$ 308,093,869 | \$ 300,068,796 |

Net Assets to Total Assets - Wastewater Utility Fund



Commentary

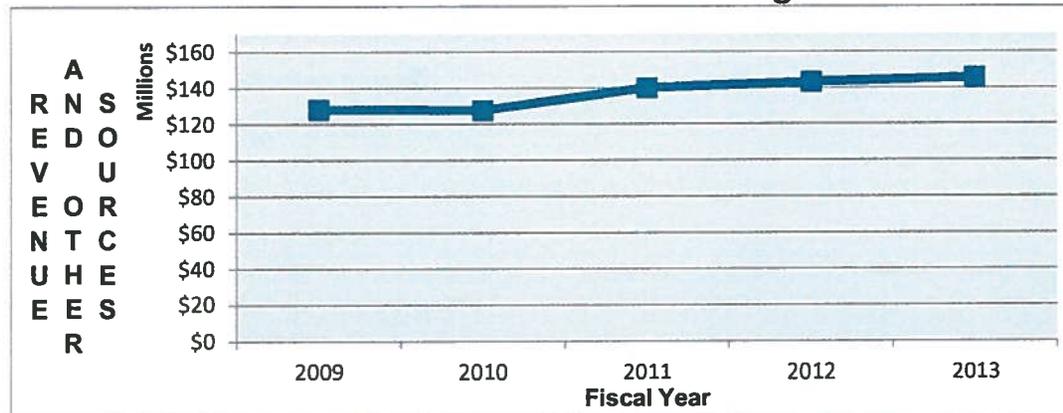
The Wastewater Utility Net Assets indicator reports a very stable financial condition. The upward trend is attributed to a decline in long-term debt.

Net Assets to Total Assets for the Wastewater Utility Fund indicates a stable financial position. Annual revenues and cash flows are sufficient to meet ongoing operating expenses and long-term debt service requirements.

**City of Garland, Texas
General Fund Revenue and Other Financing Sources**

| | Fiscal Year | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Taxes | \$ 73,523,922 | \$ 71,536,534 | \$ 70,635,376 | \$ 70,696,279 | \$ 71,900,836 |
| Service Charges | 17,537,722 | 16,929,426 | 18,102,510 | 20,411,968 | 20,239,605 |
| Licenses and Permits | 2,566,182 | 3,085,185 | 2,893,000 | 3,751,589 | 3,393,137 |
| Earnings on Investments | 660,299 | 207,698 | 211,524 | 240,654 | 213,732 |
| Intergovernmental | 512,162 | 818,723 | 725,320 | 1,073,364 | 1,190,211 |
| Intragovernmental | 7,324,102 | 7,430,975 | 7,871,534 | 8,010,474 | 7,973,376 |
| Fines and Forfeits | 6,064,644 | 5,627,058 | 5,097,867 | 6,110,138 | 6,955,299 |
| Rents and Concessions | 1,088,743 | 947,809 | 763,023 | 788,504 | 804,298 |
| Other Financing Sources | 18,933,054 | 21,183,803 | 33,739,051 | 32,032,990 | 32,980,062 |
| Total General Fund Rev. & Financing Sources | \$ 128,210,830 | \$ 127,767,211 | \$ 140,039,205 | \$ 143,115,960 | \$ 145,650,556 |
| Year-Over-Year Percentage Change | N/A | -0.35% | 9.60% | 2.20% | 1.77% |

General Fund Revenue and Financing Sources



Commentary

General Fund revenues are trending up, but at a slow rate. The indicator is neutral.

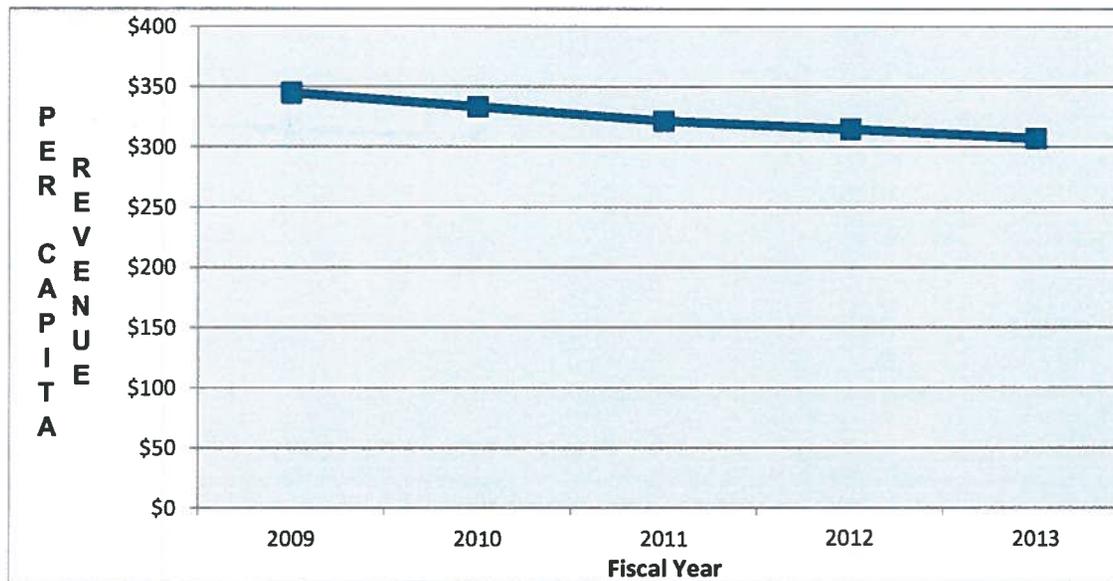
Considering only the Revenue components and excluding Other Financing Sources, General Fund revenues have increased a modest \$3.4 million from 2009 to 2013. As of the end of FYE 2013, the City had not fully returned to the revenue levels of the pre-economic downturn years.

Other Financing Sources reports the net of Transfers In and Transfers Out. Transfers to the General Fund include budgeted transfers in support of various activities, general and administrative charges, and return on investment. The large increase in Other Financing Sources in fiscal year 2011 was due to a required accounting and reporting change. Per the implementation of an accounting pronouncement, the City is required to combine the Infrastructure Fund with the General Fund for financial statement purposes.

**City of Garland, Texas
Property Tax Revenue Per Capita**

| | Fiscal Year | | | | |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Property Tax Revenue per Capita | \$ 345 | \$ 333 | \$ 322 | \$ 315 | \$ 307 |
| Total Property Tax Revenue | \$ 77,869,371 | \$ 75,591,153 | \$ 72,960,307 | \$ 71,712,486 | \$ 71,160,273 |
| City of Garland Population | 225,865 | 226,876 | 226,915 | 227,730 | 231,618 |

Property Tax Revenue per Capita



Commentary

This lagging indicator is unfavorable. Increases to assessed values are needed from new development and from higher appraisals of existing property.

The trend in Property Tax Revenue per Capita is downward sloping over the entire five-year period of analysis. Of the total property tax revenue, the largest portion is for the operations and maintenance expenditures in the General Fund. The remainder is directed to the General Obligation Interest & Sinking Fund for the payment of tax-supported debt.

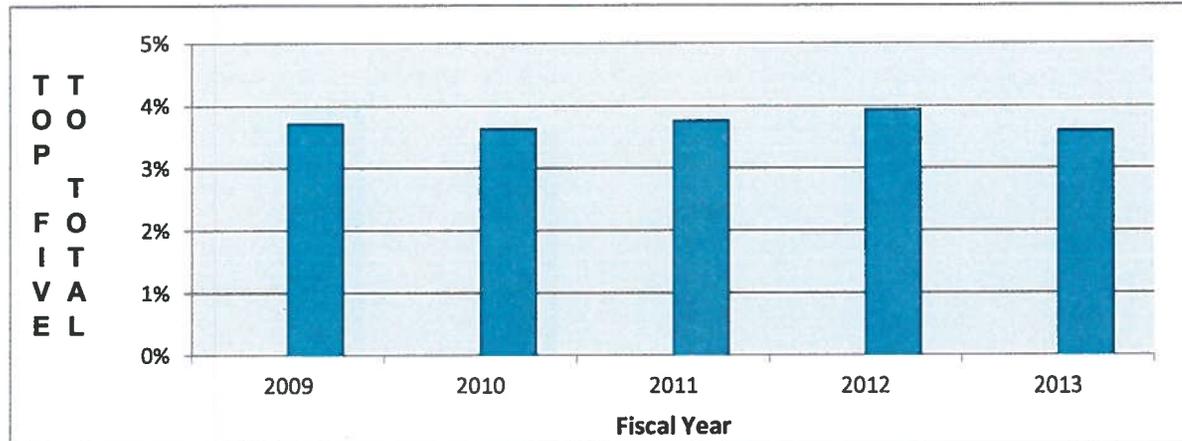
The City's assessed values have declined since 2008 due to the economic downturn. The certified property tax base increased modestly for fiscal year 2014. It is possible that the Property Tax Revenue per Capita trend will turn positive as the economy improves.

City of Garland, Texas

Top Five Taxpayers to Total Assessed Taxable Value

| | Fiscal Year | | | | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|-------------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Wal-Mart/Sam's Club | \$ 90,857,510 | \$ 112,306,930 | \$ 104,150,300 | \$ 98,978,610 | \$ 101,184,920 |
| Simon Property Group | 132,818,770 | 109,659,400 | 99,254,710 | 87,740,860 | 91,341,710 |
| Plastipak Packaging | 65,169,734 | 67,353,519 | 66,999,904 | 69,557,943 | 70,419,400 |
| SST Truck Company | - | - | - | - | 53,064,990 |
| Valspar/Engineered Polymer | 59,742,723 | - | - | - | - |
| Kraft Foods, Inc. | 55,316,531 | - | - | - | - |
| Verizon | - | 58,436,130 | - | 58,905,920 | 48,829,930 |
| Westdale Property Group | - | 55,549,270 | 56,281,510 | - | - |
| Atlas Copco Drilling Solutions | - | - | 80,921,790 | - | - |
| Sears, Roebuck and Co. | - | - | - | 48,399,482 | - |
| Top Five Taxpayers Taxable Value | \$ 403,905,268 | \$ 403,305,249 | \$ 407,608,214 | \$ 363,582,815 | \$ 364,840,950 |
| Total Assessed Taxable Value | \$ 11,121,794,061 | \$ 10,718,283,371 | \$ 10,352,070,835 | \$ 10,120,032,899 | \$ 9,969,442,009 |
| Top Taxpayers to Total Assessed | 3.63% | 3.76% | 3.94% | 3.59% | 3.66% |

Top Five Taxpayers to Total Assessed



Commentary

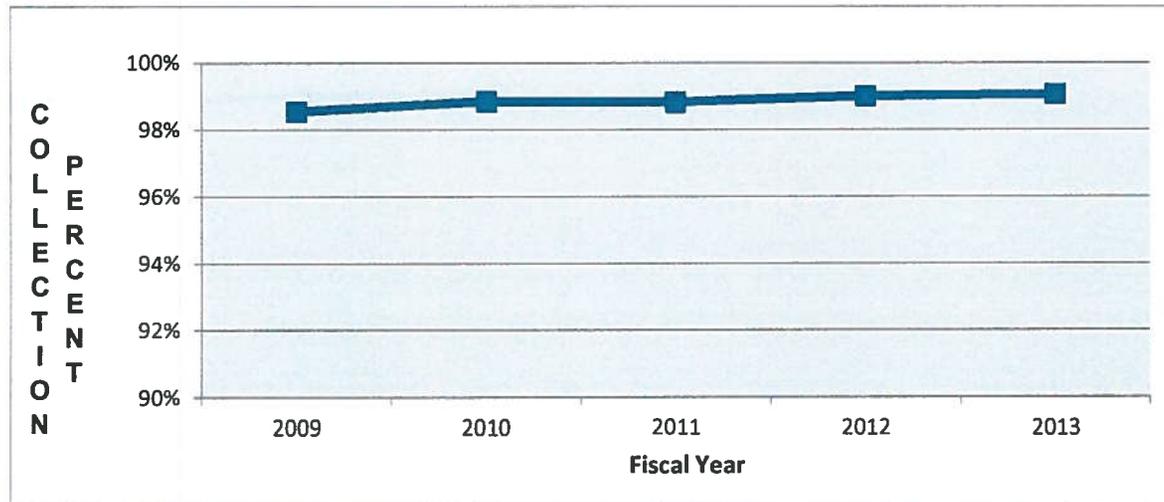
The City's ratio of Top Taxpayers to Total Assessed Value is very favorable. Top taxpayers in the city are well diversified and not concentrated by industry type.

Property Tax is a major revenue source for the City. It is favorable to have a diversified tax base that is not concentrated within a single industry or service sector. It is also very favorable when the group of leading taxpayers comprise a small portion of the total assessed tax base.

**City of Garland, Texas
Property Tax Levy and Collections**

| | Fiscal Year | | | | |
|---------------------------------------|--------------------|---------------|---------------|---------------|---------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Collection Percent | 98.54% | 98.84% | 98.82% | 99.00% | 99.05% |
| Collections for Current Year Tax Levy | \$ 76,842,208 | \$ 74,800,032 | \$ 72,238,056 | \$ 70,589,967 | \$ 70,130,748 |
| Property Tax Levy | \$ 77,977,700 | \$ 75,678,090 | \$ 73,103,186 | \$ 71,301,935 | \$ 70,801,851 |

Property Tax Collection Percent



Commentary

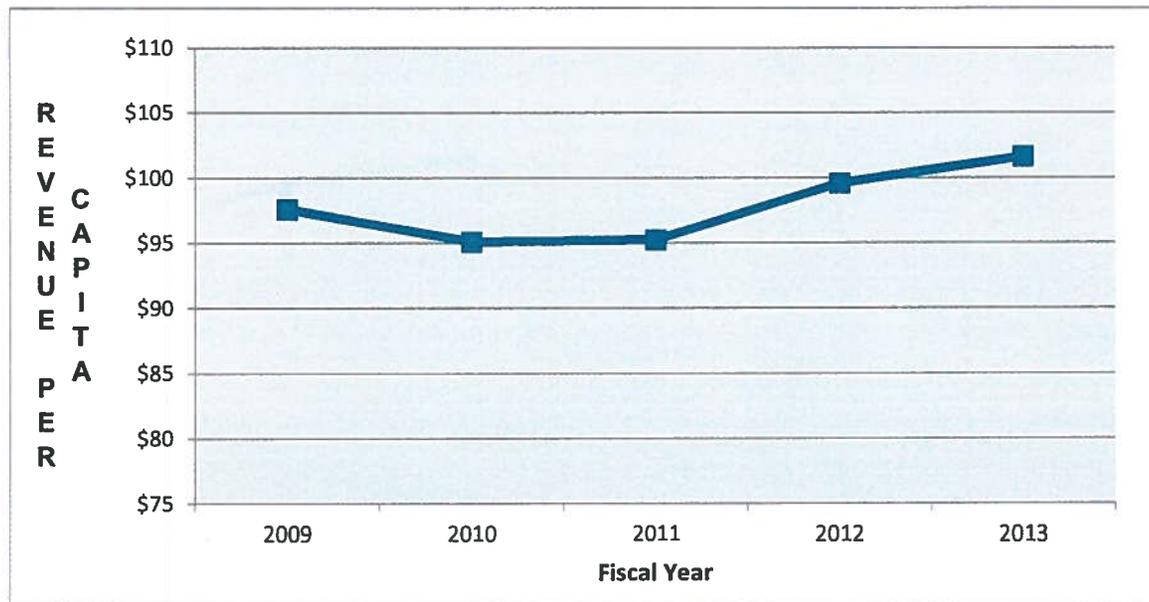
The collection of Property Taxes is very favorable.

The current year collections of the Property Tax Levy is consistently high. The City's Tax Department is responsible for the billing and collection of current year tax levy and delinquent accounts.

**City of Garland, Texas
Sales Tax Revenue Per Capita**

| | Fiscal Year | | | | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Sales Tax Revenue per Capita | \$ 97.59 | \$ 95.09 | \$ 95.23 | \$ 99.61 | \$ 101.62 |
| Total Sales Tax Revenue | \$ 22,041,066 | \$ 21,573,549 | \$ 21,609,756 | \$ 22,684,164 | \$ 23,537,389 |
| City of Garland Population | 225,865 | 226,876 | 226,915 | 227,730 | 231,618 |

Sales Tax Revenue per Capita



Commentary

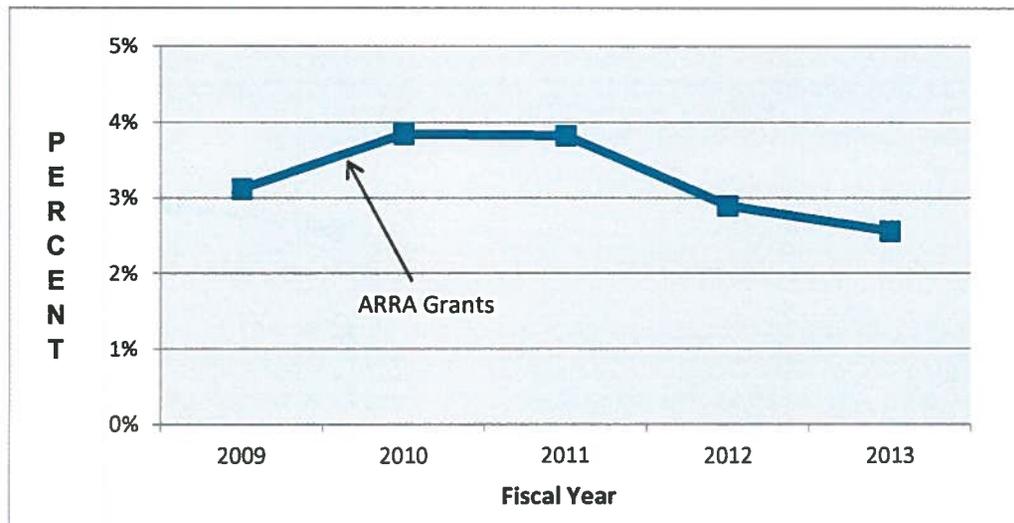
Sales Tax Revenue for the City is indicating a favorable upward trend.

The Sales Tax Revenue per Capita indicator reports improvement for the last two years, up modestly from the economic downturn years experienced in 2010 and 2011. Although Sales Tax Revenue is on an upward trend, Revenue per Capita remains below the high of a prior year. The high for Sales Tax Revenue per Capita is \$104.77 recorded in 2008. Total revenue is significantly below other DFW Metroplex cities. A framework for economic development initiatives is in place to bolster improvements that will result in increased Sales Tax Revenue per Capita.

**City of Garland, Texas
Intergovernmental Revenue**

| | Fiscal Year | | | | |
|-----------------------------------|----------------|----------------|----------------|----------------|----------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Intergovernmental Revenue Percent | 3.12% | 3.84% | 3.82% | 2.89% | 2.56% |
| Total Intergovernmental Revenue | \$ 15,427,694 | \$ 19,185,096 | \$ 19,571,449 | \$ 14,499,683 | \$ 14,889,614 |
| Total Revenue | \$ 494,996,409 | \$ 499,062,424 | \$ 511,813,260 | \$ 500,865,233 | \$ 581,485,274 |

Intergovernmental Revenue to Total Revenue



Commentary

The City's reliance on Intergovernmental Revenue is favorable because it provides only a small portion of total revenues. The City can manage a possible reduction in Intergovernmental Revenues if that occurs.

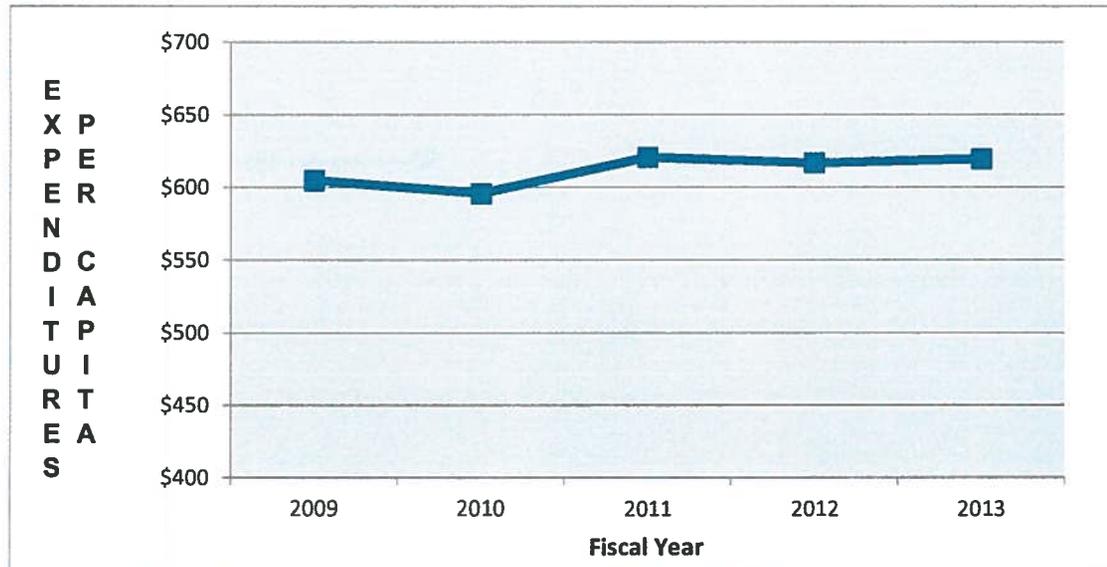
The amount of Intergovernmental Revenue received from other governmental entities indicates the City's reliance upon external funding sources to support services. A high or increasing reliance on Intergovernmental Revenues can be unfavorable. If this revenue source is reduced or withdrawn, the City must deal with the economic or social consequences of increasing taxes or eliminating services. Also, the City must consider the conditions that are attached to the revenues. Quite often, Intergovernmental Revenues will fully fund only the first year of a program and then provide a decreasing amount in subsequent years.

Intergovernmental Revenues increased substantially in 2010 and remained elevated in 2011 due to the American Recovery and Reinvestment Act (ARRA) and increases in other Federal grants. The recent declines reflect the reductions in those revenues. Also, in 2013, substantial increases in Electric Utility revenues increased total revenues while Intergovernmental Revenues saw minor growth.

**City of Garland, Texas
General Fund Operating Expenditures per Capita**

| | Fiscal Year | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Operating Expenditures per Capita | \$ 605 | \$ 596 | \$ 621 | \$ 617 | \$ 619 |
| General Government | \$ 10,033,725 | \$ 9,691,138 | \$ 9,137,993 | \$ 9,083,662 | \$ 9,679,317 |
| Public Safety | 75,268,367 | 74,890,153 | 77,463,425 | 77,639,802 | 78,338,393 |
| Public Works | 18,901,854 | 17,422,849 | 19,151,977 | 18,457,911 | 17,391,246 |
| Culture and Recreation | 12,550,200 | 12,641,150 | 13,245,845 | 12,794,896 | 13,218,113 |
| Public Health | 2,893,506 | 3,189,738 | 3,174,073 | 3,364,592 | 3,579,737 |
| Non-Departmental | 16,941,189 | 17,315,649 | 18,695,922 | 19,086,070 | 21,243,401 |
| Total General Fund Operating Expenditures | \$ 136,588,841 | \$ 135,150,677 | \$ 140,869,235 | \$ 140,426,933 | \$ 143,450,207 |
| City of Garland Population | 225,865 | 226,876 | 226,915 | 227,730 | 231,618 |

Operating Expenditures per Capita



Commentary

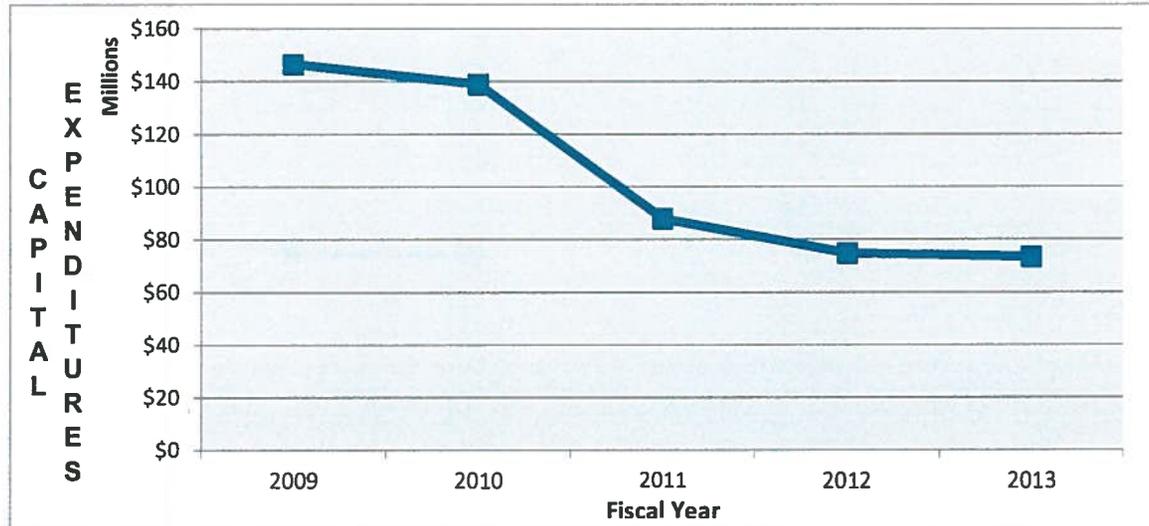
The General Fund Operating Expenditures per Capita indicator is favorable and stable.

General Fund Expenditures per Capita is consistent within a tight range. Expenditures are budgeted annually and managed to meet current economic circumstances. Non-departmental expenditures represent expenses that do not apply to a specific General Fund department. Non-departmental expenditures include charges for insurance, technology, and facilities maintenance.

**City of Garland, Texas
Total Capital Expenditures**

| | Fiscal Year | | | | |
|-----------------------------------|-----------------------|-----------------------|----------------------|----------------------|----------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Tax-Supported | \$ 30,522,494 | \$ 29,899,003 | \$ 29,728,854 | \$ 18,745,889 | \$ 19,210,715 |
| Electric Utility | 41,323,401 | 32,850,780 | 19,023,252 | 29,702,102 | 13,578,924 |
| Water Utility | 7,579,479 | 23,433,853 | 12,318,257 | 10,920,090 | 14,481,650 |
| Wastewater Utility | 61,542,998 | 12,703,771 | 13,445,147 | 7,129,745 | 16,663,634 |
| Non-Major Enterprise Funds | 1,109,586 | 1,189,114 | 1,751,949 | 2,935,484 | 2,338,362 |
| Internal Service Funds | 4,482,127 | 38,834,336 | 11,608,118 | 5,301,736 | 7,048,397 |
| Total Capital Expenditures | \$ 146,560,085 | \$ 138,910,857 | \$ 87,875,577 | \$ 74,735,046 | \$ 73,321,682 |

Total Capital Expenditures



Commentary

The Capital Expenditures indicator is unfavorable. Fewer public assets are being replaced or improved.

Total Capital Expenditures reflects the annual amount of funds spent on completed and functioning assets. Asset additions include new equipment and infrastructure as well as refurbishment of existing infrastructure. The majority of the assets are authorized by the Capital Improvement Program, and financing is obtained in the capital markets. The remainder of the assets are budgeted in the Annual Budget.

The declining five-year trend indicates Management's strategic adjustment to the economic downturn. Projected lower revenues required reductions in spending.

Introduction to Unfunded Liabilities

Unfunded Liabilities are liabilities earned and incurred as part of current operations but which will be paid in the future. While reserves are typically set aside to meet future obligations, the unfunded portion of this liability is the portion that has no reserves set aside. An Unfunded Liability is determined by a complex actuarial study. Actuarial studies are performed periodically, generally once every two years if the assumptions for the study do not change dramatically. More frequent actuarial studies have been performed recently for the City's two major Unfunded Liabilities because of significant changes in assumptions.

The two major Unfunded Liabilities of the City are pension benefits offered through Texas Municipal Retirement System (TMRS) and Other Post-Employment Benefits (OPEB). Both Unfunded Liabilities are, in essence, forms of deferred compensation to employees.

Texas Municipal Retirement System – TMRS is an entity created in 1947 by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Government Code, as a retirement system for municipal employees in the state of Texas. TMRS is a public trust fund governed by a Board of Trustees with a professional staff responsible for administering the System in accordance with the TMRS Act. The System bears a fiduciary obligation to the State of Texas, TMRS cities, members, retirees, and beneficiaries. With over 830 participating entities, the System covers more than 135,000 employees and retirees statewide. When a city joins TMRS, all of its eligible employees become members of the System. An employee who works at least 1,000 hours per year is an eligible employee and is required to be a member of TMRS. The City contributes 14% of gross employee pay, while employees contribute 7%.

City of Garland TMRS members vest after 5 years of service. A member becomes eligible for retirement based upon one of the following two combinations of age and service:

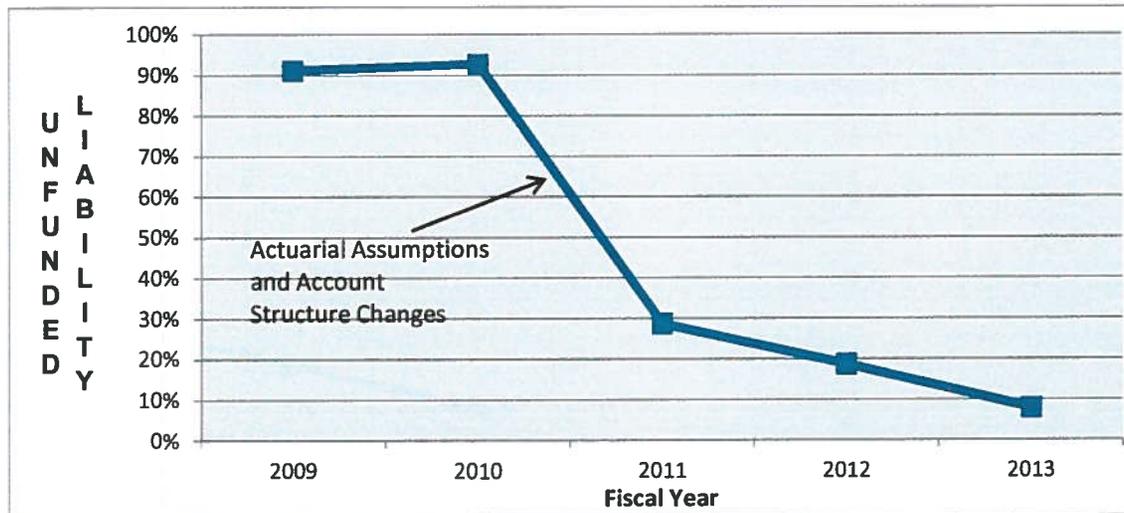
- Age 60 with 5 years of service
- Any age with 20 years of service

Other Post-Employment Benefits – OPEB includes health care benefits such as medical, dental, vision, and hearing for retirees as well as all other retiree benefits that are not a part of a pension plan. While OPEB costs have traditionally been accounted for and budgeted on a pay-as-you-go (PAYGO) basis, they are now treated for accounting purposes on an accrual basis like pensions. Reporting standards mandated by generally accepted accounting principles require certain pension and OPEB disclosures in the City's audited financial reports.

**City of Garland, Texas
Unfunded Liabilities
Texas Municipal Retirement System**

| | September 30 | | | | |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Unfunded Liability as % of Payroll | 91.13% | 92.66% | 28.75% | 18.67% | 7.88% |
| Unfunded Liability | \$ 108,518,723 | \$ 116,632,505 | \$ 34,687,310 | \$ 22,722,703 | \$ 9,797,444 |
| Total Covered Payroll (Actuarial) | \$ 119,081,305 | \$ 125,871,786 | \$ 120,641,657 | \$ 121,677,308 | \$ 124,371,393 |
| Actuarial Value of Plan Assets | \$ 347,564,834 | \$ 366,884,729 | \$ 621,330,352 | \$ 661,956,058 | \$ 704,046,535 |

TMRS Unfunded Liability as Percent of Payroll



Commentary

At the current funding level, the TMRS Unfunded Liability is very manageable from a budgetary and financial condition perspective.

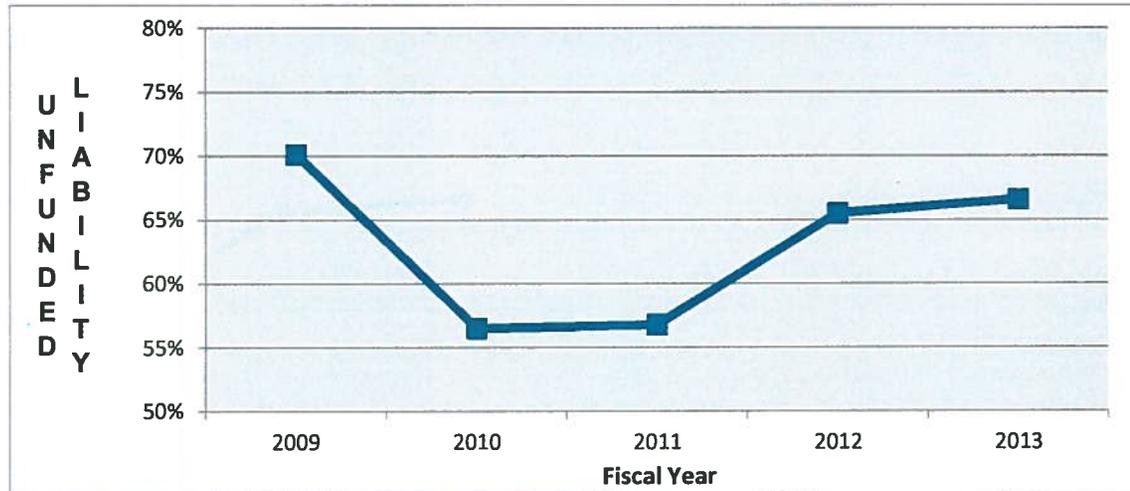
Texas Municipal Retirement System is the statewide retirement system which administers retirement benefits for Garland retirees. The City is required to pay the annual required contribution to TMRS for the benefits that are offered. Significant changes to the system occurred between 2008 and 2011. In addition, the City eliminated the Cost-of-Living Adjustment (COLA) on January 1, 2009. The combined effect of the system changes and the benefit changes on the City's funding obligation is significant. Since 2011, the funding status has improved greatly and the declining trend line is very favorable.

It should be noted that the reported TMRS Unfunded Liability is for the entire City. Information for each fund (General, Electric Utility, Water Utility, Wastewater Utility, etc.) is not determined. The appropriate fund is identified and charged when the payment becomes due.

**City of Garland, Texas
 Unfunded Liabilities
 Other Post-Employment Benefits**

| | September 30 | | | | |
|------------------------------------|---------------------|----------------|----------------|----------------|----------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Unfunded Liability as % of Payroll | 70.14% | 56.49% | 56.76% | 65.53% | 66.60% |
| Unfunded Liability | \$ 83,522,196 | \$ 69,203,450 | \$ 72,318,244 | \$ 82,174,426 | \$ 86,053,136 |
| Total Covered Payroll (Actuarial) | \$ 119,081,305 | \$ 122,500,000 | \$ 127,400,000 | \$ 125,400,000 | \$ 129,200,000 |
| Actuarial Value of Plan Assets | \$ 0 | \$ 260,541 | \$ 516,134 | \$ 604,234 | \$ 762,697 |

OPEB Unfunded Liability



Commentary

With a growing retiree population, increases in life expectancy, and increasing health care costs, the OPEB Liability will continue its upward trend. The upward trend line for OPEB is not sustainable in the long term. An Unfunded Liability which is steadily increasing is unfavorable to the City's long-term financial condition and sustainability.

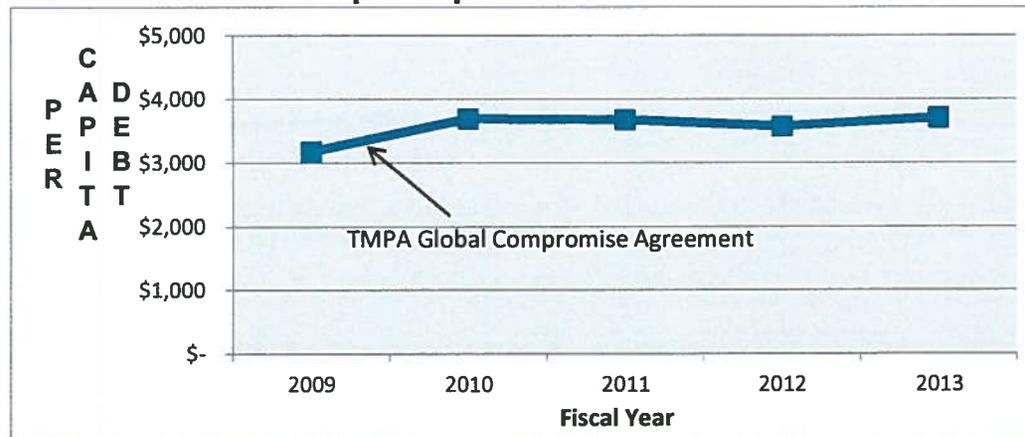
The Other Post-Employment Benefits (OPEB) Liability is the future cost of health care for retirees. The Liability is determined by an actuarial study and is based upon the City's policy of contributing toward retiree health care insurance. The City adopted significant policy changes in February 2008 to control the growth of the Liability. In 2009, a trust fund was established to accumulate a financial reserve to fund future requirements. Since creating the trust fund, the City has been financially unable to pay the entire annually required contributions. Instead, modest deposits have been made into the trust. At September 30, 2013, the funded reserve was \$763,000 and the net Unfunded Liability was \$86 million.

It should be noted that the reported OPEB Unfunded Liability is for the entire City. Information for each fund (General, Electric Utility, Water Utility, Wastewater Utility, etc.) is not developed. The appropriate fund is identified and charged when the payment becomes

City of Garland, Texas
Debt per Capita
Total Combined Debt

| | September 30 | | | | |
|----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| <u>Debt by Type</u> | | | | | |
| Tax-Supported | \$ 281,386,725 | \$ 275,370,088 | \$ 272,471,620 | \$ 260,655,092 | \$ 252,734,450 |
| Electric Utility | 165,860,835 | 283,802,997 | 280,975,000 | 279,064,335 | 338,555,000 |
| Water Utility | 73,965,289 | 79,548,817 | 87,567,614 | 91,485,000 | 94,275,000 |
| Wastewater Utility | 153,704,813 | 158,671,618 | 157,957,386 | 147,155,000 | 138,315,000 |
| Internal Service Funds | 42,612,000 | 40,404,000 | 38,075,000 | 36,335,000 | 34,905,000 |
| Total Combined Debt | \$ 717,529,662 | \$ 837,797,520 | \$ 837,046,620 | \$ 814,694,427 | \$ 858,784,450 |
| | | | | | |
| Population | 225,865 | 226,876 | 227,726 | 228,060 | 231,618 |
| | | | | | |
| Total Debt per Capita | \$ 3,177 | \$ 3,693 | \$ 3,676 | \$ 3,572 | \$ 3,708 |

Debt per Capita - Total Combined



Commentary

Debt per Capita is stable. Strong and reliable revenue streams support the Debt Service.

Rising debt can be an unfavorable trend. On the other hand, a low debt profile may result in an under-investment in capital facilities and infrastructure. An entity must rely upon capital financing when it does not have an exceptionally high revenue stream from Property Taxes and Sales Taxes.

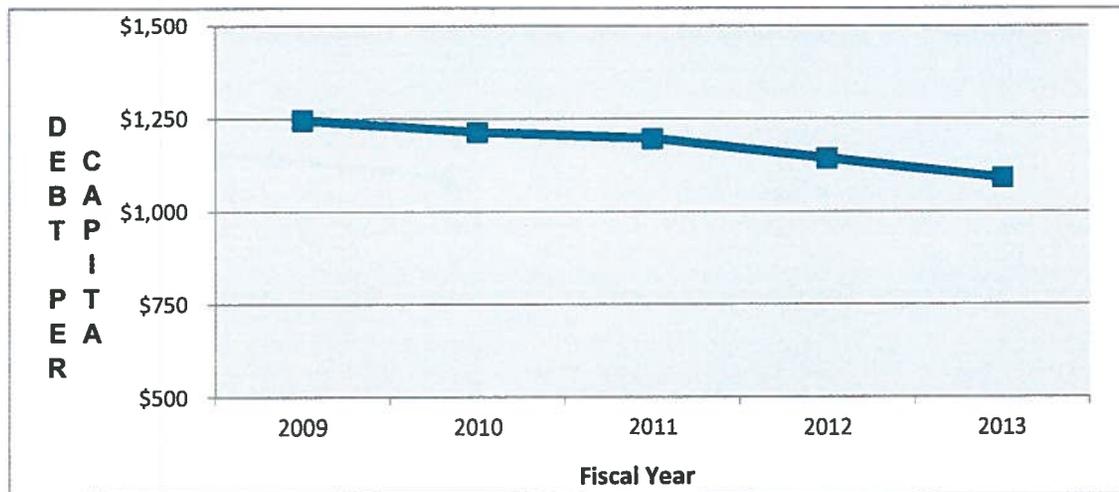
The Combined Debt includes Tax-Supported, Electric Utility, Water Utility, Wastewater Utility, and Internal Service Debt. The substantial increase in 2010 was the result of the TMPA member cities issuing debt in conjunction with the Global Compromise Settlement Agreement.

Debt per Capita increased modestly in 2013. The increase is attributed to the Commercial Paper notes issued during the year to finance the Competitive Renewable Energy Zone transmission lines for the Electric Utility. Revenues beginning in 2015 will provide the Debt Service for this debt.

**City of Garland, Texas
Debt per Capita
Tax-Supported**

| | September 30 | | | | |
|-------------------------------|---------------------|----------------|----------------|----------------|----------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Total Tax-Supported Debt | \$ 281,386,725 | \$ 275,370,088 | \$ 272,471,620 | \$ 260,655,092 | \$ 252,734,450 |
| Population | 225,865 | 226,876 | 227,726 | 228,060 | 231,618 |
| Tax-Supported Debt per Capita | \$ 1,246 | \$ 1,214 | \$ 1,196 | \$ 1,143 | \$ 1,091 |

Debt per Capita - Tax-Supported



Commentary

Garland's Tax-Supported Debt per Capita indicator is very favorable and is managed within a narrow range.

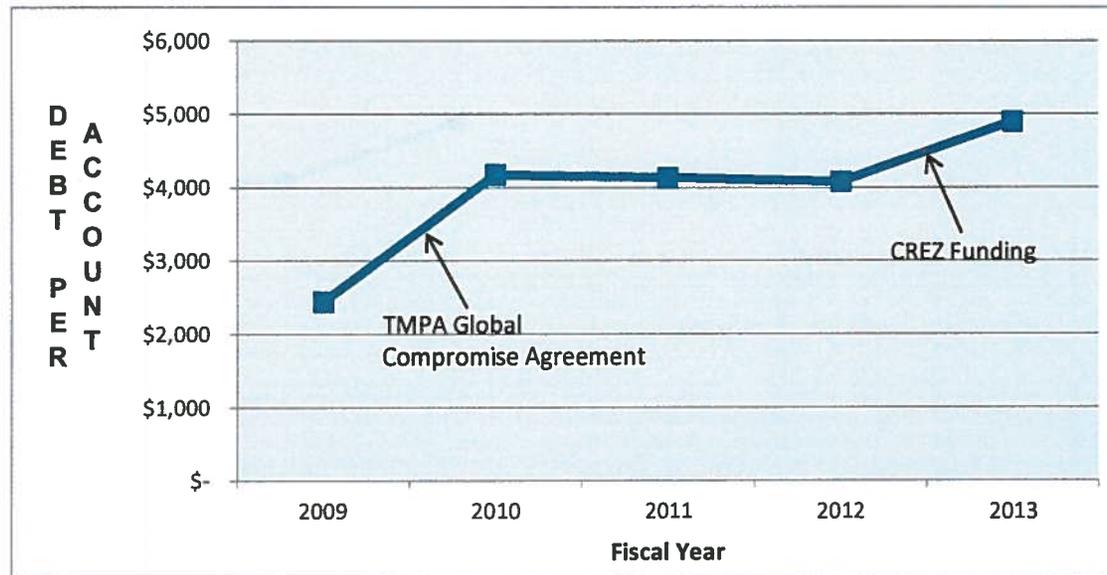
The I & S portion of the Ad Valorem Tax rate is the primary source for the repayment of Tax-Supported Debt. The City's population growth is modest; therefore, debt levels and the tax rate are closely managed to maintain an acceptable Debt Service level. The ability to repay debt without incurring a Property Tax increase is an important criterion in a favorable credit rating. The City maintains adequate reserves, and its financial policies are prudent.

The Debt per Capita trend has experienced a modest decline during the five-year period from 2009 to 2013. This reflects the City's efficient use of Commercial Paper in funding the Capital Improvement Program (CIP). Commercial Paper allows the City to issue debt precisely when it is required. In addition, the Tax-Supported CIP has been pared back for several years to avoid a tax increase.

**City of Garland, Texas
Debt per Account
Electric Utility**

| | September 30 | | | | |
|-----------------------------|---------------------|----------------|----------------|----------------|----------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Total Electric Utility Debt | \$ 165,860,835 | \$ 283,802,997 | \$ 280,975,000 | \$ 279,064,335 | \$ 338,555,000 |
| Number of Electric Accounts | 67,956.00 | 68,001.00 | 68,034.00 | 68,396.00 | 69,126.00 |
| Debt per Account | \$ 2,440.71 | \$ 4,173.51 | \$ 4,129.92 | \$ 4,080.13 | \$ 4,897.65 |

Debt per Account - Electric Utility



Commentary

The debt for each Garland Electric Utility account is \$4,898 in 2013.

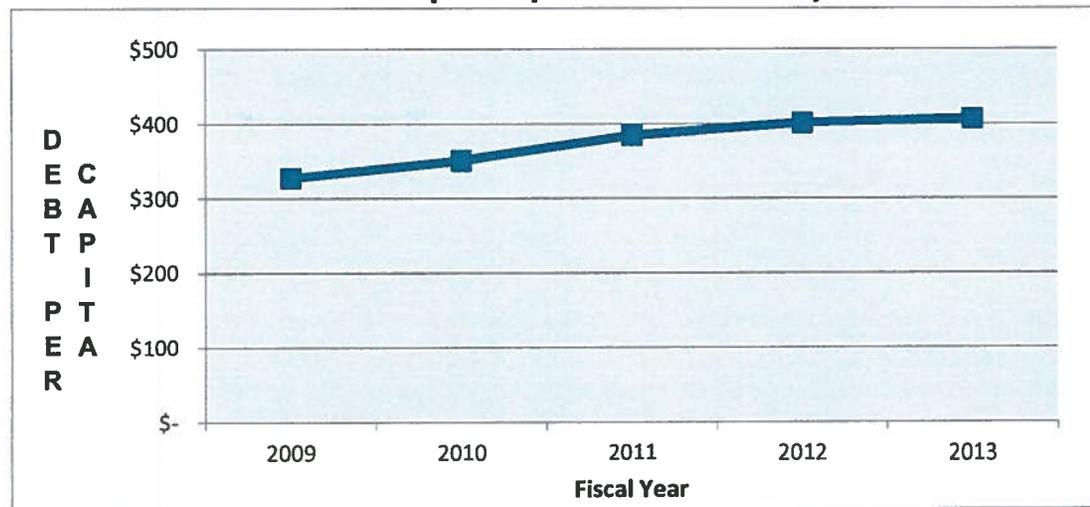
The Electric Utility issues debt to finance various system improvements. As a member of the Texas Municipal Power Agency, the City issued \$126,885,000 in 2010 in connection with the Global Compromise Settlement Agreement. The debt is being amortized over a 20-year period.

The Electric Utility has a very sound financial profile. The effects of the increased debt is being managed with liquidity provided by the Rate Mitigation Fund. The service territory is diverse, and the base load power supply is sound.

**City of Garland, Texas
Debt per Capita
Water Utility**

| | September 30 | | | | |
|---------------------------------|---------------------|---------------|---------------|---------------|---------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Total Water Utility Debt | \$ 73,965,289 | \$ 79,548,817 | \$ 87,567,614 | \$ 91,485,000 | \$ 94,275,000 |
| Population | 225,865 | 226,876 | 227,726 | 228,060 | 231,618 |
| Debt per Capita - Water Utility | \$ 327 | \$ 351 | \$ 385 | \$ 401 | \$ 407 |

Debt per Capita - Water Utility



Commentary

The rising trend in Debt per Capita for the Water Utility is unfavorable.

The Water Utility issues debt to finance Utility System improvements and replacements. The Utility's major projects are the rehabilitation and replacement of pump stations to meet regulatory and mandated requirements. Resources are also dedicated to strategically address transmission line reliability and capacity issues which are related to the Utility's aging system.

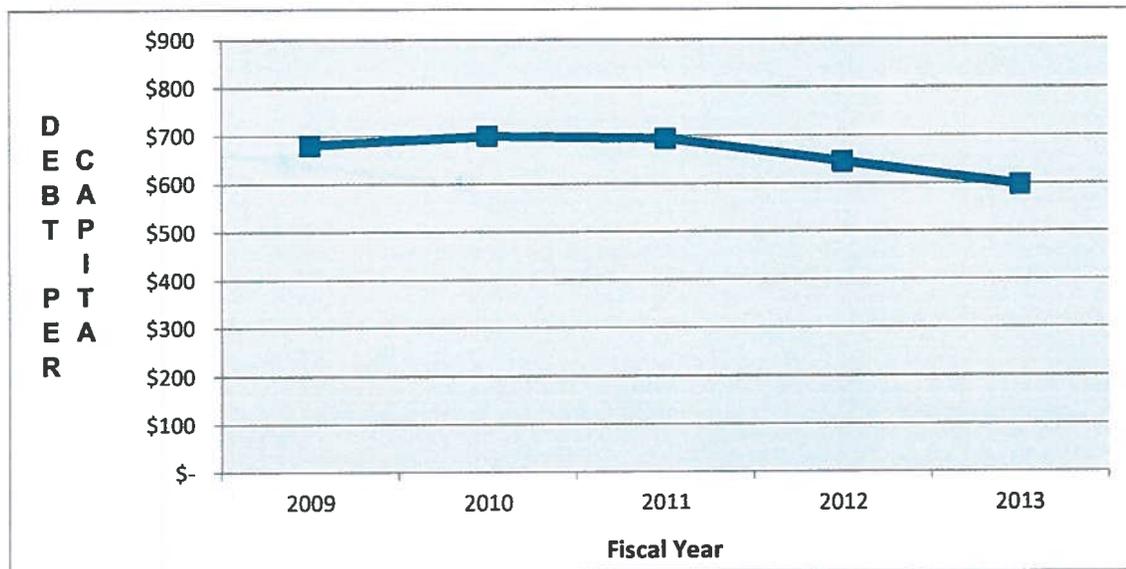
A 2013 credit report indicates that an above average debt profile can diminish overall financial flexibility. Concerns center upon the Utility's ability to maintain key financial metrics which are associated with the assigned credit rating. Specifically, a decline in the Debt Service coverage ratio relative to the net revenues of the system is occurring. Water rates have been increased annually to maintain financial performance. However, rates are now at the upper limit of an acceptable range.

Credit analysis is performed on a combined Water and Wastewater System basis. From that perspective, overall financial position is sound. Management's financial practices focus on a combined Water and Wastewater System approach.

**City of Garland, Texas
Debt per Capita
Wastewater Utility**

| | September 30 | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
| Total Wastewater Utility Debt | \$ 153,704,813 | \$ 158,671,618 | \$ 157,957,386 | \$ 147,155,000 | \$ 138,315,000 |
| Population | 225,865 | 226,876 | 227,726 | 228,060 | 231,618 |
| Debt per Capita - Wastewater Utility | \$ 681 | \$ 699 | \$ 694 | \$ 645 | \$ 597 |

Debt per Capita - Wastewater Utility



Commentary

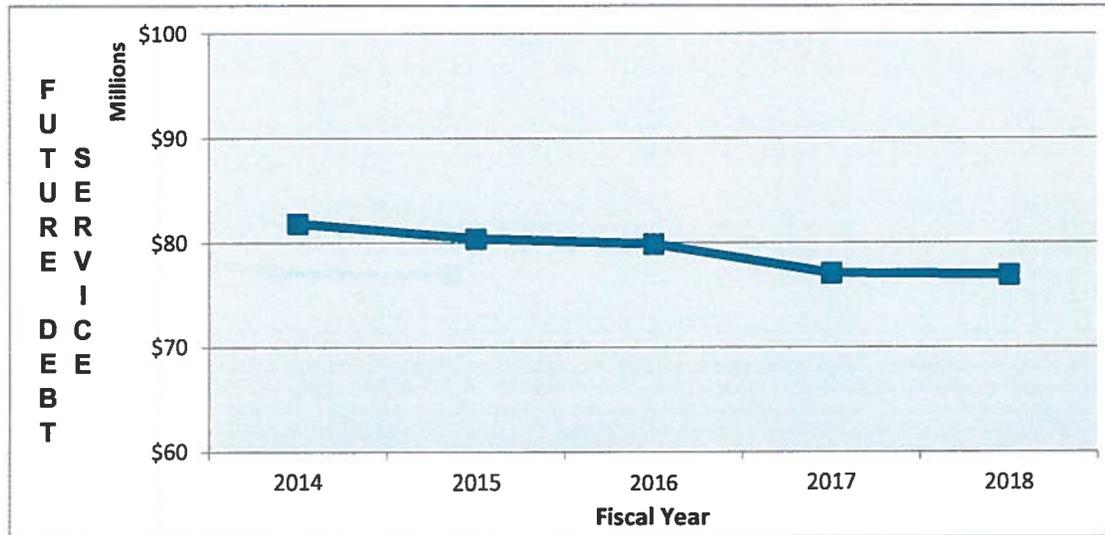
The Wastewater Utility Debt per Capita trend is favorable due to the decline from the recent peak.

The Wastewater Utility issues debt to fund improvements and replacements to the system. A significant portion of funding is used to comply with State and Federal environmental regulations and requirements. Recent major enhancements have been made to the Duck Creek Treatment Plant to improve reliability and capacity while addressing TCEQ regulations. Another major project was the Duck Creek Interceptor which unifies the Rowlett Creek and Duck Creek Treatment Plants. Per Capita Debt will continue to decline for several more years until the funding for anticipated regulatory improvements are required in the future.

**City of Garland, Texas
 Future Annual Debt Service, Principal and Interest
 Total Combined Debt**

| <u>Debt by Type</u> | <u>Fiscal Year</u> | | | | |
|---------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
| Tax-Supported | \$ 29,345,298 | \$ 27,541,221 | \$ 26,502,952 | \$ 24,654,658 | \$ 25,237,019 |
| Electric Utility | 23,287,284 | 23,353,399 | 23,945,864 | 23,961,436 | 23,953,318 |
| Water Utility | 9,130,778 | 9,166,811 | 9,239,071 | 9,089,155 | 8,952,893 |
| Wastewater Utility | 15,062,789 | 15,562,178 | 15,615,102 | 15,009,144 | 14,744,853 |
| Internal Service Funds | 5,002,462 | 4,749,189 | 4,594,320 | 4,372,039 | 4,044,817 |
| Total Debt Service | \$ 81,828,611 | \$ 80,372,798 | \$ 79,897,309 | \$ 77,086,432 | \$ 76,932,900 |

Future Annual Debt Service



Commentary

The future Debt Service trend is favorable.

Bonded debt is sold to finance public assets which have a multi-year life. Debt does not finance current operating expenses. Debt is sold upon the City Council's adoption of the Capital Improvement Program. An asset is financed by debt over a period equal to the life of the asset.

A strategic long-term plan is in place for each debt type. Debt is managed to achieve a level repayment schedule. Unusually large increases or decreases are avoided.

City of Garland, Texas
Underlying Ratings for Outstanding Debt

| <u>Credit Type</u> | <u>Rating Agency</u> | <u>Credit Rating</u> | <u>Outlook</u> | <u>Date of Last Rating</u> |
|-------------------------------------|----------------------|----------------------|----------------|----------------------------|
| Tax-Supported | Fitch Ratings | AAA | Stable | May 13, 2014 |
| | Standard & Poor's | AA + | Stable | May 12, 2014 |
| GO Commercial Paper | Fitch Ratings | F1 + | - | February 14, 2012 |
| | Standard & Poor's | A1 + | - | January 13, 2014 |
| Electric Utility System | Fitch Ratings | AA - | Stable | May 14, 2014 |
| | Standard & Poor's | A + | Stable | May 12, 2014 |
| Electric Commercial Paper | Fitch Ratings | | | |
| | 2012A SMBC | F-1 | - | December 13, 2012 |
| | 2012B Wells Fargo | F-1 | - | December 13, 2012 |
| | Standard & Poor's | | | |
| | 2012A SMBC | A-1 | - | November 27, 2012 |
| | 2012B Wells Fargo | A-1 + | - | November 27, 2012 |
| Water and Wastewater Utility System | Fitch Ratings | AA + | Negative | May 13, 2014 |
| | Standard & Poor's | AA - | Stable | May 12, 2014 |

Commentary

The credit ratings for the City are very favorable.

The credit-worthiness of the City is measured periodically by Fitch Ratings and Standard & Poor's. Both rating services assess the City's financial condition and sustainability at the time new debt is issued. The City is active in the capital markets, so a rating is issued at least annually. Both rating agencies conduct annual surveillance of the City's two Commercial Paper programs since an authorized program can span multiple years.

The City has a solid financial profile and history of strong financial management. Revenue streams are reliable and diverse. Liquidity and adequate reserves are identified strengths. The Electric Utility and the Water Utility have reliable sources for energy and potable water.