STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Garland, Texas; General Obligation

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Table Of Contents

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Summary:

Garland, Texas; General Obligation

Credit Profile		
US$22.665 mil GO Rfdg Bnds ser 2015B dtd 02/01/2015 due 02/15/2025		
Long Term Rating	AA+/Stable	New
US$21.73 mil GO Rfdg Bnds ser 2015A dtd 02/01/2015 due 02/15/2035		
Long Term Rating	AA+/Stable	New
Garland GO		
Long Term Rating	AA+/Stable	Affirmed
Garland GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Garland, Texas' series 2015A and 2015B general obligation (GO) refunding bonds. At the same time, Standard & Poor's affirmed its 'AA+' long-term rating and underlying rating (SPUR) on the city's existing GO bonds. The outlook is stable.

An ad valorem tax, limited by law to $2.50 per $100 of assessed value (AV) and levied against all taxable property within the city, secures the bonds. In our view, the city has significant revenue-raising flexibility because the current tax rate is 70.46 cents per $100 of AV. Officials indicate they will use bond proceeds to refund a portion of the city's outstanding debt for debt service savings.

The rating reflects our assessment of the following factors for the city, specifically its:

- Weak economy, which benefits from its participation in the broad and diverse economy of the Dallas-Fort Worth metropolitan statistical area (MSA);
- Very strong management conditions and strong financial policies;
- Very strong budgetary flexibility, with 2013 audited reserves at 16% of general fund expenditures;
- Very strong liquidity, which provides very strong cash levels to cover both debt service and expenditures;
- Strong budgetary performance, which takes into account recurring transfers from utility funds for payment in lieu of taxes (PILOT);
- Weak debt and contingent liabilities position; and
- Strong institutional framework score.

Weak economy

We consider Garland's economic indicators weak, with projected per capita effective buying income (EBI) at 81%, slightly lower than the current value at 83%, and much weaker than the city's median household EBI at 105%. We view the differential between median household EBI and per capita EBI as indicative of a larger presence of dual-income families. We view the economy as stronger, due to the diverse commercial, retail, and industrial developments that stimulate the economic base. In addition, the city's proximity to Dallas gives it access to the broad and diverse Dallas-Fort Worth-Arlington MSA. Per capita market value for the city is roughly $44,808 for fiscal 2015. AV decreased by a 2.4% annual average rate between 2010 and 2014 due to the lagging effects of the recession. However, AV rebounded by growing 2.8% in fiscal 2015 to $10.5 billion. Dallas County's unemployment rate was 6.7% in 2013.

Very strong management conditions

We consider the city's management conditions very strong, with "strong" financial practices. The management team has not experienced any turnover in recent years. Highlights include the long-standing use of projections for all major operating funds, a capital investment plan with identified funding sources that management updates annually, and strong internal controls for reporting and monitoring.

Very strong budgetary flexibility

In our opinion, the city's budgetary flexibility remains very strong, with reserves at 13% to 16% of expenditures during the past several years. Audited fiscal 2013 results reflect an increase in the available fund balance of $1.4 million to $22.7 million or 16.1% of expenditures. Historically, operating reserves have been very strong and stable. Any surpluses incurred in the operating fund have historically been allocated to one-time expenses in the following fiscal year. The 2014 estimates indicates a surplus of $816,000 despite use of about $1.6 million of available general fund reserves for a one-time salary payment for employees, which brings the reserve level to $25 million or 17% of expenditures. In addition, the adopted 2015 budget calls for a $3.2 million reduction in fund balance also due to one-time items and transfers to streets for equipment and street upgrades, which is estimated to reduce reserves to $22 million or 17% of expenditures. However, given the city's history of conservative budgeting, we expect the available fund balance to remain above 15%.

Very strong liquidity

Supporting the city's finances is liquidity that we consider very strong, with total government available cash equal to 52% of total governmental fund expenditures and more than 3x debt service. We believe the city has exceptional access to external liquidity. It has issued bonds frequently during the past 15 years, including GO bonds (fixed and variable rate), commercial paper notes, and revenue bonds (electric, water, and sewer).

Strong budgetary performance

Budgetary performance has been strong overall. In fiscal 2013, the city experienced a 2.6% surplus for the general fund and a 2.6% surplus for governmental funds after accounting for recurring utility PILOT transfers of $30 million. The results were also adjusted for $1.9 million in one-time general fund expenditures related to a staff retention payment and total governmental fund expenditures made for capital outlays paid from bond proceeds. For fiscal 2014, revised estimates for the general fund show a 0.6% surplus after accounting for regular utility system transfers and one-time items. The fiscal 2015 budget reflects a 0.0% general fund surplus after accounting for regular transfers and one-time items. We do not expect budgetary performance to weaken, given the city's historically conservative practices and despite formal projections of small annual deficits through 2019.

Weak debt and contingent liabilities

The debt and contingent liability profile is weak, with total governmental fund debt service at 15.7% of total governmental fund expenditures and net direct debt at 143% of total governmental fund revenue. The city's debt amortization is rapid in our view, with 72% of principal scheduled to retire within 10 years. The city has one variable-rate issue (series 2007B) that comprises about 7% of its total direct debt; however, the city will no longer have variable rate debt within its debt portfolio subsequent to the series 2015A and 2015B refunding. The city has $145.1 million of authorized, but unissued, bonds remaining. We do not expect the city's medium-term debt plans to significantly affect current debt levels.

The city participates in the Texas Municipal Retirement System to provide pension benefits for employees. The annual pension contribution to the system accounted for 100% of the total annual required contribution in fiscal 2013; the plan is 98.6% funded. The city also contributed $3.9 million to other postemployment benefits (OPEB) in fiscal 2013. Combined, the pension and OPEB contributions amounted to 10% of total governmental fund expenditures.

Strong institutional framework

We consider the city's institutional framework strong. See the Institutional Framework score for Texas.

Outlook

The stable outlook reflects our view of Garland's consistent financial performance and economy, which are supported by very strong management. We do not expect to revise the rating during the next two years, because we believe the city will maintain very strong budgetary flexibility. However, we could lower the rating if available reserves decline to levels we no longer consider very strong. Conversely, while we consider it unlikely, we could raise the rating if the city's economic ratios improve and debt ratios decrease.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Texas Local Governments

Ratings Detail (As Of January 13, 2015)		
Garland GO		
Long Term Rating	AA+/Stable	Affirmed
Garland GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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