Garland, Texas

General Obligation Bonds

New Issue Report

Ratings

New Issues

General Obligation Refunding Bonds, Series 2015A	AAA
General Obligation Refunding Bonds, Taxable Series 2015B	AAA
Outstanding Debt	
General Obligation Bonds	AAA
Certificates of Obligation	AAA

Rating Outlook

Stable

Related Research

Fitch Rates Garland, TX's 2015 Electric Revs 'AA–'; Outlook Stable (January 2015)

Fitch Rates Garland, TX's Water & Sewer New Lien Revs and Rfdg Bonds 'AA+'; Outlook Negative (May 2014)

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New Issue Details

Sale Information: $21,730,000 General Obligation Refunding Bonds, Series 2015A, and $22,665,000 General Obligation Refunding Bonds, Taxable Series 2015B, via competitive sale on Jan. 20.

Security: A limited ad valorem tax pledge of the city of Garland, not to exceed $2.50 per $100 of taxable assessed valuation (TAV).

Purpose: To refund the city's outstanding commercial paper notes and certain maturities for savings as well as pay costs of issuance.

Final Maturity: Series 2015A: Feb. 15, 2035; taxable series 2015B: Feb. 15, 2025.

Key Rating Drivers

Strong Financial Profile: The city maintains a stable financial position and solid reserve levels, enabled by management's conservative, proactive financial practices and prudent fiscal policies. Recent financial performance has benefited from some modest improvement in revenue trends, largely reflecting a strengthening local economy.

Mature Dallas Metro Suburb: The city is part of the larger Dallas-Fort Worth-Arlington (DFW) MSA economy and employment base. Anchored by manufacturing and distribution, Garland's overall economic base remains sound. Year-over-year unemployment is down despite labor force gains; city unemployment levels are lower than the nation's and comparable to those of the state and MSA.

TAV Strengthens: The city's tax base is solid and diverse. TAV continued to strengthen modestly in fiscal 2015 after a period of recessionary declines. Further modest TAV growth is anticipated over the near term, which Fitch Ratings believes is reasonable given various development projects underway.

Debt and Liabilities Manageable: Overall debt levels are above average, in contrast to the city's generally favorable direct debt profile. Amortization of tax-supported principal is rapid. The pension funded position is strong.

Rating Sensitivities

Maintenance of Financial Position: Material deterioration of the city's financial position could signal a fundamental shift in its credit profile, leading to negative rating action. The Stable Rating Outlook reflects Fitch's expectation that such a shift is unlikely, as evidenced by the city's historical financial performance.

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	1/9/15
AAA	Affirmed	Stable	9/29/14
AAA	Affirmed	Stable	5/12/14
AAA	Affirmed	Stable	1/13/14
AAA	Affirmed	Stable	4/25/13
AAA	Affirmed	Stable	5/21/12
AAA	Affirmed	Stable	1/13/11
AAA	Revised[a]	Stable	4/30/10
AA+	Affirmed	Stable	2/11/10
AA+	Affirmed	Stable	4/30/09
AA+	Affirmed	Stable	6/12/08
AA+	Affirmed	Stable	2/9/07
AA+	Affirmed	Stable	3/6/06
AA+	Affirmed	Stable	10/14/05
AA+	Affirmed	Stable	4/13/04
AA+	Affirmed	Stable	4/10/03
AA+	Affirmed	—	4/12/02
AA+	Affirmed	—	4/2/01
AA+	Assigned	—	3/1/00

[a]Reflects rating recalibration.

Related Criteria

Tax-Supported Rating Criteria (August 2012)

U.S. State Government Tax-Supported Rating Criteria (August 2012)

Credit Profile

The city is located approximately 14 miles northeast of downtown Dallas and surrounded by major transportation corridors. Population growth has been minimal since 2000, as the city is near full build-out with a stable population base, currently estimated at 233,000 residents.

Mature City, Stable Manufacturing Center

The city's industrial market is the second largest in the MSA, with a diverse list of manufacturing and distribution concerns that are the primary economic engines for the city. Year-over-year unemployment declined to 4.9% in October 2014 from 6.3% in October 2013 despite a solid 2.3% gain in labor force over the same time period. The city's unemployment rate remained comparable to the state and MSA rate of 4.8% for the same period and lower than the U.S rate of 5.5%. Income and wealth levels as measured by median household income approximate the U.S.'s and slightly exceed the state's, although educational attainment metrics are below national averages.

The city's tax base is primarily residential in nature despite its robust industrial/commercial sector. Top 10 taxpayer concentration is minimal. Recessionary pressures on property valuations saw an end to TAV gains beginning in fiscal 2010, with the city realizing modest 2%–4% annual TAV declines through fiscal 2012. However, TAV regained its footing in fiscal 2013 and held flat to stable at $10.1 billion, evidence of some area economic improvement.

TAV has continued to strengthen modestly since then. The city realized a 3% TAV gain to $10.5 billion in fiscal 2015 due to ongoing improvement in the city's relatively modest home values and housing stock as well as some new development. Additional moderate TAV growth over the near term appears reasonable to Fitch given the reportedly steady permitting activity and various development projects underway. Larger projects include new and expanding manufacturing and warehouse facilities as well as further redevelopment in downtown Garland.

Solid Financial Profile

Operations are supported by a fairly diverse revenue base, led by property taxes that provided nearly 40% of total general operating revenue in fiscal 2013 and sales taxes that provided 20%. Management's timely budget cuts and proactive oversight enabled the city to maintain a stable financial position despite the pressures associated with its relatively mature economy and slow recovery from the recession. The city posted modest net operating deficits after transfers in the general fund in two of the past six fiscal years, but reserves as a percentage of spending have remained stable over this period and well above the city's policy to maintain a 30-day unreserved fund balance.

Conservative revenue estimates and some pullback of pay-as-you-go capital spending in fiscal 2013 contributed to the $2.2 million net operating surplus after transfers and a slightly improved unreserved general fund balance of $22.7 million, or about 15.6% of spending, comfortably above the policy minimum. The city's typically solid liquidity position further improved in fiscal 2013. General fund cash/investments rose from $21.3 million in fiscal 2012 to $27 million, or just over two months of general fund spending, at fiscal 2013 year end.

Sales tax trends remained solid in fiscal 2014, with the city realizing 5% year-over-year growth, or roughly $1.2 million (unaudited), in sales tax revenues above fiscal 2013 actuals. Evidence of this moderate but sustained revenue improvement along with other positive economic metrics supported management's decision to utilize the year's developing surplus and a portion of existing reserves above policy to address some one-time spending priorities. However, a

moderate net surplus of just under $1 million is currently expected to reverse budget expectations, given below-budget spending. Unreserved general fund balance is projected to total $25 million, or roughly 16.7% of spending (unaudited) at fiscal 2014 year end.

The adopted fiscal 2015 $146.3 million general fund budget maintains focus on a measure of catch-up from the restraint of the recession for competitive employee salaries (a roughly $1.0 million recurring pay increase) and additional pay-as-you-go capital funding for streets. To that end, the year's budget anticipates a $3.2 million use of fund balance while maintaining reserves slightly above policy without a property tax increase for the sixth consecutive year. However, the continuation of modest sales tax growth above budget and annual expenditure savings should reduce this expected drawdown and provide enough flexibility to additionally contribute $1 million to bolster the city's internal health insurance fund. Also, Fitch believes management's historically strong fiscal practices, which include a measured pace of pay-as-you-go capital spending, will likely offset a portion of the projected drawdown by fiscal year end.

General Fund Financial Summary

($000, Audited Fiscal Years Ended Sept. 30)

	2009	2010	2011	2012	2013
Revenues	109,278	106,583	106,300	111,083	112,670
Expenditures	126,618	126,438	140,869	140,427	143,450
Operating Surplus/(Deficit)	(17,340)	(19,855)	(34,569)	(29,344)	(30,780)
Transfers In	25,411	27,446	35,595	33,774	34,516
Other Sources	363	68	26	117	362
Transfers Out	(6,841)	(6,330)	(1,882)	(1,858)	(1,898)
Net Operating Surplus/(Deficit) After Transfers	**1,593**	**1,329**	**(830)**	**2,689**	**2,200**
Total Fund Balance	18,875	20,205	19,374	22,064	24,264
As % of Expenditures, Transfers Out and Other Uses	14.1	15.2	13.6	15.5	16.7
Unreserved, Unrestricted Fund Balance	18,480	19,640	18,612	21,305	22,733
As % of Expenditures, Transfers Out and Other Uses	13.8	14.8	13.0	15.0	15.6

Note: Numbers may not add due to rounding.

Debt and Other Long-Term Liabilities Manageable

The overall debt burden is above average at 4.9% of fiscal 2015 market value and largely due to overlapping school district debt, but more moderate on a per capita basis at about $2,750. This is in contrast to the city's generally favorable direct debt profile. Direct debt levels are moderate and well within the city's policy of limiting tax-supported debt to 5.0% of TAV. The city's debt is predominantly fixed rate. Self-supporting debt of the city, primarily from the electric, water and wastewater utilities, represents about 40% of total GO debt, thereby substantially reducing the impact on the city's debt service tax rate. Principal amortization of tax-supported debt is above average, with 78% retired within 10 years.

The city maintains a measured pace of tax-supported and revenue debt issuance annually in support of its capital improvement plan (CIP). A comprehensive, five-year CIP is adopted annually, much of which is driven by various utility system capital projects and expected to be funded by self-supporting debt. The most recent CIP (fiscal years 2014–2019) reflects some growth in the city's nonvoted, tax-supported capital plans, which are up by about $25 million largely due to needs for a new public safety communication system, but nonetheless reflect a still-manageable level at $79 million in total.

Streets are a key capital priority for the city. Voters strongly approved $26 million for street improvements in a November 2013 referendum that effectively approved a $0.02 tax rate increase for this purpose, but which has not been used to date. This approved measure is in addition to the aforementioned capital plans and approximately $145 million that remains outstanding in authorized but unissued GO bonds. Management has established the tax-supported portion of the CIP at a level that allows the city to move ahead with its remaining 2004 bond program, but at a pace that does not trigger a tax rate increase. This is despite a debt service tax rate that remains well below the increase promised voters at the 2004 GO bond election.

Well-Funded Pension Program

The city's pension plan is through the Texas Municipal Retirement System (TMRS), a statewide agent multiple-employer plan. Contribution rates are determined each calendar year. For fiscal years 2011–2013, the city paid 100% of the annual required contribution, which totaled $14.9 million in fiscal 2013, a $2.0 million reduction from the prior year.

Structural and actuarial changes to TMRS approved at the state level significantly boosted the city's funded position to an excellent 98.6% at actuarial date Dec. 31, 2012 (using a 7% investment rate of return) from a below-average 75.9% at Dec. 31, 2009.

The city provides other post-employment benefits (OPEB) through a self-funded single-employer plan. Funding is done annually on a pay-as-you-go basis, which has covered between 55% and 65% of the actuarially determined annual OPEB cost in the past three fiscal years (2011–2013). Fitch's concerns related to not funding the full annual actuarial liability are largely mitigated due to the relatively small OPEB liability; the unfunded actuarial accrued liability remains modest at $86 million, or less than 1% of market value. Carrying costs for the city (pension, OPEB costs and debt service, net of self-supporting enterprise debt) totaled a moderately high but manageable 23% of governmental spending in fiscal 2013 due in large part to the above-average pace of debt principal amortization.

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