

CITY OF GARLAND, TEXAS FINANCIAL CONDITION REPORT

ANALYSIS AND DISCUSSION OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2014

GROWING GARLAND . . .

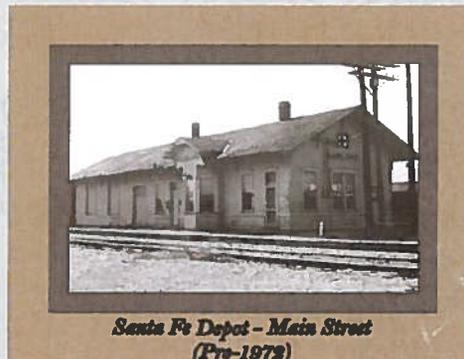
CITY CENTER



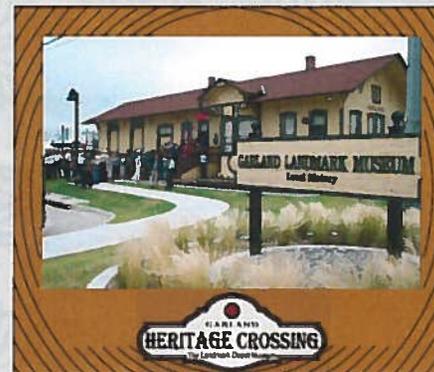
OAKS 5TH STREET CROSSING AT CITY CENTER

CITY HALL

*. . . while Honoring
the PAST*



*Santa Fe Depot - Main Street
(Pre-1872)*



**CITY OF GARLAND, TEXAS
FINANCIAL CONDITION REPORT
SEPTEMBER 30, 2014**

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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 periodic and annual reports. Examples of such efforts include the Management Dashboard Reports, Investment Portfolio Reports, Quarterly Budget Reports, Comprehensive Annual Financial Report (CAFR), and briefings. The preparation of this report is prompted by a desire to provide financial transparency. 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 2009-10 through fiscal year 2013-14. 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

<u>City Council</u>	<u>District</u>
Douglas Athas	Mayor
Marvin "Tim" Campbell, Deputy Mayor Pro Tem	District 1
Anita Goebel	District 2
Stephen W. Stanley	District 3
B.J. Williams	District 4
Billy Mack Williams	District 5
Lori Barnett Dodson	District 6
Scott LeMay	District 7
Jim Cahill, Mayor Pro-Tem	District 8

Selected Administrative Staff

<u>Name</u>	<u>Position</u>
William E. Dollar	City Manager
Martin Glenn	Deputy City Manager
Bryan Bradford	Assistant City Manager

Financial Services Department

David Schuler, Managing Director	Judy Hearne
Steve Anderson	Laura Hendershot
Tana Daniels	Jose Mendoza
Don Daugherty	Elizabeth Morales
Lucy De Laplata	Kathryn Ritchie
Nancy Guerra	Debbie Smith
Robin Hayles	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 reflects a significant improvement.
- Electric Utility – favorable. The Utility has executed strategic initiatives in recent years by capitalizing on its strong liquidity.
- Water Utility – unfavorable. The decline 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 the fiscal year 2011 decline has been maintained.
- Electric Utility – favorable. The Utility is very stable.
- Water Utility – unfavorable. A gradual decline is occurring due to increased long-term debt.
- Wastewater Utility – stable and 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 the most recent years.
- Property Tax Revenue per Capita – unfavorable. The per capita trend reflects a steady decline during the last four years. Fiscal year 2014 remained at the 2013 level.
- Top 5 Taxpayers – very favorable. Top taxpayers are well diversified and not concentrated by industry.
- Property Tax Levy and Collections – very favorable. Collection of current year levies is consistently high. A new all-time high collection rate was achieved in 2014.
- Sales Tax per Capita – modestly favorable. Modest upward trend in the three most recent years is indicative of the subdued recovery from the economic downturn. More robust growth is desirable.
- 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 – favorable. Tax-Support projects funded through the annual CIP have declined in response to declining property tax revenues. The utility departments have maintained their renewal and replacement programs. The CREZ transmission line was energized in fiscal year 2014.

Depreciation on capital assets is a calculation of the decline in the useful life of the asset.

General Fund

- Improvements other Than Buildings – unfavorable. Refurbishment and replacement of street and alley infrastructure is needed.
- Machinery and Equipment – favorable. Old assets are being replaced.
- Buildings – neutral. Existing assets are relatively new and are not obsolete.

Utility Systems

- Electric – favorable. Major additions and replacements are being made to the system.
- Water – favorable. Ongoing replacement of obsolete assets are being made to maintain a reliable system.

- Wastewater – neutral. Enhancements to system facilities are ongoing. In total, assets have half of their useful life remaining.

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 TMRS and the City in prior fiscal years. 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 30.
- Retirement System – neutral. Significant funding progress was made in fiscal years 2011 through 2013 because of system-wide changes as well as benefit changes specific to the City. The increase in the unfunded liability in 2014 was due to the system-wide implementation of updated mortality tables.
- Other Post-Employment Benefits – unfavorable. The unfunded liability, in nominal terms, decreased modestly in 2014. However, due to actuarial assumption changes in determining covered payroll, the unfunded liability as a percent of covered payroll reflects an increase. Staff and actuaries are considering strategies which will decrease the unfunded liability.

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 declining modestly.
- Electric Utility Debt per Account – neutral. The Utility has a solid financial profile, and long-term debt is well managed despite a rising debt service trend line. Additional revenue is being generated from major projects that have been funded by debt.

- 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 gradually decrease beginning fiscal year 2017.
- Wastewater Utility Debt per Capita – favorable. Debt requirements will decline for several years until new regulatory requirements will mandate capital spending for the treatment plants.
- Future Debt Service – modestly favorable. The debt service trend line is gradually declining.
- Underlying Ratings for Outstanding Debt – favorable. The City has a solid financial profile.

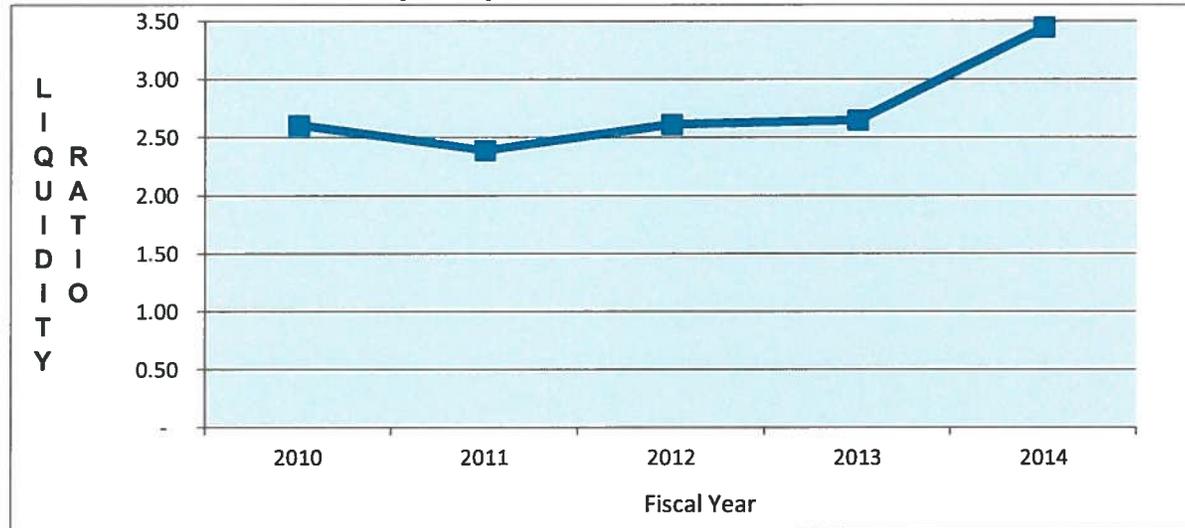
Summary

What is the financial status of the City of Garland? In most respects, the Financial Condition Report reflects favorable indicators for the fiscal year ended September 30, 2014. Liquidity and financial reserves are at levels that demonstrate financial strength, resilience and sustainability. 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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Cash & Cash Equivalents	\$ 14,906,028	\$ 12,613,353	\$ 9,890,355	\$ 9,246,724	\$ 14,858,199
Marketable Securities	5,601,226	7,904,738	11,440,576	17,754,937	14,267,315
Accounts Receivable	12,256,148	12,758,914	14,383,060	11,965,329	12,264,128
Total Current Assets	\$ 32,763,402	\$ 33,277,005	\$ 35,713,991	\$ 38,966,990	\$ 41,389,642
Current Liabilities	\$ 12,558,878	\$ 13,902,511	\$ 13,650,470	\$ 14,703,120	\$ 12,007,076
Liquidity Ratio	2.61	2.39	2.62	2.65	3.45

Liquidity Ratio - General Fund



Commentary

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

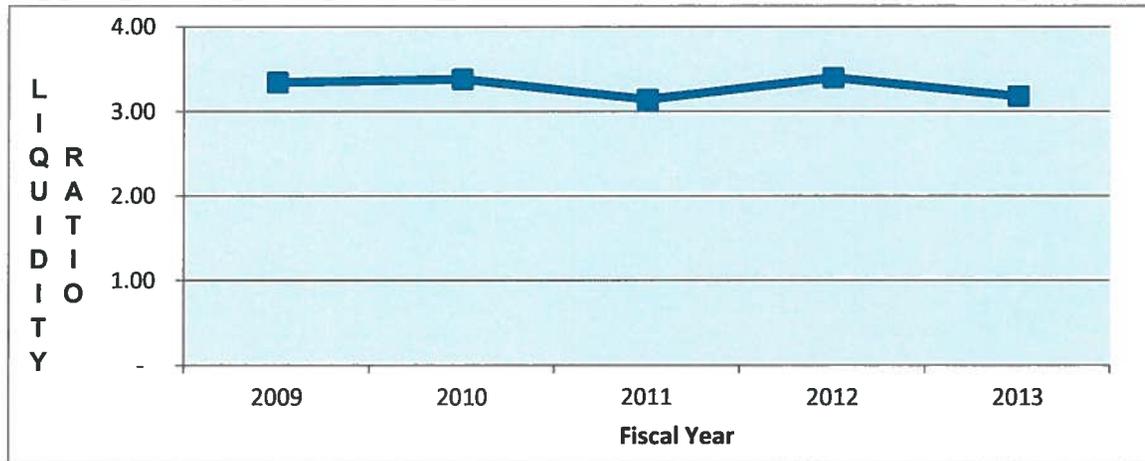
Liquidity is a good measure of the City's short-term financial condition. Poor liquidity is associated with insufficient cash to pay obligations like payroll and accounts payable that are due within one year. A liquidity ratio above 1 is considered to be a positive factor. The liquidity ratio is the 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.

The General Fund liquidity ratio is reporting a sharp increase in 2014. A combination of revenue sources exceeding budget and expenditures below budget contributed to the improvement in the liquidity measure.

City of Garland, Texas
Liquidity - Electric Utility Fund

	September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Cash & Cash Equivalents	\$ 32,159,999	\$ 26,489,898	\$ 20,262,212	\$ 16,786,643	\$ 31,837,620
Marketable Securities	12,285,576	15,395,078	23,594,185	30,979,650	\$ 30,801,882
Accounts Receivable	29,303,290	32,666,607	37,373,122	60,681,407	\$ 52,713,339
Total Current Assets	\$ 73,748,865	\$ 74,551,583	\$ 81,229,519	\$ 108,447,700	\$ 115,352,841
Current Liabilities	\$ 22,039,044	\$ 22,026,966	\$ 25,813,966	\$ 31,890,618	\$ 36,227,360
Liquidity Ratio	3.35	3.38	3.15	3.40	3.18

Liquidity Ratio - Electric Utility Fund



Commentary

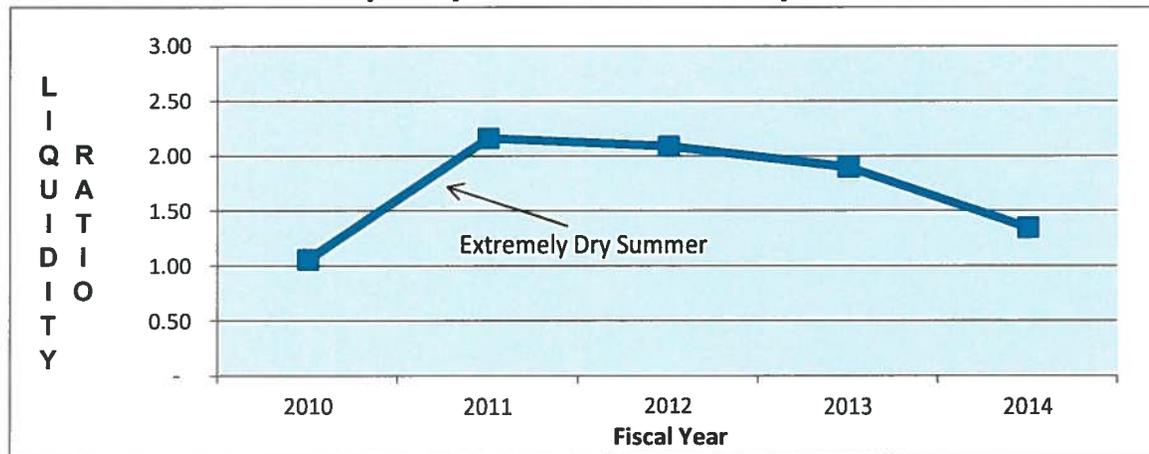
The Electric liquidity ratio is favorable and stable.

The Electric liquidity ratio is very stable for the five year period. Because of sufficient liquidity, the Utility has successfully execute several strategic initiatives which provide incremental revenues to the utility.

City of Garland, Texas
Liquidity - Water Utility Fund

	September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Cash & Cash Equivalents	\$ 183,522	\$ 4,577,880	\$ 4,167,840	\$ 3,110,197	\$ 3,636,550
Marketable Securities	69,843	2,658,466	4,711,455	5,973,319	3,485,368
Accounts Receivable	5,566,252	7,228,166	6,540,952	6,932,667	5,483,607
Total Current Assets	\$ 5,819,617	\$ 14,464,512	\$ 15,420,247	\$ 16,016,183	\$ 12,605,525
Current Liabilities	\$ 5,512,610	\$ 6,688,513	\$ 7,378,861	\$ 8,435,320	\$ 9,358,385
Liquidity Ratio	1.06	2.16	2.09	1.90	1.35

Liquidity Ratio - Water Utility Fund



Commentary

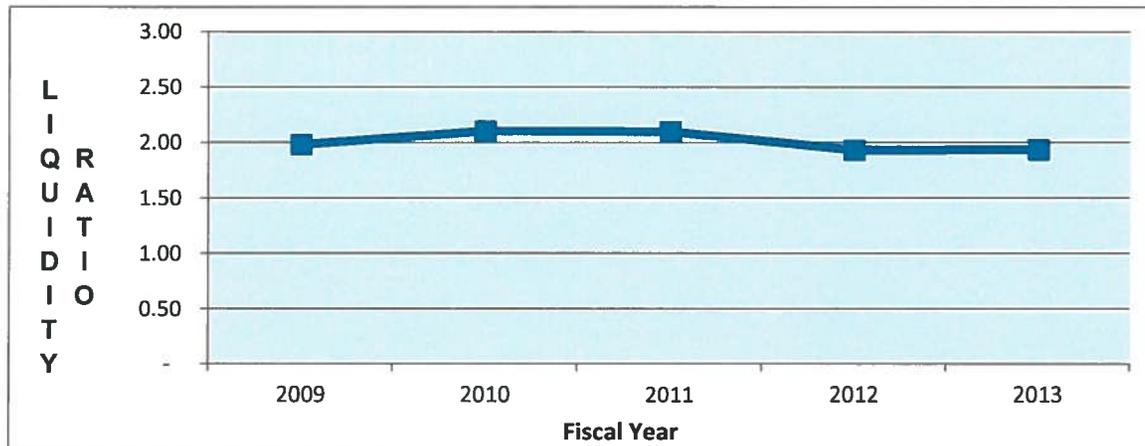
The Water Utility liquidity ratio is unfavorable.

The Water Utility liquidity ratio is experiencing a declining trend beginning in fiscal year 2011. This trend indicates the utility is experiencing several structural issues. The water utility has been issuing greater amounts of long-term debt to address the maintenance needs of 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. Water rate increases have been insufficient to offset the 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 increased customer rates to partially offset the NTMWD increases. Garland water customers have embraced water conservation initiatives. As a result, the Utility will continue to pay for a larger quantity of water than it will sell.

City of Garland, Texas
Liquidity - Wastewater Utility Fund

	September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Cash & Cash Equivalents	\$ 10,923,000	\$ 10,720,736	\$ 8,476,014	\$ 5,867,068	\$ 9,097,139
Marketable Securities	4,171,946	6,229,979	9,585,573	11,273,255	8,736,635
Accounts Receivable	4,400,450	4,492,648	4,253,121	4,495,021	4,629,022
Total Current Assets	\$ 19,495,396	\$ 21,443,363	\$ 22,314,708	\$ 21,635,344	\$ 22,462,796
Current Liabilities	\$ 9,831,060	\$ 10,183,622	\$ 10,620,318	\$ 11,194,356	\$ 11,597,937
Liquidity Ratio	1.98	2.11	2.10	1.93	1.94

Liquidity Ratio - Wastewater Utility Fund



Commentary

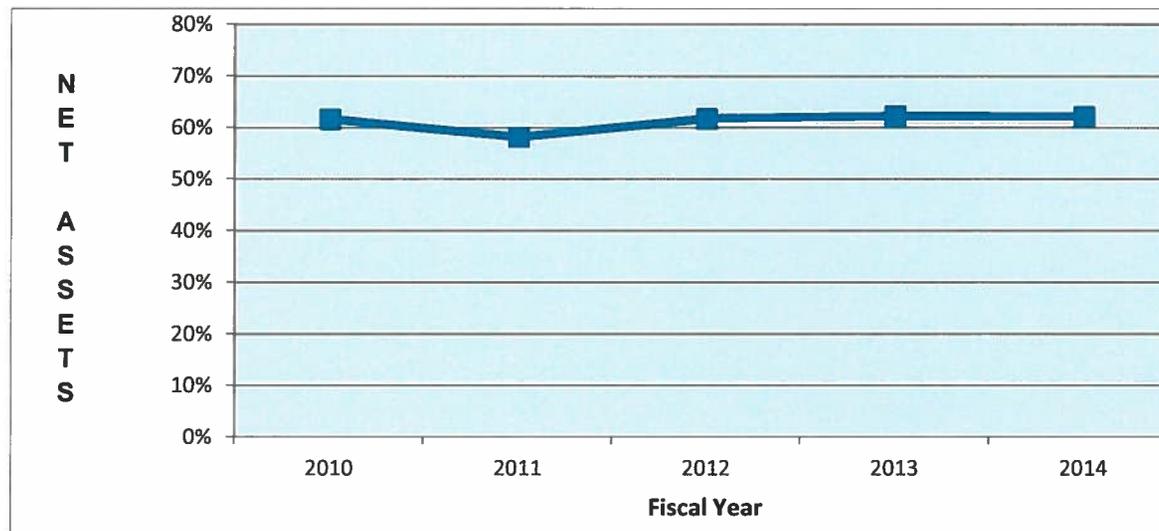
The Wastewater Utility liquidity ratio is favorable and stable.

The Wastewater Utility liquidity ratio is 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**

	<u>September 30</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net Assets to Total Assets	61.67%	58.22%	61.78%	62.27%	62.16%
Net Assets	\$ 20,204,524	\$ 19,374,494	\$ 22,063,521	\$ 24,263,870	\$ 25,729,669
Total Assets	\$ 32,763,402	\$ 33,277,005	\$ 35,713,991	\$ 38,966,984	\$ 41,389,642

Net Assets to Total Assets - General Fund



Commentary

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

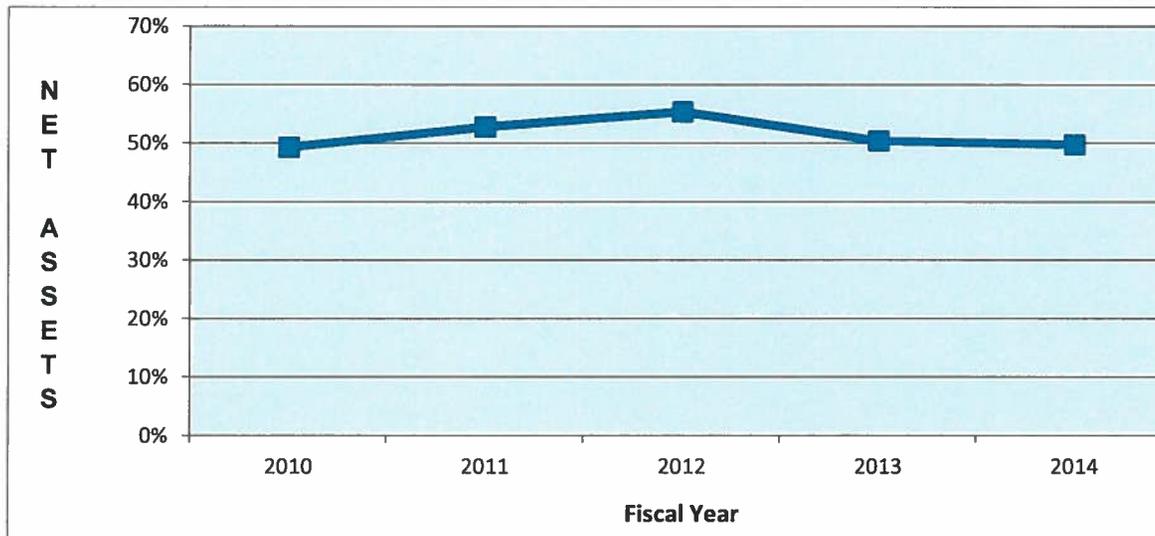
The Net Assets to Total Assets ratio measures long-term financial strength and resilience. Sufficient resources are essential for the City to withstand financial challenges resulting from economic slowdowns, natural disasters or the loss of a major tax payer. The Net Assets ratio is calculated by dividing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

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net Assets to Total Assets	49.35%	52.85%	55.40%	50.45%	49.80%
Net Assets	\$ 306,298,114	\$ 348,840,309	\$ 388,125,808	\$ 395,007,398	\$ 393,947,550
Total Assets	\$ 620,611,594	\$ 660,004,961	\$ 700,543,146	\$ 782,901,640	\$ 791,080,444

Net Assets to Total Assets - Electric Utility Fund



Commentary

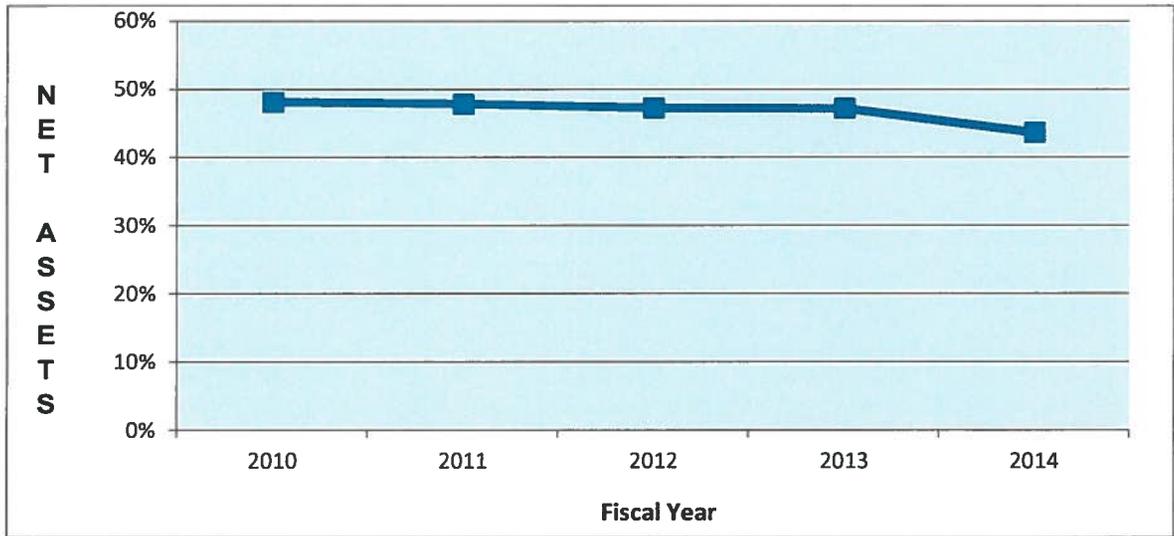
The City of Garland Electric Utility Net Assets to Total Assets indicates a strong financial condition. The Electric Utility is able to execute strategic initiatives without straining current operations.

The Net Assets to Total Assets for the Electric Utility Fund has remained relatively stable.

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

	<u>September 30</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net Assets to Total Assets	48.13%	47.83%	47.25%	47.17%	43.64%
Net Assets	\$ 78,077,570	\$ 86,031,813	\$ 88,384,764	\$ 91,252,144	\$ 88,318,363
Total Assets	\$ 162,232,815	\$ 179,857,271	\$ 187,061,914	\$ 193,471,507	\$ 202,372,648

Net Assets to Total Assets - Water Utility Fund



Commentary

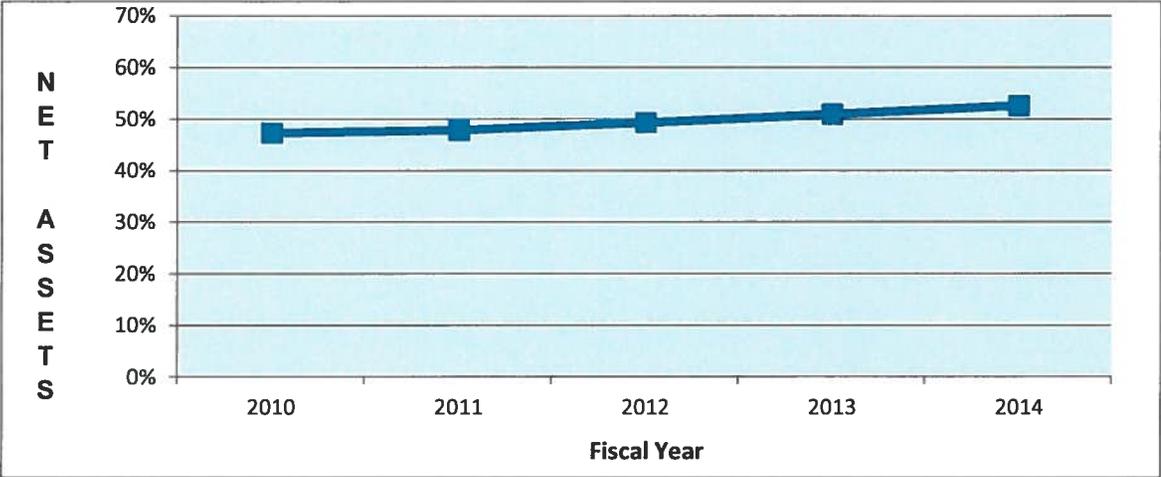
The Water Utility Net Assets to Total Assets is modestly unfavorable.

The Net Assets to Total Assets ratio for the Water Utility Fund is indicating a 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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Net Assets to Total Assets	47.34%	47.87%	49.39%	50.99%	52.62%
Net Assets	\$ 148,685,716	\$ 151,269,380	\$ 152,154,704	\$ 153,005,018	\$ 153,912,166
Total Assets	\$ 314,099,300	\$ 316,013,720	\$ 308,093,869	\$ 300,068,796	\$ 292,487,264

Net Assets to Total Assets - Wastewater Utility Fund



Commentary

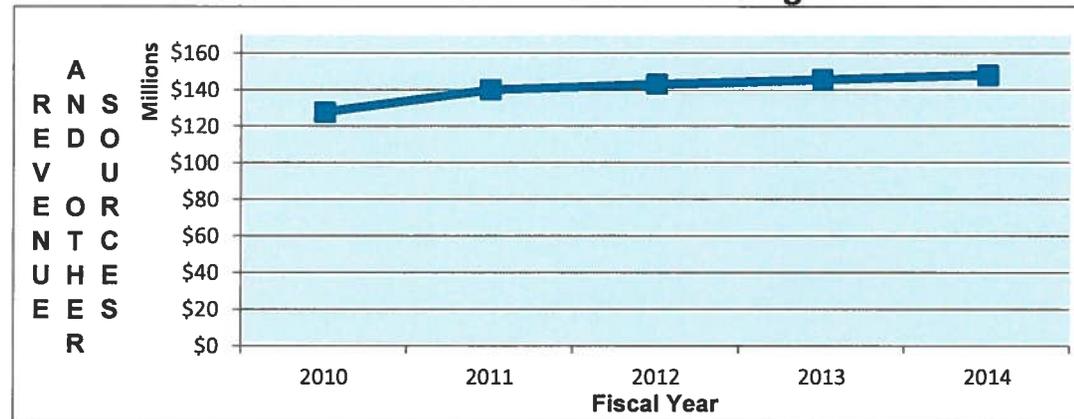
The Wastewater Utility Net Assets indicator reports a very stable financial condition. The upward trend is attributed to a decline in long-term debt.

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Taxes	\$ 71,536,534	\$ 70,635,376	\$ 70,696,279	\$ 71,900,836	\$ 73,836,400
Service Charges	16,929,426	18,102,510	20,411,968	20,239,605	20,791,739
Licenses and Permits	3,085,185	2,893,000	3,751,589	3,393,137	3,781,703
Earnings on Investments	207,698	211,524	240,654	213,732	259,387
Intergovernmental	818,723	725,320	1,073,364	1,190,211	692,291
Intragovernmental	7,430,975	7,871,534	8,010,474	7,973,376	8,002,858
Fines and Forfeits	5,627,058	5,097,867	6,110,138	6,955,299	6,730,988
Rents and Concessions	947,809	763,023	788,504	804,298	833,456
Other Financing Sources	21,183,803	33,739,051	32,032,990	32,980,062	33,229,750
Total General Fund Rev. & Financing Sources	\$ 127,767,211	\$ 140,039,205	\$ 143,115,960	\$ 145,650,556	\$ 148,158,572
Year-Over-Year Percentage Change	-0.35%	9.60%	2.20%	1.77%	1.72%

General Fund Revenue and Financing Sources



Commentary

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

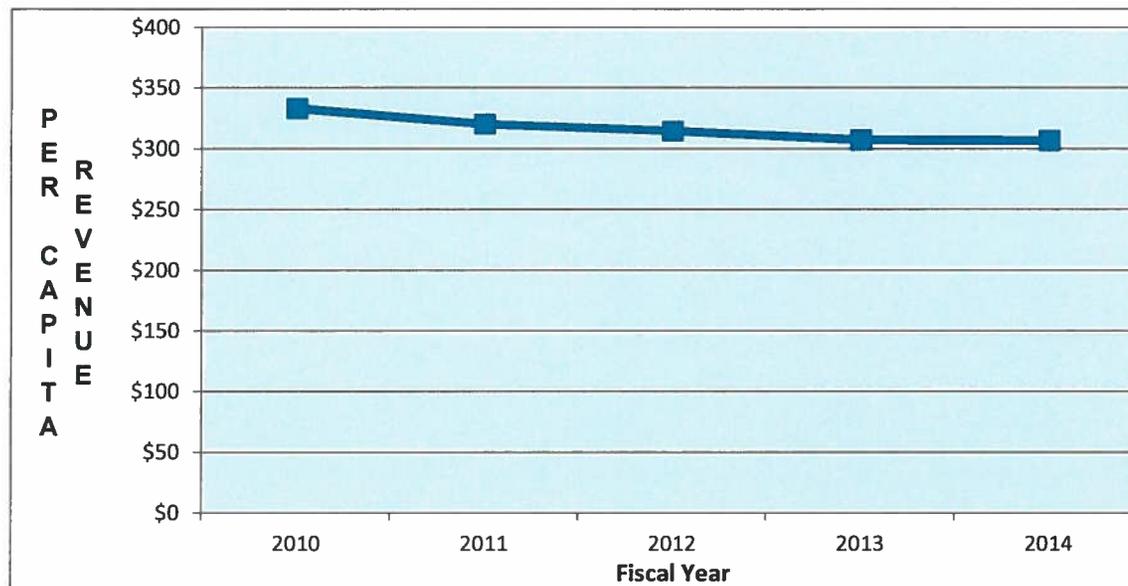
Excluding the Other Financing Sources, General Fund revenues have increased \$8.3 million from 2010 to 2014. As of the end of FYE 2014, the City has surpassed the revenue levels of the pre-economic downturn years.

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Property Tax Revenue per Capita	\$ 333	\$ 320	\$ 314	\$ 307	\$ 307
Total Property Tax Revenue	\$ 75,591,153	\$ 72,960,307	\$ 71,712,486	\$ 71,160,273	\$ 71,507,322
City of Garland Population	226,915	227,726	228,060	231,618	233,206

Property Tax Revenue per Capita



Commentary

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

The trend in Property Tax Revenue per Capita has been downward sloping the four-year period of 2010 to 2013. The indicator has stabilized in 2014. 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.

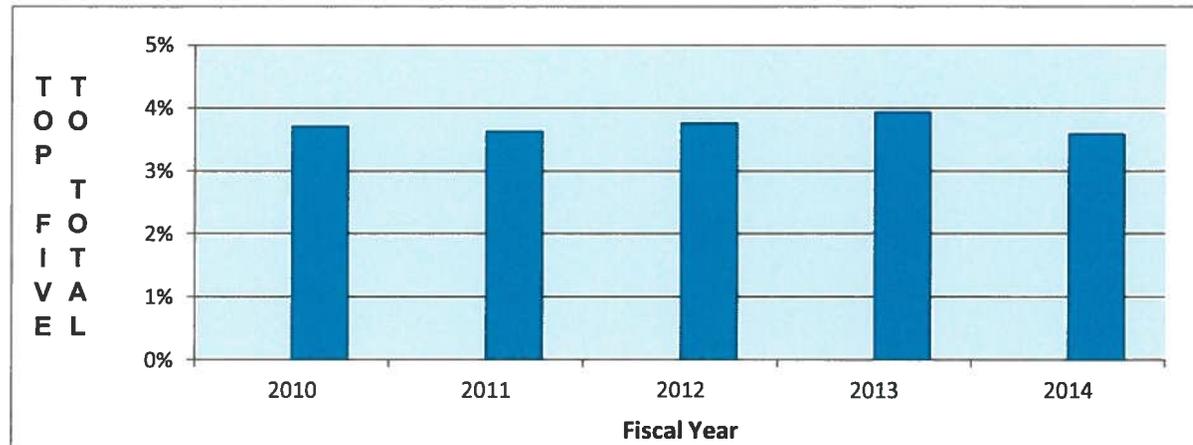
The City's assessed values have recovered from the 2008 decline. The certified property tax base increased modestly for fiscal year 2015. It is possible that the Property Tax Revenue per Capita trend will turn positive as the economy improves.

City of Garland, Texas

Top Five Taxpayers to Total Assessed Taxable Value

	Fiscal Year				
	2010	2011	2012	2013	2014
Wal-Mart/Sam's Club	\$ 112,306,930	\$ 104,150,300	\$ 98,978,610	\$ 101,184,920	\$ 101,023,420
Simon Property Group	109,659,400	99,254,710	87,740,860	91,341,710	94,854,830
Plastipak Packaging	67,353,519	66,999,904	69,557,943	70,419,400	67,746,208
SST Truck Company	-	-	-	53,064,990	-
Valspar/Engineered Polymer	-	-	-	-	49,711,257
Kraft Foods, Inc.	-	-	-	-	-
Verizon	58,436,130	-	58,905,920	48,829,930	50,442,570
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	\$ 403,305,249	\$ 407,608,214	\$ 363,582,815	\$ 364,840,950	\$ 363,778,285
Total Assessed Taxable Value	\$ 10,718,283,371	\$ 10,352,070,835	\$ 10,120,032,899	\$ 9,969,442,009	\$ 10,033,298,135
Top Taxpayers to Total Assessed	3.76%	3.94%	3.59%	3.66%	3.63%

Top Five Taxpayers to Total Assessed



Commentary

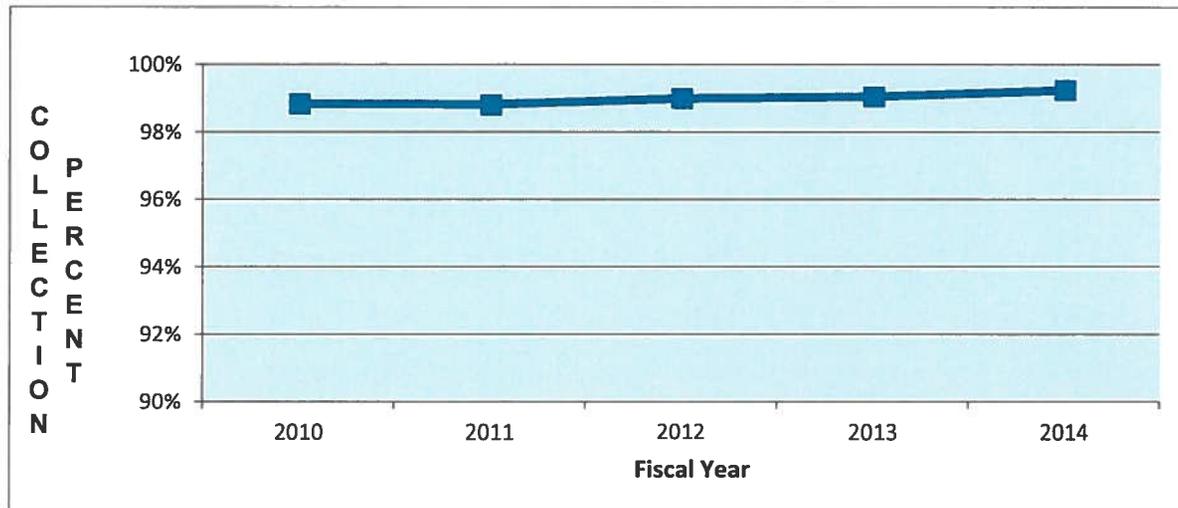
The City's ratio of Top Taxpayers to Total Assessed Value is very favorable. Top taxpayers in the city are well diversified and not concentrated by industry type.

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Collection Percent	98.84%	98.82%	99.00%	99.05%	99.25%
Collections for Current Year Tax Levy	\$ 74,800,032	\$ 72,238,056	\$ 70,589,967	\$ 70,130,748	\$ 70,536,234
Property Tax Levy	\$ 75,678,090	\$ 73,103,186	\$ 71,301,935	\$ 70,801,851	\$ 71,071,583

Property Tax Collection Percent



Commentary

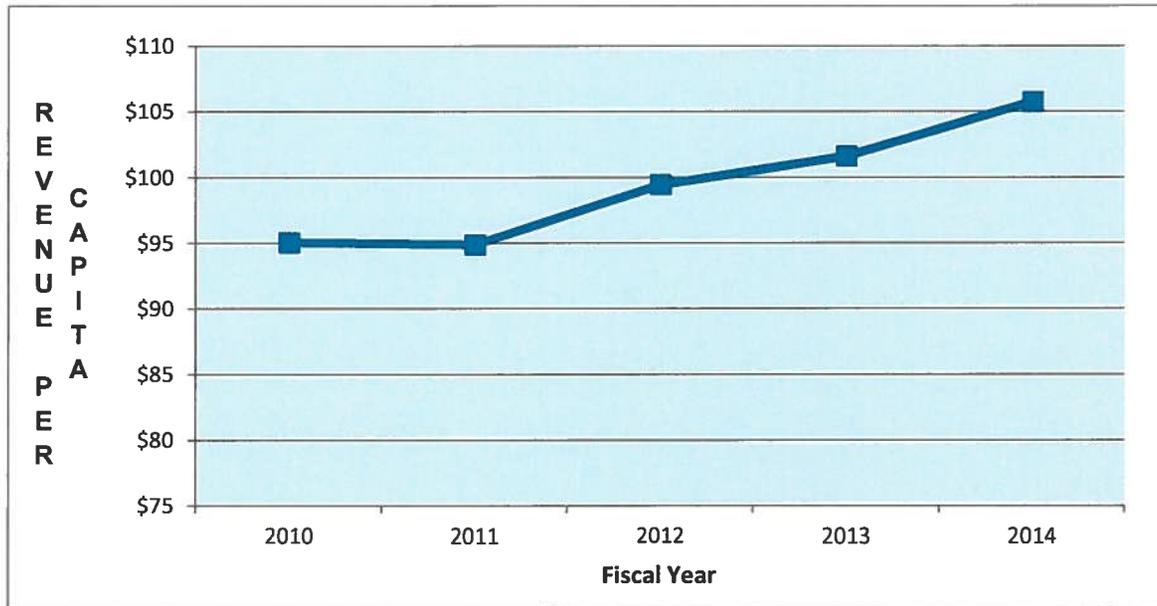
The collection of Property Taxes is very favorable.

The current year collections of the Property Tax Levy is consistently high. The 99.25% rate in 2014 is the highest rate in history. 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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Sales Tax Revenue per Capita	\$ 95.07	\$ 94.89	\$ 99.47	\$ 101.62	\$ 105.78
Total Sales Tax Revenue	\$ 21,573,549	\$ 21,609,756	\$ 22,684,164	\$ 23,537,389	\$ 24,667,765
City of Garland Population	226,915	227,726	228,060	231,618	233,206

Sales Tax Revenue per Capita



Commentary

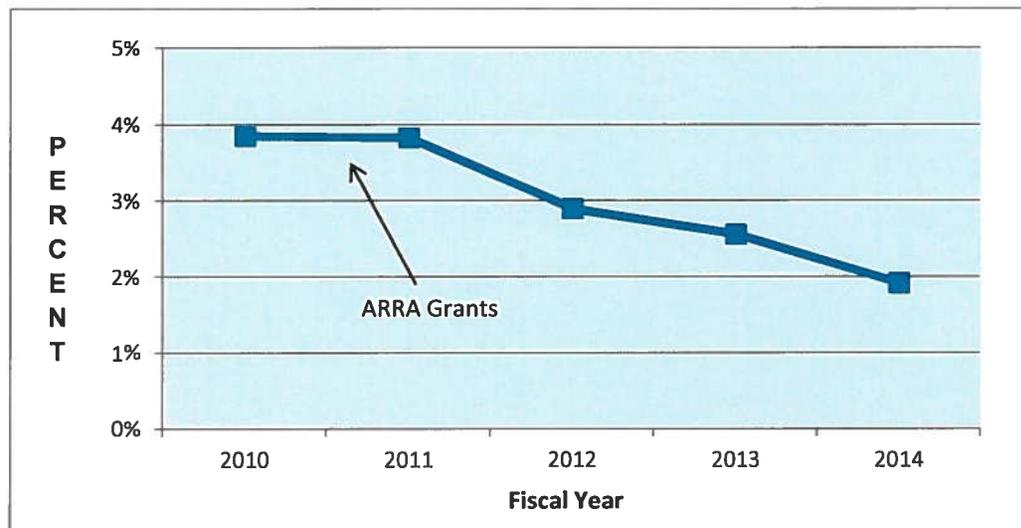
Sales Tax Revenue for the City indicates a modestly favorable trend.

The Sales Tax Revenue per Capita indicator reports improvement for the last three years. The 2014 Sales Tax Revenue per Capita exceeds the previous high set in 2008. Total sales tax revenue is significantly below other DFW Metroplex cities. A framework for economic development 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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Intergovernmental Revenue Percent	3.84%	3.82%	2.89%	2.56%	1.92%
Total Intergovernmental Revenue	\$ 19,185,096	\$ 19,571,449	\$ 14,499,683	\$ 14,889,614	\$ 12,677,785
Total Revenue	\$ 499,062,424	\$ 511,813,260	\$ 500,865,233	\$ 581,485,274	\$ 660,838,443

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.

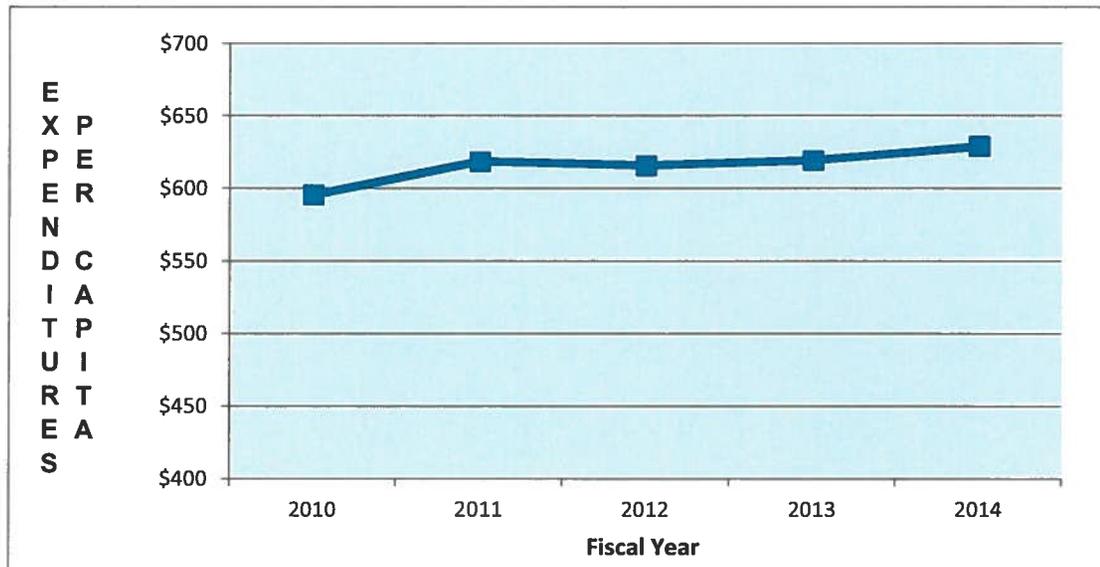
The amount of Intergovernmental Revenue received from other governmental entities indicates the City's reliance upon external funding sources to support services. A high or increasing reliance on Intergovernmental Revenues can be unfavorable. If this revenue source is reduced or withdrawn, the City must 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.

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

	Fiscal Year				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Operating Expenditures per Capita	\$ 596	\$ 619	\$ 616	\$ 619	\$ 629
General Government	\$ 9,691,138	\$ 9,137,993	\$ 9,083,662	\$ 9,679,317	\$ 9,763,970
Public Safety	74,890,153	77,463,425	77,639,802	78,338,393	79,341,146
Public Works	17,422,849	19,151,977	18,457,911	17,391,246	19,617,640
Culture and Recreation	12,641,150	13,245,845	12,794,896	13,218,113	13,371,187
Public Health	3,189,738	3,174,073	3,364,592	3,579,737	3,606,072
Non-Departmental	17,315,649	18,695,922	19,086,070	21,243,401	20,992,758
Total General Fund Operating Expenditures	\$ 135,150,677	\$ 140,869,235	\$ 140,426,933	\$ 143,450,207	\$ 146,692,773
City of Garland Population	226,915	227,726	228,060	231,618	233,206

Operating Expenditures per Capita



Commentary

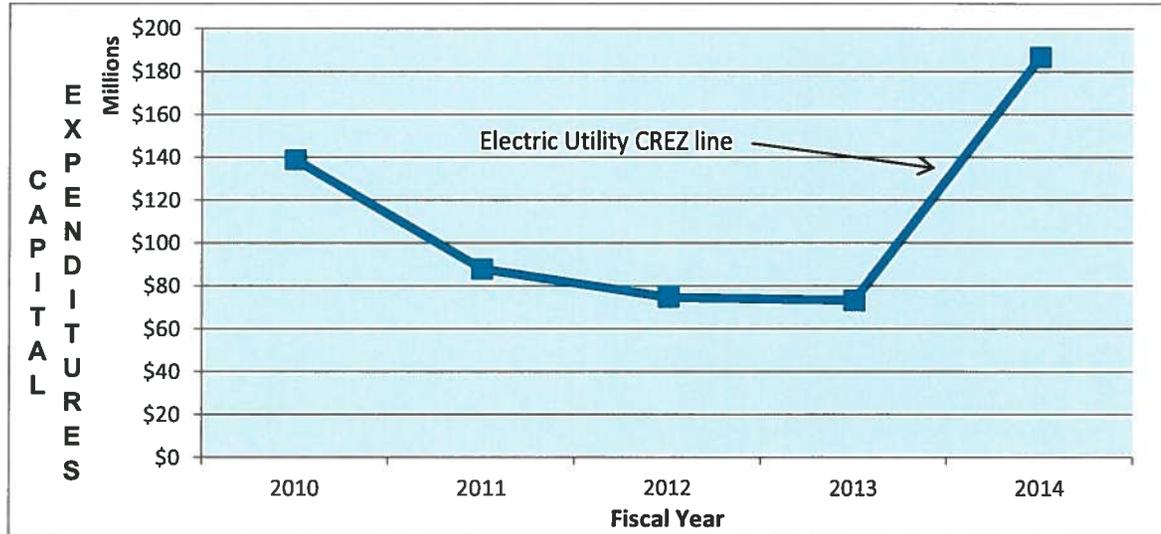
The General Fund Operating Expenditures per Capita indicator is favorable and stable.

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Tax-Supported	\$ 29,899,003	\$ 29,728,854	\$ 18,745,889	\$ 19,210,715	\$ 17,504,696
Electric Utility	32,850,780	19,023,252	29,702,102	13,578,924	\$ 112,048,235
Water Utility	23,433,853	12,318,257	10,920,090	14,481,650	\$ 28,171,614
Wastewater Utility	12,703,771	13,445,147	7,129,745	16,663,634	\$ 17,561,207
Non-Major Enterprise Funds	1,189,114	1,751,949	2,935,484	2,338,362	\$ 6,318,812
Internal Service Funds	38,834,336	11,608,118	5,301,736	7,048,397	\$ 5,230,004
Total Capital Expenditures	<u>\$ 138,910,857</u>	<u>\$ 87,875,577</u>	<u>\$ 74,735,046</u>	<u>\$ 73,321,682</u>	<u>\$ 186,834,568</u>

Total Capital Expenditures



Commentary

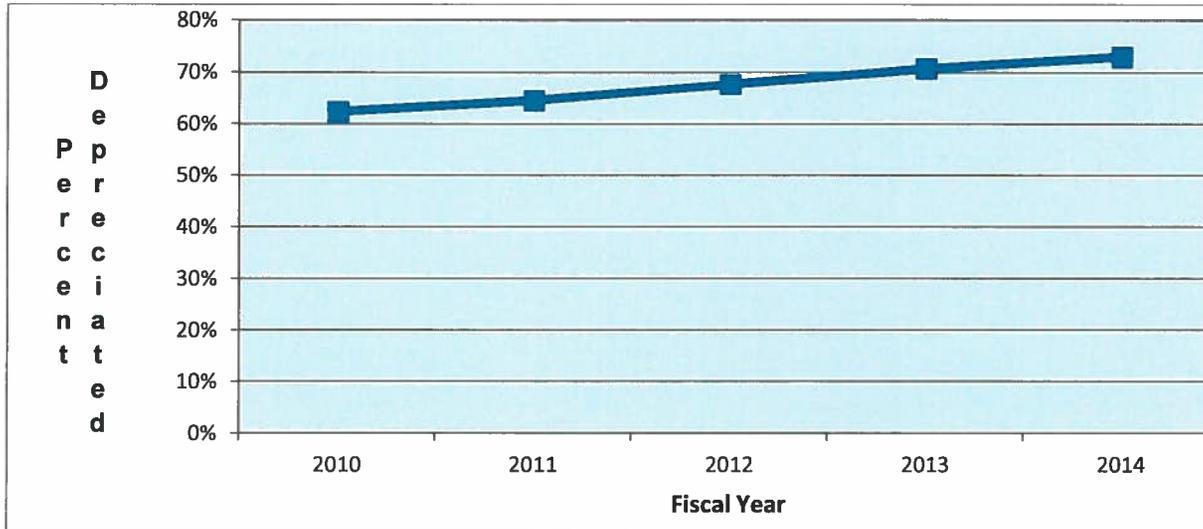
The Capital Expenditures indicator is favorable.

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 Operating Budget.

**City of Garland, Texas
 Depreciation on Capital Assets
 Improvements Other Than Buildings - General Fund**

	September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Percent of assets fully depreciated	62.41%	64.52%	67.67%	70.78%	72.99%
Depreciation on improvements other than buildings	\$ 257,140,243	\$ 278,183,668	\$ 296,249,136	\$ 315,332,977	\$ 330,794,791
Original cost of improvements other than buildings	\$ 412,033,145	\$ 431,167,700	\$ 437,799,191	\$ 445,540,916	\$ 453,185,302

Improvements Other Than Buildings - General Fund



Commentary

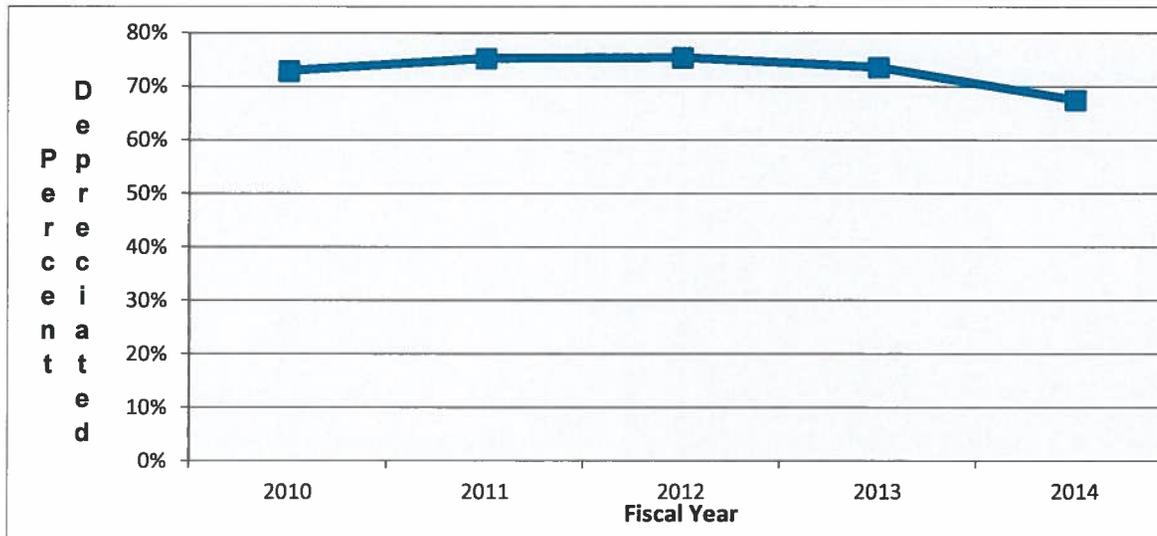
This indicator is unfavorable.

Improvements Other Than Buildings consist primarily of streets, alleys and associated infrastructure. The assets have useful lives that range from fifteen to forty-five years. A renewed emphasis has been placed on reburishing and replacing streets and alleys since a large portion of existing assets have reached the end of their useful life.

**City of Garland, Texas
 Depreciation on Capital Assets
 Machinery and Equipment - General Fund**

	<u>September 30</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Percent of assets fully depreciated	72.95%	75.23%	75.42%	73.63%	67.55%
Depreciation on machinery and equipmnet	\$ 64,600,127	\$ 70,632,324	\$ 73,615,005	\$ 74,037,849	\$ 56,744,477
Original cost of machinery and equipment	\$ 88,549,684	\$ 93,885,150	\$ 97,603,393	\$ 100,558,991	\$ 83,998,990

Machinery and Equipment - General Fund



Commentary

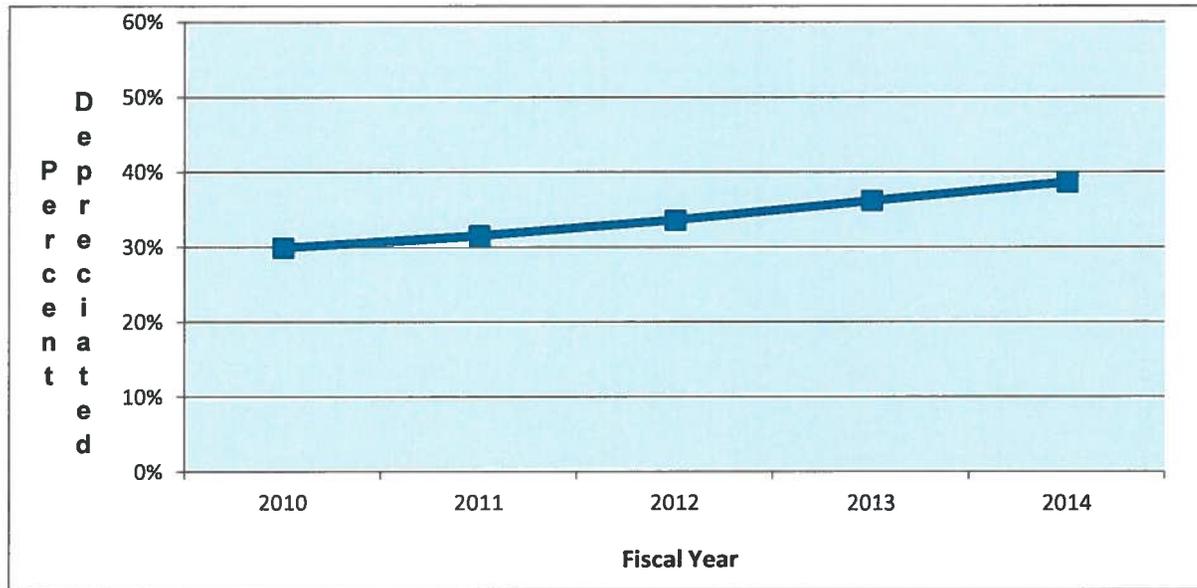
The indicator is stable and modestly favorable.

The Machinery and Equipment asset category consists of HVAC, furniture, vehicles and off-road equipment. The assets lives range from two to fifteen years. The majority of these assets are used to provide services to the public. Reliability and functionality are essential factors of these assets.

**City of Garland, Texas
 Depreciation on Capital Assets
 Buildings - General Fund**

	September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Percent of assets fully depreciated	29.95%	31.58%	33.64%	36.21%	38.68%
Depreciation on buildings	\$ 29,817,514	\$ 32,396,101	\$ 35,060,733	\$ 37,772,722	\$ 40,419,767
Original cost of buildings	\$ 99,560,745	\$ 102,579,364	\$ 104,210,008	\$ 104,303,148	\$ 104,500,959

Buildings - General Fund



Commentary

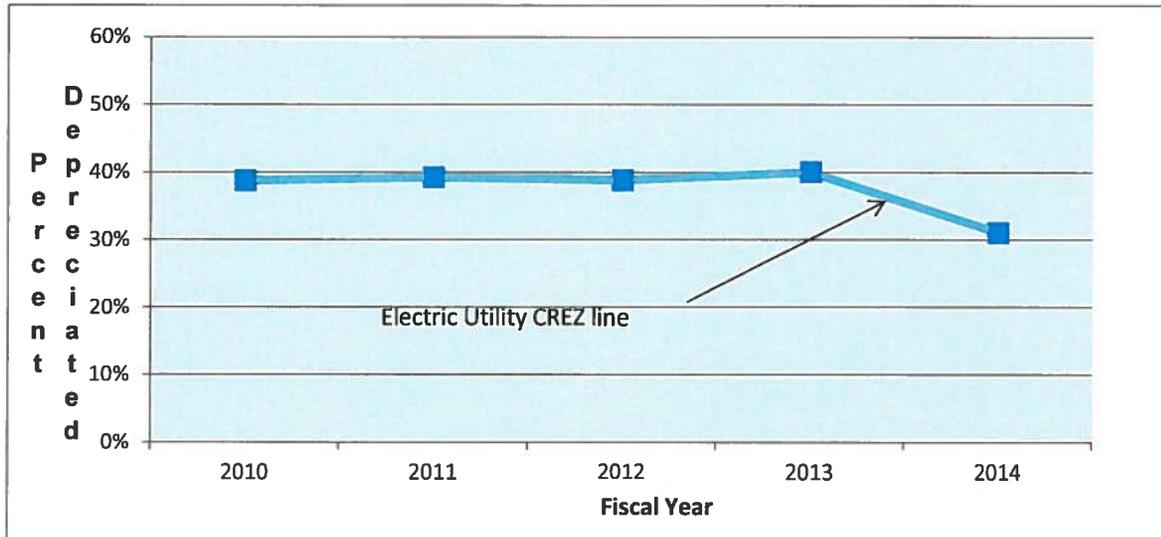
The Buildings category is neutral.

General Fund Buildings include the buildings for Public Safety and various support departments. These assets have a useful life range of fifteen to forty years. The useful life depends on the structure type.

**City of Garland, Texas
Depreciation on Capital Assets
Electric Utility System**

	September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Percent of assets fully depreciated	38.78%	39.30%	38.85%	40.06%	31.09%
Depreciation on buildings	\$ 149,914,710	\$ 156,311,108	\$ 162,225,886	\$ 170,757,000	\$ 162,225,886
Original cost of buildings	\$ 386,619,954	\$ 397,729,870	\$ 417,549,738	\$ 426,218,077	\$ 521,842,370

Electric Utility System



Commentary

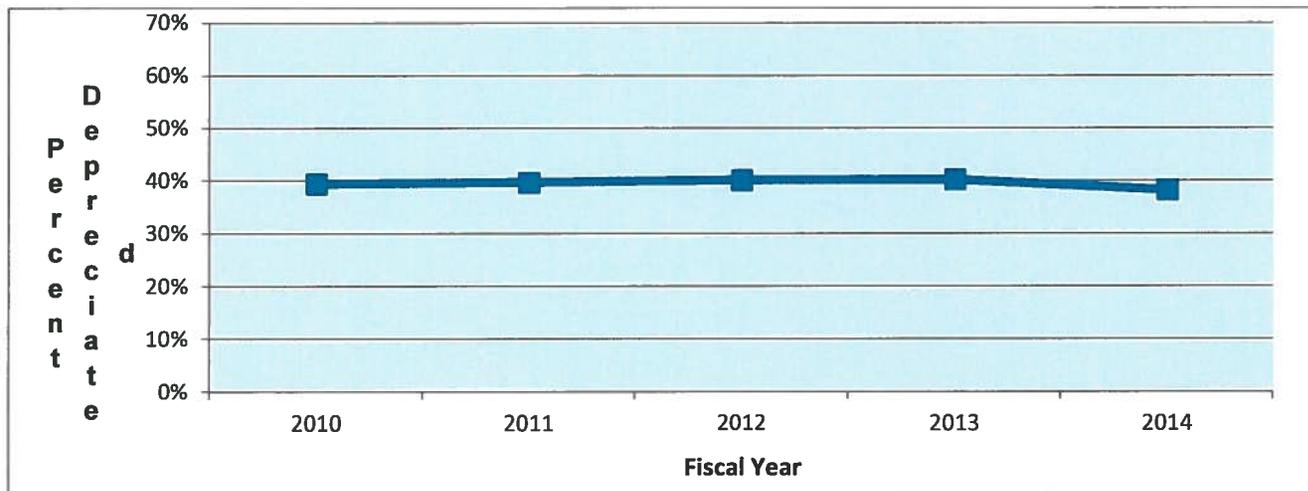
The indicator is favorable.

The Electric Utility system assets consist of production, transmission, distribution and administration infrastructure and equipment. Useful lives range from two years to forty-five years. Additions to the system are made on a regular basis to ensure reliable service. In fiscal year, the CREZ transmission line was completed and energized.

**City of Garland, Texas
 Depreciation on Capital Assets
 Water Utility System**

	September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Percent of assets fully depreciated	39.46%	39.75%	40.19%	40.29%	38.32%
Depreciation on buildings	\$ 80,345,378	\$ 85,811,058	\$ 90,864,932	\$ 96,933,855	\$ 102,434,621
Original cost of buildings	\$ 203,609,293	\$ 215,896,166	\$ 226,109,084	\$ 240,590,732	\$ 267,340,148

Water Utility System



Commentary

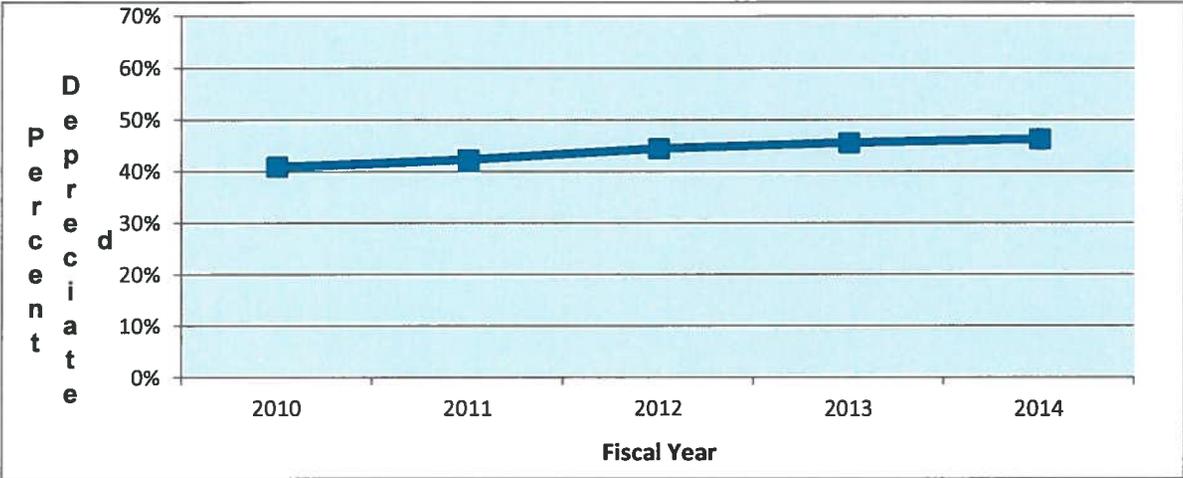
The indicator is favorable.

The Water Utility system assets consist of distribution and administration equipment and facilities. Useful lives of the assets range from two years to forty-five years. Replacement and additions to the system are an ongoing process to ensure reliability of service.

**City of Garland, Texas
 Depreciation on Capital Assets
 Wastewater Utility System**

	September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Percent of assets fully depreciated	40.93%	42.37%	44.53%	45.65%	46.37%
Depreciation on buildings	\$ 160,755,099	\$ 171,944,237	\$ 183,892,276	\$ 196,084,515	\$ 206,077,318
Original cost of buildings	\$ 392,763,914	\$ 405,854,732	\$ 412,943,598	\$ 429,550,285	\$ 444,432,881

Wastewater Utility System



Commentary

The indicator is neutral.

Wastewater Utility system assets consist of collection, treatment and administration facilities and equipment. Useful asset lives range from 2 year to forty-five years. Enhancements to collection and treatment facilities are ongoing to meet mandated requirements and standards.

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:

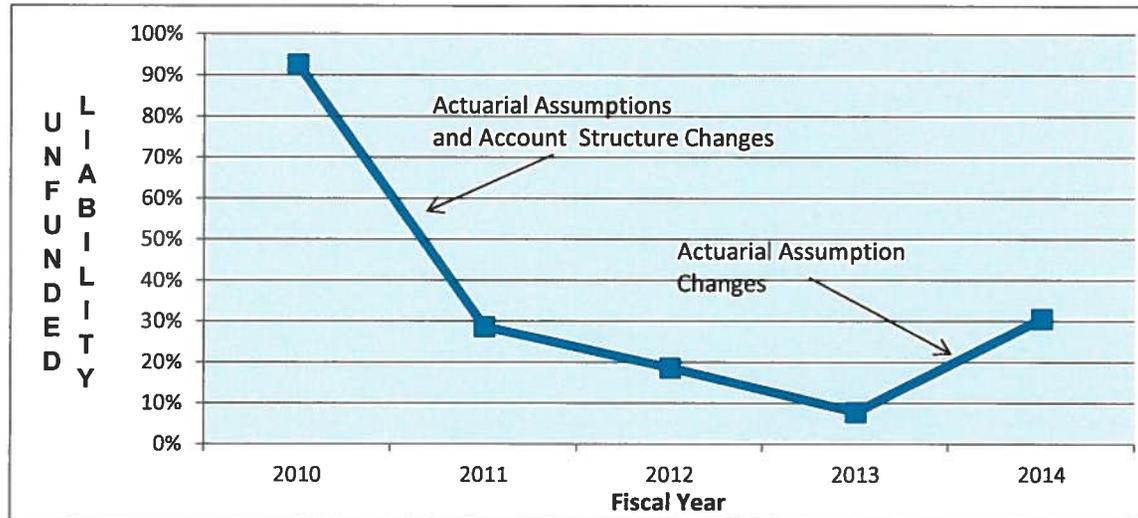
- Age 60 with 5 years of service
- Any age with 20 years of service

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Unfunded Liability as % of Payroll	92.66%	28.75%	18.67%	7.88%	30.66%
Unfunded Liability	\$ 116,632,505	\$ 34,687,310	\$ 22,722,703	\$ 9,797,444	\$ 39,021,938
Total Covered Payroll (Actuarial)	\$ 125,871,786	\$ 120,641,657	\$ 121,677,308	\$ 124,371,393	\$ 127,271,478
Value of Plan Assets	\$ 366,884,729	\$ 621,330,352	\$ 661,956,058	\$ 704,046,535	\$ 748,331,339

TMRS Unfunded Liability as Percent of Payroll



Commentary

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

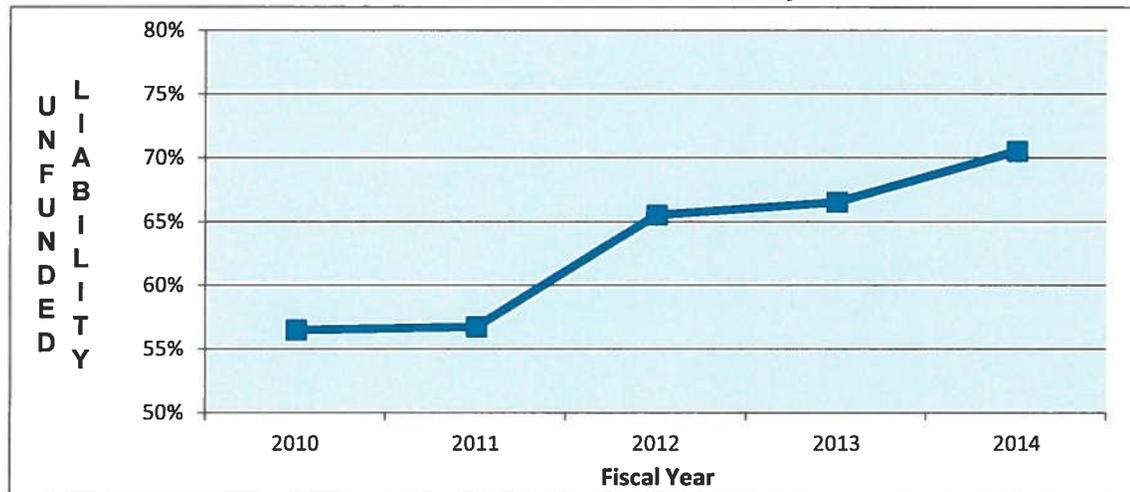
Texas Municipal Retirement System is the statewide retirement system which administers retirement benefits for Garland retirees. The City is required to pay the annual required contribution to TMRS for the benefits that are offered. Significant changes to the system occurred between 2008 and 2011. In 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. The implementation of updated mortality tables effective January, 2014 caused the Unfunded Liability to increase.

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Unfunded Liability as % of Payroll	56.49%	56.76%	65.53%	66.54%	70.53%
Unfunded Liability	\$ 69,203,450	\$ 72,318,244	\$ 82,174,426	\$ 85,969,997	\$ 85,463,305
Total Covered Payroll (Actuarial)	\$ 122,500,000	\$ 127,400,000	\$ 125,400,000	\$ 129,200,000	\$ 121,174,000
Value of OPEB Trust Assets	\$ 260,541	\$ 516,134	\$ 604,234	\$ 762,697	\$ 1,331,521

OPEB Unfunded Liability



Commentary

A growing retiree population, increases in life expectancy, and increasing health care costs have caused the increases to the OPEB Liability. An increasing Unfunded Liability is unfavorable to the City's long-term financial condition and sustainability.

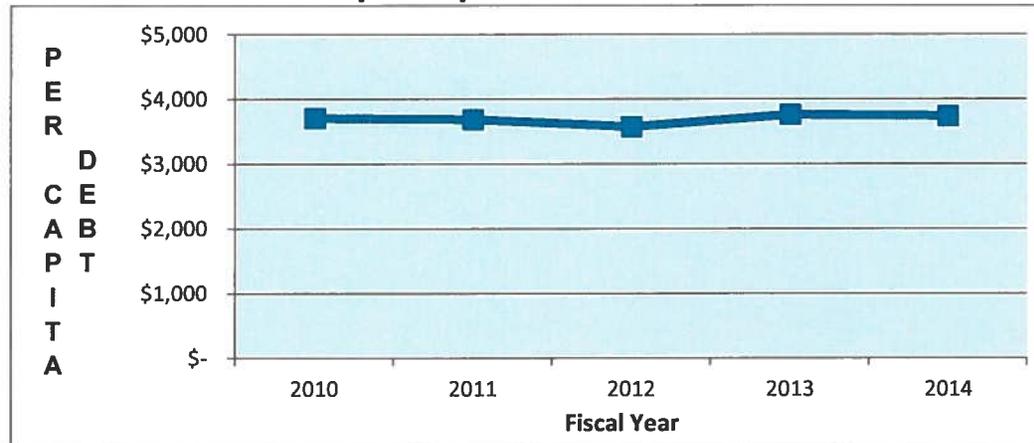
The Other Post-Employment Benefits (OPEB) Liability is the future cost of health care for retirees. The Unfunded Liability is determined by an actuarial study and is based upon the City's policies of contributing toward retiree health care insurance. The City adopted significant policy changes in February 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 contribution. Instead, modest deposits have been made into the trust. At September 30, 2014, the balance of the trust fund was \$1,331,000 and the net Unfunded Liability was \$85.5 million.

Actuarial assumptions impact the Unfunded Liability calculation. In nominal terms, the Unfunded Liability decreased modestly in 2014. However, the Unfunded Liability as a percent of Covered Payroll increased because Total Covered Payroll declined substantially from the prior year.

City of Garland, Texas
Debt per Capita
Total Combined Debt

	September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<u>Debt by Type</u>					
Tax-Supported	\$ 275,370,088	\$ 272,471,620	\$ 260,655,092	\$ 252,734,450	\$ 253,771,357
Electric Utility	283,802,997	280,975,000	279,064,335	338,555,000	348,985,000
Water Utility	79,548,817	87,567,614	91,485,000	94,275,000	103,710,000
Wastewater Utility	158,671,618	157,957,386	147,155,000	138,315,000	128,295,000
Internal Service Funds	40,404,000	38,075,000	36,335,000	34,905,000	37,925,000
Total Combined Debt	\$ 837,797,520	\$ 837,046,620	\$ 814,694,427	\$ 858,784,450	\$ 872,686,357
Population	225,865	226,915	227,726	228,060	233,206
Total Debt per Capita	\$ 3,709	\$ 3,689	\$ 3,578	\$ 3,766	\$ 3,742

Debt per Capita - Total Combined



Commentary

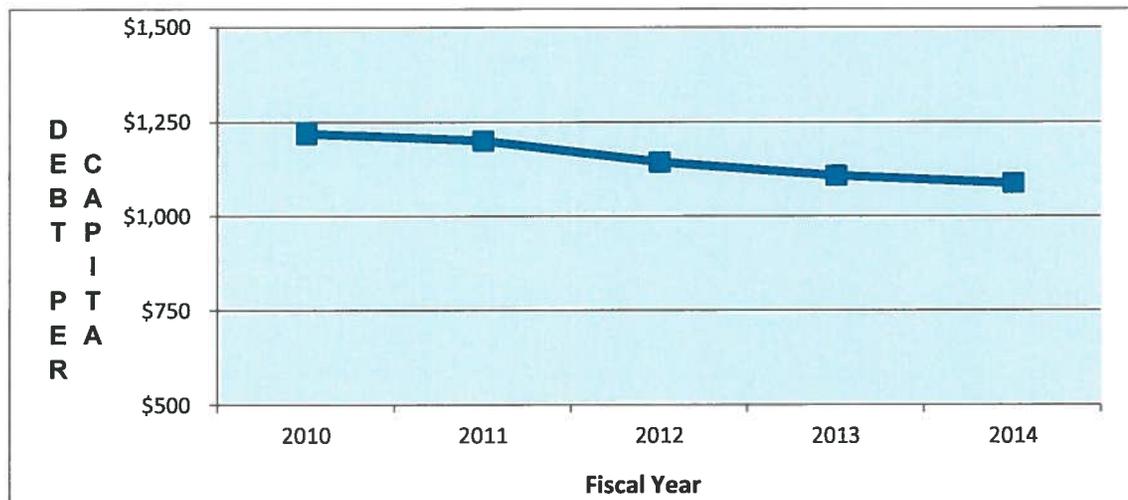
Debt per Capita is stable. Strong and reliable revenue streams support the Debt Service.

The Combined Debt includes Tax-Supported, Electric Utility, Water Utility, Wastewater Utility and Internal Service debt. 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.

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

	September 30				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total Tax-Supported Debt	\$ 275,370,088	\$ 272,471,620	\$ 260,655,092	\$ 252,734,450	\$ 253,771,357
Population	225,865	226,915	227,726	228,060	233,206
Tax-Supported Debt per Capita	\$ 1,219	\$ 1,201	\$ 1,145	\$ 1,108	\$ 1,088

Debt per Capita - Tax-Supported



Commentary

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

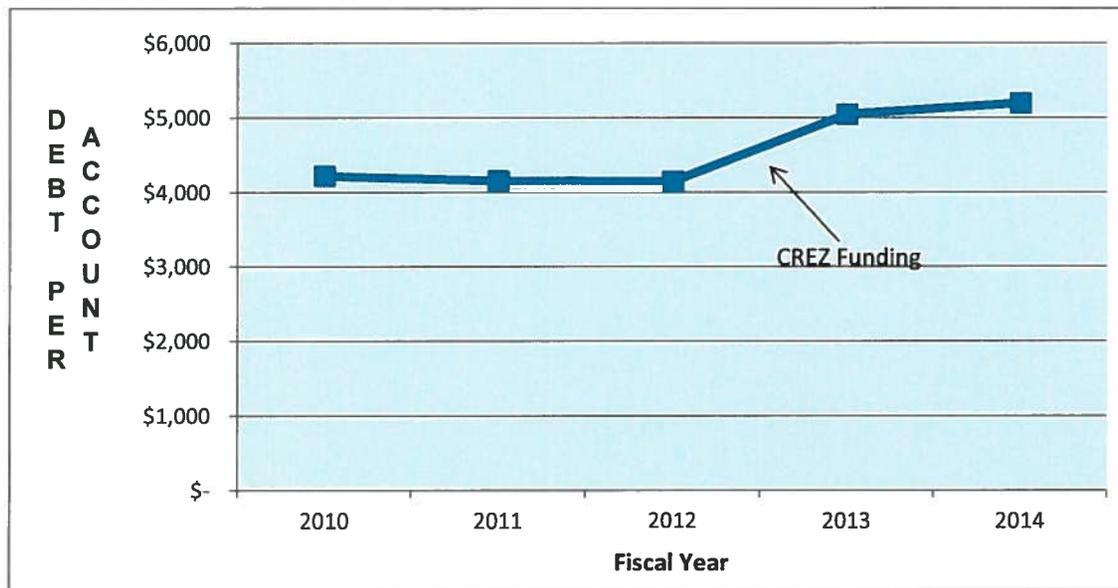
The I & S portion of the Ad Valorem Tax rate is the primary source for the repayment of Tax-Supported Debt. The City's population growth is modest; therefore, debt levels and the tax rate are closely managed to maintain an acceptable Debt Service level. The ability to repay debt without incurring a Property 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 2010 to 2014. 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**

	<u>September 30</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total Electric Utility Debt	\$ 283,802,997	\$ 280,975,000	\$ 279,064,335	\$ 338,555,000	\$ 348,985,000
Number of Electric Accounts	67,229	67,579	67,211	67,050	67,133
Debt per Account	\$4,221	\$4,158	\$4,152	\$5,049	\$5,198

Debt per Account - Electric Utility



Commentary

The debt for each Garland Electric Utility account is \$5,198 in 2014.

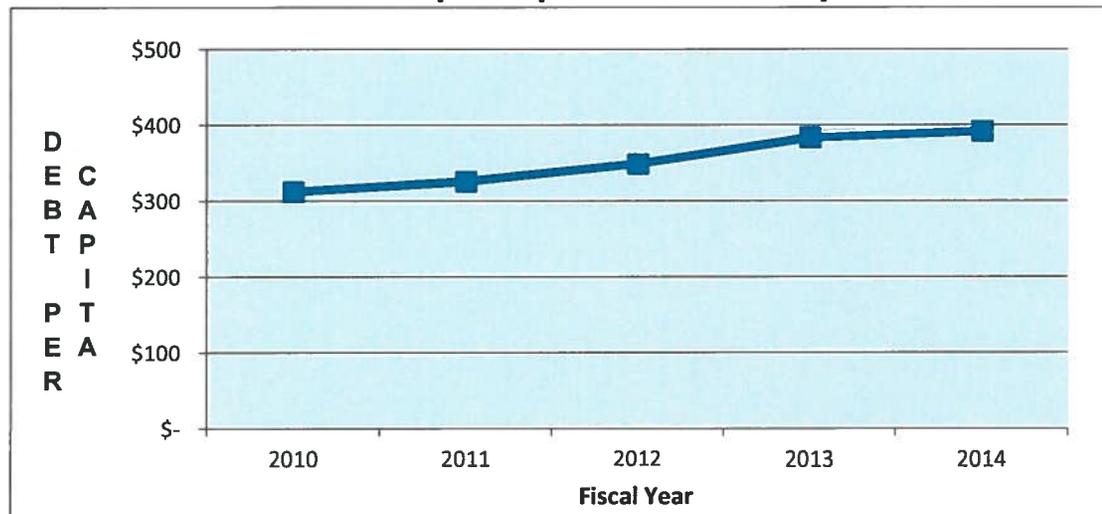
The Electric Utility issues debt to finance various system improvements. In 2013, the Utility utilized commercial paper to fund the construction of the CREZ transmission line. In fiscal year 2014, the project was energized and the variable rate debt was refunded to fixed rate debt.

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total Water Utility Debt	\$ 70,566,684	\$ 73,965,289	\$ 79,548,817	\$ 87,567,614	\$ 91,485,000
Population	225,865	226,915	227,726	228,060	233,206
Debt per Capita - Water Utility	\$ 312	\$ 326	\$ 349	\$ 384	\$ 392

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.

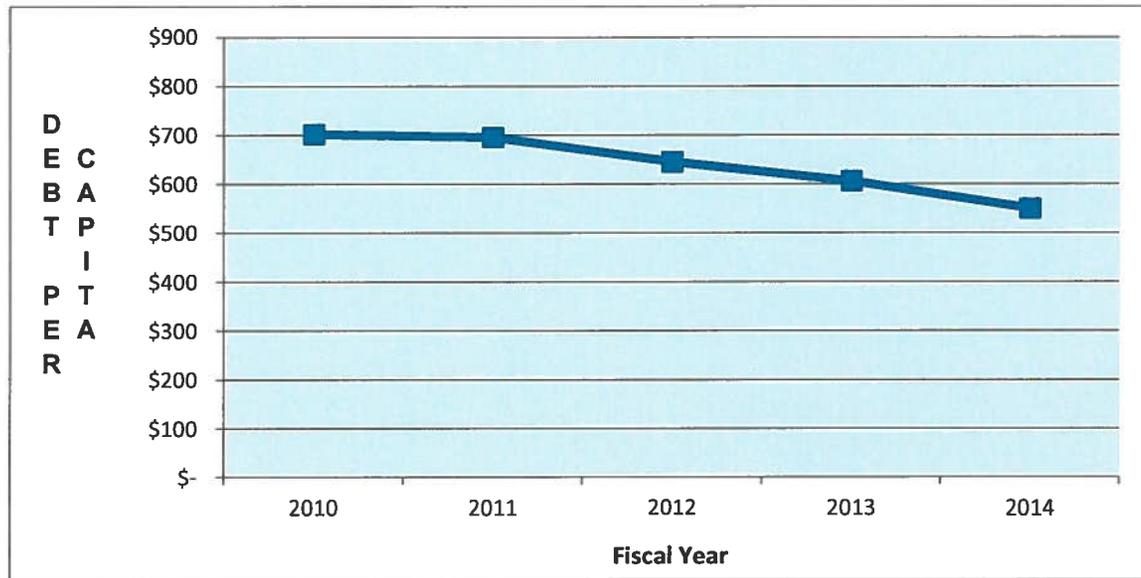
A recent credit report indicates that an above average debt profile can diminish overall financial flexibility. Concerns center upon the Utility's ability to maintain key financial metrics which are associated with the assigned credit rating. Specifically, a decline in the Debt Service coverage ratio 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**

	<u>September 30</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total Wastewater Utility Debt	\$ 158,671,618	\$ 157,957,386	\$ 147,155,000	\$ 138,315,000	\$ 128,295,000
Population	225,865	226,915	227,726	228,060	233,206
Debt per Capita - Wastewater Utility	\$ 703	\$ 696	\$ 646	\$ 606	\$ 550

Debt per Capita - Wastewater Utility



Commentary

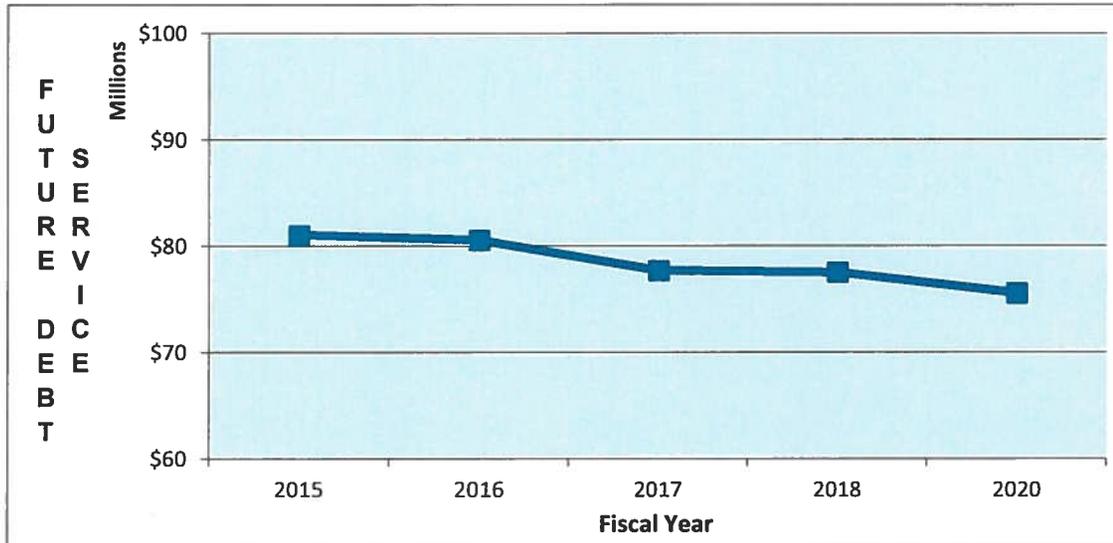
The Wastewater Utility Debt per Capita trend is favorable due to the decline from the recent peak.

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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2020</u>
Tax-Supported	\$ 27,541,221	\$ 26,502,952	\$ 24,654,658	\$ 25,237,019	\$ 24,518,418
Electric Utility	23,353,399	23,945,864	23,961,436	23,953,318	23,957,989
Water Utility	9,166,811	9,239,071	9,089,155	8,952,893	8,786,962
Wastewater Utility	15,562,178	15,615,102	15,009,144	14,744,853	14,427,485
Internal Service Funds	5,435,511	5,254,202	5,004,883	4,654,904	3,888,515
Futual Annual Debt Service	\$ 81,059,120	\$ 80,557,191	\$ 77,719,276	\$ 77,542,987	\$ 75,579,369

Future Annual Debt Service



Commentary

The future Debt Service trend is modestly 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

Credit Type	Rating Agency	Credit Rating	Outlook	Date of Last Rating
Tax Supported	Fitch Ratings	AAA	stable	January 14, 2015
	Standard & Poor	AA +	stable	January 13, 2015
GO Commercial Paper	Fitch	F1	-	March 18, 2015
Electric Utility System	Fitch			January 9, 2015
	Senior Lien	AA -	stable	
	Junior Lien	AA -	stable	
	Standard & Poor	AA -		January 15, 2015
	Junior Lien	A +	stable	
Electric Commercial Paper	Standard & Poor			
		A-1 +	-	June 20, 2014
Water & Wastewater Utility System	Fitch			
	Senior Lien	AA +	negative	May 13, 2014
	Junior Lien	AA +	negative	May 13, 2014
	Standard & Poor			
	Junior Lien	AA -	stable	May 12, 2014

Commentary

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 on the City's two Commercial Paper programs since an authorized program can span multiple years.

The City has a solid financial profile. 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.

The credit ratings for the City are very favorable.