Garland, Texas

New Issue Report

Ratings

Long-Term Issuer Default Rating	AAA

New Issue

$30,490,000 Combination Tax and Revenue Certificates of Obligation, Series 2018	AAA

Outstanding Debt

General Obligation Bonds	AAA
Combination Tax and Revenue Certificates of Obligation	AAA

Rating Outlook

Stable

Analysts
Emmanuelle Lawrence
+1 512 215-3740
emmanuelle.lawrence@fitchratings.com

Steve Murray
+1 512 215-3729
steve.murray@fitchratings.com

New Issue Summary

Sale Date: June 5, 2018.

Series: $30,490,000 Combination Tax and Revenue Certificates of Obligation, Series 2018.

Purpose: Quality of life improvements (parks, recreation and library); streets; drainage; upgrades to pre-existing facilities; and other purposes.

Security: Payable from an ad valorem tax pledge, limited to $2.50 per $100 of taxable assessed valuation (TAV), in addition to a limited pledge of no more than $1,000 of surplus revenues from the city's water and sewer system.

Analytical Conclusion

The 'AAA' Issuer Default Rating (IDR) and bond ratings reflect Garland's broad budgetary tools, supplemented by reserves, and limited revenue volatility (including sales taxes). These factors combine to provide the city with a high level of operating flexibility and anticipated financial resilience through the economic cycle. Modest population gains and development underway or planned should maintain the city's solid pace of revenue and resource base growth. These trends should also keep the long-term liability burden in the low range.

Fitch Ratings expects expenditure flexibility to remain solid, with somewhat elevated carrying costs mitigated by rapidly amortizing direct debt, self-support from various enterprise funds and limited pension pressure.

Economic Resource Base: Garland is located approximately 14 miles northeast of downtown Dallas, surrounded by major transportation corridors. The city's nearly 235,000 residents are part of the large and robust Dallas-Fort Worth-Arlington (DFW) metropolitan statistical area (MSA) and benefit from the area's economic and employment trends that continue to outpace those of the nation.

Key Rating Drivers

Revenue Framework: 'aa'
General fund revenue gains should continue to outpace inflation, but trail U.S. GDP, supported by the likelihood of further development. Underpinning the revenue framework assessment is the city's ample revenue-raising ability, including significant available taxing margin.

Expenditure Framework: 'aa'
Solid expenditure flexibility is derived from management's prudent budgeting practices and ability to adjust labor costs if needed. Fitch expects growth-related spending demand to be matched by revenue gains, keeping their trajectories aligned over time.

Long-Term Liability Burden: 'aaa'
The long-term liability burden is low at approximately 9% of personal income and should remain in the current range, given expectations for growth-related debt issuance and personal income growth.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	5/29/18
AAA	Affirmed	Stable	5/8/17
AAA	Affirmed	Stable	11/7/16
AAA	Affirmed	Stable	5/12/14
AAA	Affirmed	Stable	4/25/13
AAA	Affirmed	Stable	5/26/11
AAA	Revised	Stable	4/30/10
AA+	Affirmed	Stable	4/30/09
AA+	Affirmed	Stable	3/27/07
AA+	Affirmed	Stable	4/13/04
AA+	Affirmed	Stable	4/10/03
AA+	Assigned	—	2/12/98

Operating Performance: 'aaa'

The city's significant revenue-raising ability and sound expenditure control, supplemented by the availability of its strong reserve cushion, should allow the city to maintain a high level of financial flexibility during cyclical downturns, given low expected revenue volatility.

Rating Sensitivities

Reliance on Utility Transfers: Formula-driven utility transfers provide significant support for general fund operations and have increased notably over time. The ratings are sensitive to material deterioration of this key revenue stream and/or the city's inability to realign spending accordingly.

Credit Profile

The city's industrial market is one of the largest in the MSA, and a diverse list of manufacturing and distribution business concerns drives the local economy. Unemployment has steadily trended down since peaking over the recession and remains below county, state and U.S. levels.

The city's tax base is primarily residential in nature, despite its industrial/commercial base. Top 10 taxpayer concentration is minimal. Taxable assessed valuations (TAVs) have generally grown at a steady, modest pace; however, over the past few years, the city's tax base has experienced a sizable uptick. From fiscal years 2016 to 2018, TAV increased roughly 22%; fiscal 2018 TAV totals $13.6 billion. Based on preliminary figures, management expects TAV for fiscal 2019 to reflect solid growth. A balanced mix of new commercial and residential development, coupled with appreciating values, supports the upswing in TAV.

Fitch expects new projects and further expansion of the existing manufacturing/commercial base (currently underway at Nutribiotech, Kraft Heinz Foods and General Dynamic) will support continued economic and TAV growth. The largest project underway includes a multi-phased data center that recently opened its first phase. New residential development that includes various mixed-use and multi-family projects is also underway.

Revenue Framework

Operations are supported by a fairly diverse revenue base, aided by formula-driven transfers to the general fund from the city-owned enterprises. Tax receipts generate the bulk of Garland's operating revenues. Property taxes accounted for 35% of fiscal 2017 general fund revenue. Payments in lieu of taxes/franchise fees/administrative costs from enterprises and sales tax receipts account for the remainder of general fund tax revenue.

Fitch believes solid revenue growth will be maintained, in line with historical performance. The city's commercial, industrial and manufacturing base has historically developed in part due to its strategic location in the DFW MSA and access to major ground transportation routes. Ongoing investment and new development planned and underway that expand this base should drive further economic expansion and support the 'aa' assessment.

At a total tax rate of approximately $0.70 in fiscal 2017, ample taxing margin exists under the $2.50 per $100 of AV constitutional cap for operations and debt service. If a proposed tax rate results in an 8% year-over-year levy increase (based on the prior year's values), the rate increase may be subject to election if petitioned by voters.

Related Research

Fitch Rates Garland, Texas' $30.49 MM Series 2018 Certificates of Obligation 'AAA'; Outlook Stable (May 2018)

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (April 2018)

Expenditure Framework

Public safety is the city's largest general fund spending category, comprising nearly 55% of fiscal 2017 outlays. Public works and culture and recreation are the next largest expenditure areas.

Fitch expects future spending will generally track or marginally exceed the anticipated solid revenue growth, continuing a trend of moderate, steady investments in personnel and capital.

Expenditure flexibility is aided by the city's lack of contracts with employee groups. Management exhibited its flexibility regarding labor costs and headcount during the last recession, when it responded to weaker revenue performance. Spending adjustments included a combination of salary and position reductions/freezes, in addition to deferral of annual pay-go capital spending.

The city's fixed-cost burden is moderately high. Carrying costs (debt service, actuarial pension payments and pay-go OPEB costs) totaled roughly 21% of fiscal 2017 governmental spending, which incorporates its policy-determined, rapid pace of principal amortization (about 82% to be retired within 10 years).

Long-Term Liability Burden

The long-term liability burden has remained steady over the past couple of years and is currently low at an estimated 9% of personal income. Self-supporting debt from the electric, water and wastewater utilities continues to absorb a sizable amount of the city's tax-supported debt, thereby substantially reducing the impact on its debt service tax rate. The city maintains a measured pace of tax-supported and revenue debt issuance annually in support of its capital improvement plan (CIP) in order to preserve a flat debt service tax rate. Garland has plans to issue a short-term note over the next several months; it is currently monitoring a possible refunding for outstanding debt. Moreover, according to management, there are tentative plans to approach voters for additional bonding authority over the next 18 to 24 months.

City employees participate in the Texas Municipal Retirement System (TMRS), a state-wide, joint contributory, hybrid defined benefit pension plan. Under GASB 68, the city reports a fiscal 2017 net pension liability (NPL) at $57.5 million, with fiduciary assets covering 93.7% of total pension liabilities. Using a more conservative 6% investment return assumption, the ratio of assets to liability declines to a Fitch-estimated 86%.

Operating Performance

Fitch expects the city to manage through a moderate economic downturn while maintaining a high level of fundamental financial flexibility. For details, see Scenario Analysis, page 4.

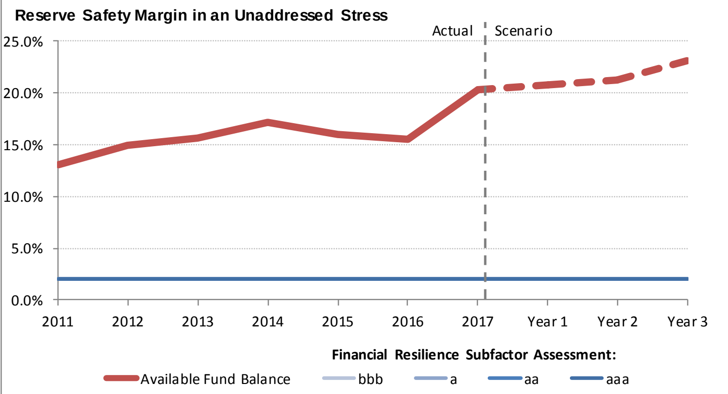
Sound and stable reserves have historically characterized the city's fiscal profile. Unrestricted general fund balance totaled $34.4 million, or 20.3% of spending at fiscal year-end 2017, comfortably above the city's formal policy minimum of a 30-day unrestricted reserve. Management continues an established practice of periodically applying reserves above the stated threshold or mid-year operating surpluses to various one-time spending priorities.

The city's fiscal 2018 budget includes a $6.2 million net operating deficit, which is largely due to one-time equipment purchases and strategic land acquisition. By fiscal year end, management expects the deficit to shrink as a result of higher-than-budgeted general fund revenues. However, if the $6.2 million net operating deficit is fully realized, unrestricted reserve levels will still exceed the city's minimum 30-day policy and would remain well within the range consistent with a 'aaa' financial resilience assessment.

Garland (TX)

Scenario Analysis

v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results: Hide

Fitch expects the city will be able to manage through a moderate economic downturn while maintaining a high level of fundamental financial flexibility. High revenue-raising authority and solid expenditure control provide the city with superior inherent budget flexibility. This high level of financial resilience is also underpinned by historically low general fund revenue volatility (including sales tax performance).

Unrestricted general fund balance totaled $34.4 million or 20.3% of spending at fiscal 2017 year-end, comfortably above the city's formal policy minimum of a 30-day unrestricted reserve.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	1.8%	3.6%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2011	2012	2013	2014	2015	2016	2017	Year 1	Year 2	Year 3
Total Revenues	106,300	111,083	112,670	114,929	119,597	132,698	138,522	137,137	139,602	144,607
% Change in Revenues	-	4.5%	1.4%	2.0%	4.1%	11.0%	4.4%	(1.0%)	1.8%	3.6%
Total Expenditures	140,869	140,427	143,450	146,693	153,453	166,838	167,153	170,496	173,906	177,384
% Change in Expenditures	-	(0.3%)	2.2%	2.3%	4.6%	8.7%	0.2%	2.0%	2.0%	2.0%
Transfers In and Other Sources	35,621	33,891	34,878	35,504	35,914	37,772	39,504	37,394	38,066	39,431
Transfers Out and Other Uses	1,882	1,858	1,898	2,274	2,043	2,327	2,724	2,373	2,421	2,469
Net Transfers	33,739	32,033	32,980	33,230	33,871	35,445	36,780	35,021	35,646	36,962
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(830)	2,689	2,200	1,466	15	1,304	8,149	1,662	1,342	4,185
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(0.6%)	1.9%	1.5%	1.0%	0.0%	0.8%	4.8%	1.0%	0.8%	2.3%
Unrestricted/Unreserved Fund Balance (General Fund)	18,612	21,305	22,733	25,594	24,924	26,198	34,436	36,097	37,439	41,624
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	18,612	21,305	22,733	25,594	24,924	26,198	34,436	36,097	37,439	41,624
Combined Available Fund Bal. (% of Expend. and Transfers Out)	13.0%	15.0%	15.6%	17.2%	16.0%	15.5%	20.3%	20.8%	21.2%	23.1%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.