S&P Global
Ratings

RatingsDirect®

Summary:

Garland, Texas; General Obligation

Primary Credit Analyst:
Amahad K Brown, Farmers Branch + 1 (214) 765 5876; amahad.brown@spglobal.com

Secondary Contact:
Andy A Hobbs, Farmers Branch + 1 (972) 367 3345; Andy.Hobbs@spglobal.com

Table Of Contents

Summary:

Garland, Texas; General Obligation

Credit Profile		
US$17.465 mil comb tax and rev certs of oblig ser 2020 dtd 06/01/2020 due 02/15/2040		
Long Term Rating	AA+/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Garland, Texas' series 2020 combination tax and revenue certificates of obligation. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the city's previously issued general obligation (GO) bonds and certificates of obligation. The outlook is stable.

Garland's GO bonds and certificates of obligation constitute direct obligations of the city, payable from the proceeds of a continuing, direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within its borders. The maximum allowable ad valorem tax rate in Texas is $2.50 per $100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to $1.50. The city's total tax rate is well below the maximum, at 76.96 cents, 37.56 cents of which is dedicated to debt service. Based on the application of our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Nov. 20, 2019), we view the limited-tax GO debt pledge on par with the issuer credit rating, which is based on the city's general creditworthiness. The city does not levy ad valorem taxes on a narrower or distinctly different tax base, and there are no limitations on the fungibility of resources available for the payment of debt service.

A pledge of net revenues of Garland's water and sewer system--in an amount not to exceed $1,000--also secures the city's outstanding certificates of obligation. Given the limited nature of the additional pledged revenues, our ratings on these obligations are based on the city's ad valorem tax pledge. The series 2020 certificates will be used to fund various capital improvements identified in the city's capital improvement plan.

Credit overview

Garland is a large suburb of Dallas that remains one of the metroplex's leading employment centers, which in combination with a housing stock that remains relatively affordable, should contribute to future economic stability, despite an expected slowdown in line with the contraction in the U.S. economy. Since the 2010 Census, Garland's estimated population has risen nearly 7%. In addition to increasing the demand for municipal services, this growth has also heightened the need to improve and repair Garland's aging infrastructure. To meet this demand, the city proposed--and voters approved--a $423.7 million bond program on May 4, 2019, representing the city's first bond election in 15 years. The bond program consists of eight separate propositions on streets, public safety facilities, drainage improvements, parks and recreation, library, economic development, an animal shelter, and other municipal facilities. Despite growth-related pressures, the city maintains very strong finances through a combination of conservative budgeting and frequent monitoring. In our view, these practices will remain key to sustaining the city's credit quality given the rapidly changing fiscal environment caused by the COVID-19 outbreak and ensuing recession.

While the full scope and extent of the impacts imposed by COVID-19 remain to be seen, we understand that the city has identified possible at-risk revenues along with corresponding expenditure cuts and excess reserves that could be used to address short-term revenue loss. Near-term rating stability will remain contingent on the city's ability to identify possible budget pressures while responding in a manner that is both timely and appropriate. Generally our rating outlook timeframe is up to two years. Given the current uncertainty around the pandemic, our view of the credit risks to the city is centered on the near-term budget and economic effects over the next two fiscal years.

The rating reflects our opinion of the following credit factors:

- Adequate economy, with projected per capita effective buying income at 75.9% and market value per capita of $66,332, though that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2019, which closed with balanced operating results in the general fund and an operating surplus at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 89.0% of total governmental fund expenditures and 6.0x governmental debt service, and access to external liquidity we consider exceptional;
- Adequate debt and contingent liability profile, with debt service carrying charges at 14.8% of expenditures and net direct debt that is 98.9% of total governmental fund revenue, as well as rapid amortization, with 66.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Stable Outlook

Downside scenario

If available reserves were to decline to levels we consider just strong or adequate, triggered by weakened budgetary performance or significant one-time spending, we could lower the rating.

Upside scenario

Improvement in the city's debt profile and wealth and income indicators relative to those of higher-rated peers could result in a higher rating, all else being equal.

Credit Opinion

Adequate economy

We consider Garland's economy adequate. The city, with an estimated population of 246,209, is located in Collin, Dallas, and Rockwall counties in the Dallas-Fort Worth-Arlington, TX MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 75.9% of the national level and per capita market value of $66,332. Overall, the city's market value grew by 8.2% over the past year to $16.3 billion in 2020.

Garland is located 14 miles northeast of downtown Dallas. The city encompasses approximately 57 square miles, of which approximately 90% of the developable area is fully developed. We view the economy as stronger than what our metrics indicate because of the city's diverse commercial, retail, and industrial developments that stimulate the economy, despite lower-than-average wealth and income levels. In February, prior to the COVID-19 driven economic shutdown, the city maintained an employment base of over 125,000 with an unemployment rate of just 3.2%. However, we understand that the local unemployment rate could rise in line with growing unemployment claims throughout the U.S.

Garland has several industrial districts that have rail and motor freight transportation facilities. The top employers in the city include Kraft Foods (796 employees), US Food Service (520), Atlas Copco (460), Silverline Window (425), and Hatco (390). The city has several commercial projects underway that are expected to bring new jobs as well as AV growth. These include the construction of two separate data center campuses--Digital Realty and RagingWire--that will each include approximately 1 million square feet. The Digital Realty facility was originally valued at $1 billion at full build-out. However, in 2018 the company presented an expansion plan to increase its original site by 16 acres, bringing the total planned investment to $1.4 billion. The RagingWire facility will be valued at $389 million at build-out. In addition, Kraft Foods has announced plans to expand its footprint in the city, and estimates adding more than 200 jobs to the current 125. Beyond the large-scale commercial and industrial projects, several single-family and multifamily housing developments are in various stages of construction. Although near-term economic growth could remain muted in line with the national economy's contraction, we believe the development pipeline should support relative stability within the current tax year. For more information, please see "An Already Historic U.S. Downturn Now Looks Even Worse," (published April 16, 2020, on RatingsDirect).

In recent years, annual tax base growth has been steady, supported by industrial, commercial, and residential development. Taxable AV increased by an average of almost 10% per year since tax year 2015. In aggregate, the tax base expanded by $5.9 billion or 56% between tax years 2014 and 2019. The tax base is very diverse, with the top 10 taxpayers comprising 3.8% of AV.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include management's use of formal historical trend analysis to derive revenue and expenditure budget assumptions. The city can amend the budget, as necessary, throughout the year with city council approval. In addition to a comprehensive quarterly budget-to-actual review with the council, management provides city council with monthly dashboard reports on national and local economic indicators as well as key performance indicators for the general fund and utility fund. In addition, the city's formal five-year financial plan--publicly published and updated at least annually--includes projections for all major operating funds. Furthermore, Garland maintains a five-year capital investment plan with identified cost estimates and funding sources that management updates annually.

The city's formal local investment management policy complies with the Texas Public Funds Investment Act, and the city provides quarterly reports to the council on holdings and earnings. The formal debt management policy includes basic policies such as an overall net debt limitation at 5% of AV. The formal reserve policy calls for the maintenance of 30 days' operating expenditures for the general fund and 45 days for water, sewer, and electric funds.

Adequate budgetary performance

Garland's budgetary performance is adequate in our opinion. The city had balanced operating results in the general fund of 0.2% of expenditures, and surplus results across all governmental funds of 5.7% in fiscal 2019.

In our calculations, we have adjusted the city's revenues and expenditures to treat recurring transfers as either revenues or expenditures, and subtracted significant one-time expenditures funded through cash on-hand or debt proceeds.

Garland has a history of conservative budgeting highlighted by better-than-budgeted final results. Despite budgeting to use fund balance to finance one-time expenditures in recent years, the city managed to increase fund balance as a result of expenditure savings and stronger-than-expected revenue growth. Its ability to generate excess reserves should serve as a key source of stability to absorb possible short-term revenue loss associated with the pandemic and protective social distancing guidelines. In particular, the fiscal 2020 adopted budget establishes a $5.3 million reserve above the adopted 30-day policy that could be made available to soften the budget impact of lost revenues, primarily sales taxes.

Garland's general fund revenue base is diverse; leading sources include property taxes (34%), taxes and transfers from enterprise funds (24%), sales taxes (17%), sanitation/landfill fees (8%), and charges for services (7%). Each of these has demonstrated stable and steady growth in the past three fiscal years.

Fiscal 2019 audited results reflect a modest $888,000 increase in the total general fund balance primarily tied to a combination of stronger-than-expected revenue collections and purchase order and project rollover savings from the multiyear street improvement program.

The original fiscal 2020 budget included a $2.3 million drawdown to be financed with one-time revenues or excess reserves. Through March, revenues were trending slightly ahead of budget; however, management is conservatively estimating possible short-term revenue loss of approximately $5 million that will be offset with a combination of about $1.3 million of expenditure reductions and reserves held in excess of policy. Given the very strong framework of financial management and frequent budget monitoring, we expect that Garland will continue to make intra-year adjustments to limit the near-term impacts on its overall financial condition.

While not expected in the immediate term, future performance has the potential to be negatively affected by recent property tax reform legislation passed by the state. Specifically, the legislation, called the Texas Property Tax Reform and Transparency Act of 2019, limits the ability of certain local government units to increase maintenance and operations property tax revenues above 3.5% of the prior year without voter approval. The prior formal threshold for potential citizen intervention on the setting of property tax rates, known as the roll-back rate, was 8%. In an effort to offset the potential budgetary imbalance created by the new legislation, the city has taken steps to increase scheduled transfers into the general fund from its electric utility system while also funding a comprehensive fee study to ensure that current service fees and charges are sufficient to cover the cost of services. Given the city's proactive approach to addressing future budgetary challenges, we expect that Garland will continue to evaluate its options to maintain fiscal balance. For more information, see "Texas Local Governments Could Face Budget Headwinds--And Credit Quality Strain--From Property Tax Reform," published June 12, 2019.

Very strong budgetary flexibility

Garland's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 18% of operating expenditures, or $34.0 million.

Our view of available reserves includes the city's general fund committed balances of approximately $7.6 million in 2019. The city council appropriates funding through the operating budget to support various funds including the infrastructure repair and replacement fund, the economic development fund, and the public health and immunization fund. Therefore, these amounts are reported as committed due to council required approval to transfer the funds. Despite the designation, the committed balances have no legal restrictions and could be made available for emergencies or contingencies by the city council.

Garland's budgetary flexibility, as reflected in its available reserve balances relative to operating expenditures, remains very strong despite a growing budget. Since fiscal 2014, the city has been able to add approximately $10 million to the total general fund balance through consistently strong budgetary performance. Given the fiscal pressures imposed by the COVID-19 outbreak, we understand that the city could possibly use excess reserves to offset the impacts of short-term revenue loss. However, should available reserves decline and be sustained below very strong levels tied to operating deficits or one-time spending, the rating could be pressured.

Very strong liquidity

In our opinion, Garland's liquidity is very strong, with total government available cash at 89.0% of total governmental fund expenditures and 6.0x governmental debt service in 2019. In our view, the city has exceptional access to external liquidity if necessary.

The city's exceptional access to external liquidity is demonstrated through its access to the market over the past 15 years. Garland has frequently issued bonds over the past two decades, including both fixed- and variable-rate GO bonds; commercial paper notes; and electric, water, and sewer revenue bonds.

It has historically had what we consider very strong cash balances and, given management's demonstrated ability to maintain balanced operations, we do not believe its cash position will worsen. All of Garland's investments comply with Texas statutes and the city's internal investment policy. As of Feb. 29, 2020, the city held investments in U.S. treasury coupon securities, federal agency coupon securities, certificates of deposit, and investment pools, which we do not consider aggressive. Garland does not have private placements or other contingent liabilities that could place any additional near-term liquidity pressure on its finances.

Adequate debt and contingent liability profile

In our view, Garland's debt and contingent liability profile is adequate. Total governmental fund debt service is 14.8% of total governmental fund expenditures, and net direct debt is 98.9% of total governmental fund revenue. Approximately 66.8% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Our ratios have been adjusted to reflect the portion of tax-backed GO bonds and certificates of obligation supported by the city's enterprise funds. Including the current issuance, Garland has approximately $271 million of tax-backed debt obligations outstanding including GO bonds and certificates of obligation. In May 2019, the city's voters approved a $423.7 million bond referendum to finance various projects including streets and sidewalks, public safety facilities, drainage improvements, parks and recreation, library, economic development, an animal shelter, and other municipal buildings. The initial plan was to issue the bonds over a seven-to-10-year period. While the issuance of additional debt has the potential to weaken our assessment of the debt profile, we understand that the city will adjust tax rates at amounts sufficient to fund annual debt service. For fiscal 2020, the debt service tax rate was increased 6.5 cents, generating an additional $10.6 million in property tax revenues.

Pension and other postemployment benefits

Garland's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 9.6% of total governmental fund expenditures in 2019. Of that amount, 6.9% represented required contributions to pension obligations, and 2.7% represented OPEB payments. The city made its full annual required pension contribution in 2019.

We do not view pension and OPEB liabilities as an immediate source of credit pressure for Garland. Despite a somewhat extended amortization, the city's pension plan remains well funded, and the city continues to follow through on its adopted strategy for addressing its long-term OPEB liabilities. As a result, we do not anticipate a material increase in pension and OPEB contributions that could threaten the city's fiscal stability.

The district participates in the following plans as of Dec. 31, 2018 (latest measurement date):

- Texas Municipal Retirement System (TMRS), 91% funded with a net pension liability of $87.8 million. Contributions are actuarially determined, and the city has historically fully funded its annual required costs. Actuarial assumptions include a 6.75% discount rate and 27-year amortization period.
- Supplemental Death Benefits Fund (SDBF), which provides group-term life insurance benefits to active and retired members of the TMRS pension plan. The plan is funded on a pay-as-you-go basis, and the city's total OPEB liability for SDBF was $7.6 million. Benefit payments were just $60,000 for the most recent measurement period.
- City of Garland Other Postemployment Benefits Plan provides continuing health care benefits to eligible retirees. The plan is 8.7% funded, and the net OPEB liability is $68.5 million. While OPEB benefits have not historically been prefunded, Garland approved a long-term funding strategy for OPEB in budget year 2018 including annual transfers from the general fund and the utility funds to an OPEB Trust Fund. The annual utility fund transfer is approximately $750,000, and the initial contribution from the general fund was $500,000, which will be increased by $85,000 per year until the annual general fund contribution reaches $1.5 million. The budgeted contribution to the OPEB trust from the general fund is $670,000 for fiscal 2020.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of May 8, 2020)		
Garland GO		
Long Term Rating	AA+/Stable	Affirmed
Garland GO		
Long Term Rating	AA+/Stable	Affirmed
Garland GO		
Long Term Rating	AA+/Stable	Affirmed
Garland GO rfdg bnds ser 2018 dtd 12/01/2018 due 02/15/2029		
Long Term Rating	AA+/Stable	Affirmed
Garland GO (AGM)		
Long Term Rating	NR	
Unenhanced Rating	NR(SPUR)	