S&P Global
Ratings

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Summary:
Garland, Texas; General Obligation

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Credit Profile		
US$39.18 mil GO rfdg bnds ser 2021 dtd 06/15/2021 due 02/15/2041		
Long Term Rating	AA+/Stable	New
US$21.51 mil combination tax and rev certs of oblig ser 2021 dtd 06/15/2021 due 02/15/2041		
Long Term Rating	AA+/Stable	New
Garland GO		
Long Term Rating	AA+/Stable	Affirmed
Garland GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Garland, Texas' series 2021 combination tax and revenue certificates of obligation ($21,510,000) and its series 2021, general obligation (GO) general refunding bonds ($39,180,000). At the same time, we affirmed our 'AA+' rating on the city's GO debt outstanding. 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 2021 refunding bonds will refund $42 million of commercial paper and outstanding 2011 series debt. The series 2021 certificates of obligation will fund various capital projects including parks, drainage, street, public safety, facilities management, and the Firewheel golf park.

Credit overview

Garland is a large suburb of Dallas that remains one of the metroplex's leading employment centers. Despite growth-related pressures, the city maintains very strong finances through a combination of conservative budgeting and frequent monitoring. Officials state that economic metrics remain stable despite COVID-19 and development continues in the area, with a large number of residential, commercial, and industrial projects, with multiple data centers planned for Garland. Officials expect a small deficit in fiscal 2021, with additional drawdowns expected for capital reasons from the city's capital projects fund. Despite these drawdowns for one-time purposes, operations remain stable, and we believe the city's very strong management team will maintain the city's very strong budgetary flexibility in accordance with their formal reserve policy.

The rating reflects our view of the city's:

- Weak economy, with market value per capita of $64,654 and projected per capita effective buying income at 69.8%, but that is benefitting 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 surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 28% of operating expenditures;
- Very strong liquidity, with total government available cash at 111.6% of total governmental fund expenditures and 7.5x governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability profile, with debt service carrying charges at 14.9% of expenditures and net direct debt that is 114.0% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance factors

We have analyzed Garland's social and environmental risks relative to its economy, management, financial measures, and debt-and-liability profile, and have determined that all are on par with our view of the sector standard. We consider the city's management slightly better than that of peers, given formalized policies and robust planning processes.

Stable Outlook

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.

Downside scenario

If the city's debt burden increases to a level that begins to pressure current operations, or 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.

Credit Opinion

Weak economy

We consider Garland's economy weak. The city, with an estimated population of 248,804, is located in Collin, Dallas, and Rockwall counties in the Dallas-Fort Worth-Arlington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 69.8% of the national level and per capita market value of $64,654. Overall, the city's market value fell by 1.5% over the past year to $16.1 billion in 2021, due to a high volume of protested properties. The weight-averaged unemployment rate of the counties was 3.5% in 2019.

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 represent because of the city's diverse commercial, retail, and industrial developments that stimulate the economy, despite lower-than-average wealth and income levels.

Garland has a large number of single family, multi-family, industrial and commercial projects underway, consistent with economic growth in the Dallas MSA. Various developers are working on seven single family developments, totaling over 1,200 in either single family lots or new homes. In addition, management reports approximately 3,400 multifamily units currently under development across nine developments with an estimated construction valuation of over $2 billion for all residential projects. Aside from residential, developers are considering a hotel project and redevelopment opportunities in the local hospital district. In addition, 12 industrial and business related developments are also in progress--with three data centers, a food center, and an IT company relocating their headquarters--as well as manufacturing facility expansions, according to management.

In recent years, annual tax base growth has been steady supported by industrial, commercial, and residential development. Taxable AV has grown rapidly since tax year 2015; in aggregate, the tax base expanded by $7.6 billion or 68% between tax years 2014 and 2020. The tax base is very diverse, with the top 10 taxpayers comprising 4.4% 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 city 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, the city 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.

Since our last review the city has one management change, with a new assistant city manager for planning and development.

Adequate budgetary performance

Garland's budgetary performance is adequate in our opinion. The city had operating surpluses of 9.4% of expenditures in the general fund and 13.4% across all governmental funds in fiscal 2020. While we expect Garland to have at least balanced operating results, we do not expect results to be as favorable as they had been in 2020.

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 utilize fund balance to finance one-time expenditures in recent years, the city managed to increase fund balance as a result of expenditure savings and strong-than-expected revenue growth. Fiscal 2020 is evidence of this approach to budgeting, as the city posted a large surplus of $16.7 million due to better than expected expenditure results, some capital projects delayed to 2021 in the infrastructure fund, a $2.3 million operating surplus, and $9 million in COVID-19 grants applied to payroll.

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 revenue sources has demonstrated stable and steady growth in the past three fiscal years. For fiscal 2021, management is expecting a small drawdown of fund balances, due mostly to one-time payments to employees related to COVID-19 relief as well as the capital projects deferred from 2020. Despite the pandemic, general fund revenues are $5.8 million better than budgeted. Management expects to receive $53 million from the American Rescue Plan, is awaiting further guidance from the U.S. Treasury on how they plan on using the funds, but officials likely will use the funds for one-time purposes.

Very strong budgetary flexibility

Garland's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 28% of operating expenditures, or $50.6 million.

Our view of available reserves includes the city's general fund committed balances of approximately $13.3 million in 2020. The fund balance commitment was approved via city ordinance in 2018 to provide further transparency on the reserves that are available to finance various sub-funds within the general fund, namely for the infrastructure repair and replacement fund, the economic development fund, and the public health and immunization fund. Despite the designation, the committed balances have no legal restrictions and could be made available for emergencies or contingencies by the city council.

Management expects to spend down fund balances by approximately $1 million in fiscal 2021, and by another $10.3 million in the infrastructure and capital projects funds, but we view the city's operations as balanced and management has no plans to reduce unassigned fund balances, which is at the city's target of 30 days.

Very strong liquidity

In our opinion, Garland's liquidity is very strong, with total government available cash at 111.6% of total governmental fund expenditures and 7.5x governmental debt service in 2020. 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. The city holds 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 the city's finances.

Weak debt and contingent liability profile

In our view, Garland's debt and contingent liability profile is weak. Total governmental fund debt service is 14.9% of total governmental fund expenditures, and net direct debt is 114.0% of total governmental fund revenue.

Our ratios have been adjusted to reflect the portion of tax-backed general obligation bonds and certificates of obligation supported by the city's enterprise funds. Including the current issuance, Garland has approximately $282 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 7 to 10-year period, with the majority of the issuance coming in years four to seven. 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 $14 million in property tax revenues.

Garland's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 9.5% of total governmental fund expenditures in 2020. Of that amount, 6.9% represented required contributions to pension obligations, and 2.6% represented OPEB payments. The city made its full required pension contribution in 2020.

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, 2019 (latest measurement date):

- Texas Municipal Retirement System (TMRS), 98.5% funded with a net pension liability of $15.9 million. Contributions are actuarially determined, and the city has historically fully funded its annual required costs.
- 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 $7.7million.
- City of Garland Other Postemployment Benefit Plan provides continuing health care benefits to eligible retirees. The plan is 8.7% funded, and the net OPEB liability is $77.6 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.

TMRS is detailed in our "Pension Spotlight: Texas," published Feb. 25, 2020, on RatingsDirect. We consider TMRS well-funded and we believe the plan poses minimal credit pressure for local government issuers.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of May 28, 2021)		
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