FitchRatings

Public Finance
Tax-Supported
U.S.A.

Garland, Texas

Ratings

Long Term Issuer Default Rating	AAA

New Issues

$21,510,000 Combination Tax & Revenue Certificates of Obligation, Series 2021	AAA
$39,180,000 General Obligation Refunding Bonds, Series 2021	AAA

Outstanding Debt

Combination Tax & Electric Utility System Surplus Revenue Refunding Bonds	AAA
Combination Tax & Revenue Certificates of Obligation	AAA
General Obligation CP Notes	AAA
General Obligation Bonds	AAA

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates Garland, Texas' GO Rfdg Bonds and Certificates 'AAA'; Outlook Stable (June 2021)

Garland (TX) - ESG Navigator (May 2019)

New Issue Summary

Sale Date: Week of June 7th

Series: General Obligation Refunding Bonds, Series 2021; and, Combination Tax and Revenue Certificates of Obligation, Series 2020

Purpose: To finance various capital needs, including upgrades to existing facilities, the replacement of environmental waste equipment and drainage improvements.

Security: The certificates of obligation are payable by an ad valorem tax levied on all taxable property within the city of Garland, limited to $2.50 per $100 of taxable assessed valuation (TAV), with an additional limited pledge of surplus water and sewer system revenues, not to exceed $1,000.

The 'AAA' Issuer Default Rating (IDR), GO and CO ratings incorporate Fitch's expectation for the city to maintain healthy financial flexibility through economic cycles, including the current economic uncertainty resulting from the coronavirus pandemic. The city's strong financial profile reflects a diverse and stable revenue base, modest expenditure growth and a demonstrated ability to reduce expenditures during economic downturns. The city's inclusion in the deep and diverse Dallas-Fort Worth metro area support Fitch's expectation of favorable economic and revenue growth over the long term, following a recovery from the current economic climate.

Economic Resource Base: Garland is located approximately 14 miles northeast of downtown Dallas, surrounded by major transportation corridors. The city's approximately 240,000 residents are part of the large and robust Dallas-Fort Worth-Arlington (DFW) MSA and benefit from long-term economic and employment trends that have, for many years, outpaced national levels.

Key Rating Drivers

Revenue Framework: 'aa': The city of Garland has realized solid 10-year revenue growth, which is expected to continue due to the likelihood of continued economic development. Formula-driven utility transfers provide significant support for general fund operations and have increased notably over time. Underpinning the revenue framework assessment is the city's revenue-raising flexibility including significant available taxing margin within statutory limits.

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 demands 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 about 7% of personal income and should remain in the current range despite the passage of a large bond referendum in 2019, given rapid debt amortization and expectations for growth in population and personal income.

Operating Performance: 'aaa': The city's significant revenue-raising ability and sound expenditure control, supplemented by the strong reserve cushion relative to low expected revenue volatility, should enable the maintenance of a high level of financial flexibility during cyclical downturns.

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Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Not applicable for a 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A weakening of post-pandemic economic activity that slows the current solid revenue growth, weakening the revenue framework assessment.
- Failure to realign operational spending in the event of material deterioration of the customary utility fund transfers to the general fund.

Current Developments

The recently-enacted American Rescue Plan Act (ARPA) will provide $350 billion in direct aid to state and local governments and additional funding for transit systems and school districts (through the states) as well as a significant amount of economic stimulus that should have a positive near-term impact on state and local government revenues. Fitch does not expect the stimulus aid to alter the long-term credit fundamentals of state and local governments but should bridge near-term fiscal gaps.

The city reports pandemic-related federal financial assistance to date of more than $17 million. The majority of funds were used for public health and safety personnel costs, COVID-19 tracing and tracking measures, and social service needs including emergency housing and rental payment assistance programs. The city currently is anticipating receipt of about $53.5million in ARPA assistance.

Credit Profile

The city's industrial market is one of the largest in the MSA and a diverse list of manufacturing and distribution businesses drive the local economy. For several years the city's unemployment rate has registered below the state and national levels, reflecting the generally strong local and regional job market. Recently elevated due to widespread business closures in response to the coronavirus pandemic, Fitch expects unemployment rates will gradually decline to historical levels.

The city's tax base remains very diverse and primarily residential despite its notable industrial/commercial base. Despite a small decline in TAV from fiscals 2020 to 2021, the tax base has experienced an accelerated pace of growth in recent years. Historically, TAV has grown at a steady, modest pace; however, from fiscals 2016 to 2020, TAV increased by 32%. A balanced mix of new commercial and residential development coupled with appreciating values led to several years of strong growth. Fiscal 2021 TAV, at $16.1 billion, reflects a 1.5% decrease from the previous year.

While the coronavirus-driven economic downturn yielded a sizable blow to the regional economy, the long-term economic prospects for both the city and the metropolitan region remain positive. Based on historical trends and the several residential, commercial and industrial development projects that have been underway, Fitch expects tax base growth to resume.

Revenue Framework

Operations are supported by a fairly diverse revenue base, aided by formula-driven transfers to the general fund from city-owned enterprises, which accounted for about 22% of fiscal 2020 general fund revenues. Taxes generate the bulk of the city's operating revenues. Property taxes accounted for 39% of fiscal 2020 general fund revenue and sales taxes another 19%. Payments in lieu of taxes/franchise fees/administrative costs from enterprises account for the remainder of general fund tax revenue. Fitch maintains unenhanced ratings on Garland's water and sewer system revenue debt (AA/Stable) and on the city's electric utility debt (Garland Power & Light IDR AA-/Stable).

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	6/01/21
AAA	Revised	Stable	4/30/10
AA+	Assigned		2/12/98

In years past, the pace of general fund revenue increases has exceeded inflation but trailed U.S. GDP gains. However, for the 10-year period ending in fiscal 2020, the general fund revenue CAGR at 4.2% also outpaced U.S. GDP, albeit by a nominal amount.

Garland's fiscal 2021 tax rate of $0.7696 per $100 of TAV provides ample capacity below the statutory cap of $2.50. However, the Texas legislature recently approved and the governor signed into law Senate Bill 2, which makes a number of changes to local governments' property tax rate setting process. Most notably, SB 2 will reduce the rollback tax rate (now the 'voter approval tax rate') levy increase from 8% to 3.5% for most local taxing units and require a ratification election (replacing the current petition process) if any local taxing unit exceeds its voter approval rate. The tax rate limitation in SB2 excludes new additions to tax rolls and allows for banking of unused margin for up to three years. Remaining control over other local revenues such as fines, fees, and charges for services is sufficient to generate still ample revenue-raising flexibility relative to Fitch's assessment of expected modest revenue volatility in a typical downturn. The revenue cap does not apply to debt service tax levies.

Expenditure Framework

Similar to many local governments, public safety is the city's largest general fund spending category, comprising nearly 52% of fiscal 2020 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 Great 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 20% of fiscal 2020 governmental spending, which incorporates the city's policy-determined, rapid pace of principal amortization (more than 75% retired in 10 years). Debt service costs are the largest component of this metric, at just over 12% of governmental spending in fiscal 2020.

Long-Term Liability Burden

Garland's long-term liability burden remains low at about 7% of personal income. The city's long-term liability burden reflects a large portion of its direct debt as self-supporting debt from the electric, water, and wastewater utility funds. The city's self-supporting debt has been factored into the liability assessment. More than half of the net overall long-term liability burden is attributable to overlapping entities.

The series 2021 COs will be used to finance various facility upgrades and equipment replacements. The city issues COs to fund preexisting programs while any GO bonds issued are used to finance more significant construction projects. On May 4, 2019 voters approved a $423.7 million GO bond program. According to management, the bonds will be issued over the next seven to 10 years to finance various public improvements, including street replacement, quality of life enhancements, public safety upgrades and storm drainage improvements. Within the next 12 to 18 months, the city anticipates issuing an additional $50 million in voter-authorized GO debt. Fitch anticipates that economic growth will keep the city's long-term liability burden in the low range (equal to or less than 10% of personal income) over the next several years.

The city of Garland's pension benefits are provided through the Texas Municipal Retirement System, an agent, multi-employer, defined-benefit plan. Under GASB 68, the city reports a fiscal 2020 net pension liability of about $16 million, with fiduciary assets covering 98.5% of total pension liabilities at the plan's 6.75% investment return assumption. Using a more conservative 6% investment return assumption, the estimated ratio of assets to liability declines to about 90%.

Operating Performance

Fitch expects Garland to demonstrate a high level of financial resilience during an economic downturn, consistent with past performance. The 'aaa' resilience assessment is informed by the city's revenue raising capabilities, solid expenditure flexibility and its currently ample financial cushion.

The city has a history of strong budgetary management as demonstrated by its favorable operating performance. Results have consistently exceeded the city's 30-day minimum unrestricted reserve policy. The city has an established practice of periodically applying reserves above the stated threshold or mid-year operating surpluses to various one-time spending priorities.

The adopted fiscal 2021 budget reflected the expectation of a $2.2 million general fund deficit. While the city has historically posted better-than-budgeted results by fiscal year-end, given the coronavirus outbreak and the subsequent economic slowdown, management assumed a loss in several revenue streams. According to officials, as of March 2021, the city's key revenue streams were trending better-than-budgeted. As such, it is very likely that fiscal year-end results will be favorable. Fitch expects the city to continue managing its resources prudently to maintain a strong financial cushion.

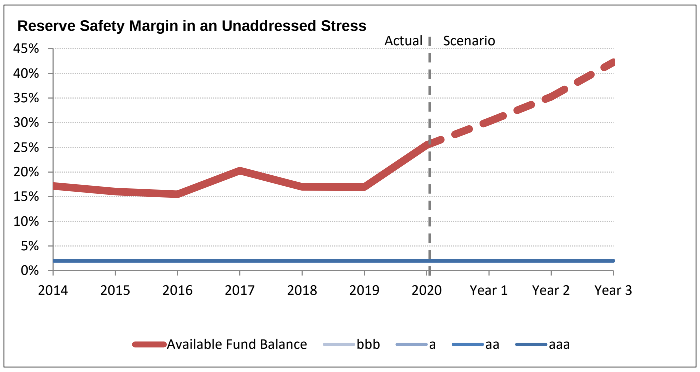
ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Garland (TX)

Scenario Analysis

Ver 45



Analyst Interpretation of Scenario Results

The city closed fiscal 2020 with a net operating surplus of more than $16 million and an unrestricted general fund balance of about $51 million, which equals 26% of spending. Management attributes the sizable surplus to lower-than-anticipated expenditures and federal aid for public safety personnel costs, as a result of the coronavirus pandemic.

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)	*Min Y1 Stress:* **-1%**	*Case Used:* **Moderate**	(1.0%)	2.3%	4.0%
Inherent Budget Flexibility			Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2014	2015	2016	2017	2018	2019	2020	Year 1	Year 2	Year 3
Total Revenues	114,929	119,597	132,698	138,522	144,275	153,569	160,481	158,876	162,563	169,042
% Change in Revenues	-	4.1%	11.0%	4.4%	4.2%	6.4%	4.5%	(1.0%)	2.3%	4.0%
Total Expenditures	146,693	153,453	166,838	167,153	182,617	197,962	196,256	200,181	204,185	208,269
% Change in Expenditures	-	4.6%	8.7%	0.2%	9.3%	8.4%	(0.9%)	2.0%	2.0%	2.0%
Transfers In and Other Sources	35,504	35,914	37,772	39,504	45,471	47,872	55,004	54,454	55,718	57,939
Transfers Out and Other Uses	2,274	2,043	2,327	2,724	7,394	2,591	2,395	2,443	2,492	2,541
Net Transfers	33,230	33,871	35,445	36,780	38,076	45,281	52,609	52,011	53,226	55,397
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	1,466	15	1,304	8,149	(265)	888	16,834	10,706	11,604	16,171
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	1.0%	0.0%	0.8%	4.8%	(0.1%)	0.4%	8.5%	5.3%	5.6%	7.7%
Unrestricted/Unreserved Fund Balance (General Fund)	25,594	24,924	26,198	34,436	32,271	34,020	50,580	61,286	72,890	89,061
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	25,594	24,924	26,198	34,436	32,271	34,020	50,580	61,286	72,890	89,061
Combined Available Fund Bal. (% of Expend. and Transfers Out)	17.2%	16.0%	15.5%	20.3%	17.0%	17.0%	25.5%	30.2%	35.3%	42.2%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	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 scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. 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.