MOODY'S INVESTORS SERVICE

CREDIT OPINION
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New Issue

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Contacts

Denise Rappmund 214-979-6865
VP-Senior Analyst
denise.rappmund@moodys.com

Gera M. McGuire 214-979-6850
VP-Sr Credit Officer/ Mgr
gera.mcguire@moodys.com

City of Arlington, TX

New Issue: Moody's assigns Aa1 to Arlington, TX's Series 2016 A-C GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned a rating of Aa1 to the City of Arlington, TX's $32.5 million Permanent Improvement Bonds, Series 2016A, $14.5 million Combination Tax and Revenue Certificates of Obligation, Series 2016B, and $12.4 million Combination Tax and Revenue Certificates of Obligation, Taxable Series 2016C. Moody's maintains an Aa1 rating on the city's outstanding general obligation bonds which will total $380.9 million post-sale.

The Aa1 rating reflects the city's large and diverse tax base, average socioeconomic indices, historically stable financial operations supported by significant additional liquidity outside the General Fund, and a slightly elevated debt profile for the rating category that is expected to remain at the current level given additional debt plans.

Credit Strengths

» Favorably located in the Dallas/Fort Worth metro area

» Significant additional liquidity held outside the General Fund

» Experienced and sophisticated management team

» Additional economic stability provided by the presence of UT Arlington and two professional sports teams (Dallas Cowboys and Texas Rangers)

Credit Challenges

» Below average socioeconomic profile for the rating category

» Slightly elevated debt burden relative to rated peers

Rating Outlook

The stable outlook reflects the favorable location in the economically vibrant Dallas/Fort Worth metroplex, and the anticipation that stable economic picture in combination with the experienced and sophisticated management team will translate to a continuation of healthy operations and liquidity.

Factors that Could Lead to an Upgrade

» Significant improvement to the socioeconomic profile

» Continued taxable value growth in combination with a moderated debt burden

Factors that Could Lead to a Downgrade

» Erosion of current available reserves

» Significant taxable value decline

» Significant debt issuance without corresponding tax base growth

Key Indicators

Exhibit 1

Arlington (City of) TX	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 17,179,112	$ 17,323,444	$ 17,677,891	$ 18,088,407	$ 18,905,766
Full Value Per Capita	$ 47,010	$ 47,393	$ 48,319	$ 49,431	$ 51,165
Median Family Income (% of US Median)	96.9%	95.6%	95.5%	96.0%	N/A
Finances					
Operating Revenue ($000)	$ 260,915	$ 264,866	$ 270,609	$ 278,455	$ 289,508
Fund Balance as a % of Revenues	39.7%	38.3%	33.8%	32.1%	31.5%
Cash Balance as a % of Revenues	36.4%	37.3%	32.2%	30.4%	29.5%
Debt/Pensions					
Net Direct Debt ($000)	$ 329,719	$ 248,257	$ 312,040	$ 325,315	$ 333,450
Net Direct Debt / Operating Revenues (x)	1.3x	0.9x	1.2x	1.2x	1.2x
Net Direct Debt / Full Value (%)	1.9%	1.4%	1.8%	1.8%	1.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.4x	1.6x	1.7x	1.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.2%	2.4%	2.6%	2.8%

Source: Moody's Investors Service, city audited financial reports

Recent Developments

The city of Arlington has continued its trend of tax base expansion posting a fiscal 2016 assessed value of $19.5 billion, up 3.4% from fiscal 2015. Additionally, fiscal 2015 audited financial results ended better than expected with a General Fund surplus of $1.8 million and stable reserves as a percent of revenues. Further details can be found in the Detailed Rating Considerations.

Detailed Rating Considerations

Economy and Tax Base: Favorably Located in the Dallas-Fort Worth Metro Area; Economy Remains Stable

Located favorably in the center of the Dallas-Fort Worth metropolitan area, the city's economy remains stable and benefits not only from the economic activity in the surrounding area, but additionally from the presence of the ATT stadium, UT Arlington, and large family entertainment facilities such as Six Flags and Hurricane Harbor. The city is home to two professional sports franchises – the Dallas Cowboys and the Texas Rangers, which adds to the local tourism industry and enhances sales tax revenues. Enrollment at UT Arlington has been steadily growing, and is currently over 36,000.

The city is mature, although development and redevelopment of various commercial and residential corridors continues. The city's $19.5 billion (fiscal 2016) tax base has experienced annual growth every year following a dip in fiscal 2011, resulting in a five year average annual change of 2.6%. The tax base is nearly two-thirds residential, and therefore diverse, with the top ten taxpayers representing a low 6.9% of total taxable value.

Following 10% growth in population between the 2000 and 2010 US censuses, the city has continued to experience modest annual growth and currently has an estimated population of over 379,000. The socioeconomic profile of the city is average relative to the nation, with median family income of 96% as of the 2012 ACS. The unemployment rate in the city was a low 4% as of November 2015, which was below the state (4.5%) and the nation (4.8%) during the same time period.

Financial Operations and Reserves: Healthy General Fund Reserve Maintained; Additional Liquidity Outside General Fund

The city has historically exceeded the adopted fiscal management policy requiring the total General Fund balance to be maintained at a minimum of 15% of annual General Fund expenditures. Despite planned draws on reserves over the past three fiscal years for capital expenses, the financial profile remains healthy. As of fiscal 2015, the General Fund reported an available balance of $56.7 million, which was down from a high of $65.5 million as of fiscal 2011, but still healthy at 25.3% of revenues. Although the city has assigned several portions within the General Fund balance, officials report that the funds are available for appropriation. The city passed a balanced budget for fiscal 2016 and expects stable General Fund reserves.

The city continues to maintain significant additional resources outside of the General Fund, most notably through the Arlington Tomorrow Fund, which held a cash position of $109 million as of fiscal 2015. Derived from natural gas bonus payments and royalties received by the city, the Foundation is controlled by a board, made up of the city council and an executive director that is technically an employee of the city. The city council established a maximum $100 million corpus for the fund, with grants to the community coming only out of earnings above the $100 million mark. For the fiscal 2016 budget, the council authorized use of $50 million (50%) of the corpus to be applied to a new joint venture with the Texas Rangers to develop a mixed use area to be known as "Texas Live". The city intends to rebuild the corpus over 8-9 years. Despite the substantial drawdown of the fund, the remaining $50+ million corpus of the Arlington Tomorrow Fund provides substantial operating flexibility given a super-majority vote of city council could enable it to used for any lawful purpose of the city.

LIQUIDITY

As of fiscal 2015, the cash and investment position of the combined General Fund and Debt Service Fund (operating funds) was $85.4 million, representing 29.5% of revenues in the combined funds.

Debt and Pensions: Manageable Debt and Pension Burden

Given the city's historical adherence to target debt ratios, which include net direct debt burden (total tax supported GO debt less debt service fund balance) less than 2.0% of assessed value, annual debt service expenditures less than 20% of total operating expenditures and debt per capita less than $1,060, we believe the debt profile will remain manageable over the long term. Inclusive of the current sale, the city's net direct debt burden is 2% of fiscal 2016 taxable value, and 6.3% including overlapping debt. The city has $226 million of authorized but unissued GOLT debt remaining. The city plans to issue debt annually from this authorization through 2020 while remaining within the city's specified debt targets. Projects will generally include replacement of aging infrastructure, risk management and parks and recreation.

DEBT STRUCTURE

The city structures its new money debt to amortize over twenty years with level annual principal, resulting in more front loaded annual debt service payments, reducing the overall interest cost to the community for debt funded projects. Principal payout within ten years is average at 68%. All of the city's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The city is not a party to any derivative agreements.

PENSIONS AND OPEB

The city has a manageable employee pension burden based on unfunded liabilities for its share of the Texas Municipal Retirement System (TMRS), and agent multiple-employer plan administered by the state. Moody's three year average adjusted net pension liability (ANPL) for the city (fiscal 2013 – 2015), under our methodology for adjusting reported pension data, is $532 million, or 1.8x operating revenue. To note, the city has been contributing approximately 0.25% more than the actuarially determined amount annually in order to more quickly fund the plan.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, governments and other entities across the globe, please visit Moody's on Pensions at www.moodys.com/pensions.

Management and Governance

Texas cities have an institutional framework score of "Aa," or strong. Cities rely on stable property taxes for 30% -40% of their operating revenues, while 25%-35% comes from economically sensitive sales taxes, resulting in moderate predictability overall. Cities maintain moderate flexibility under the state-mandated cap ($25 per $1,000 of AV, with no more than $15 for debt) to raise property taxes as most cities are well below the cap. Expenditures primarily consist of personnel costs, which are highly predictable. Cities have high flexibility to reduce expenditures given no union contracts.

The city's management team is notably forward-looking and fiscally prudent, supported by fiscal policies and targets.

Legal Security

The Permanent Improvement Bonds constitute direct and general obligations of the city, payable from the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the city.

The Certificates of Obligation will be direct obligations of the City, payable as to principal and interest from a combination of (i) an ad valorem tax levied annually, within the limits prescribed by law, against all taxable property in the City and (ii) a pledge of limited surplus revenues ($1,000) of the City's Water and Wastewater System, as provided in the Certificate Ordinance.

Use of Proceeds

The Series 2016A bonds will fund infrastructure and improvements related to recreation centers in the city, the Series 2016B bonds will fund improvements related to the Ditto Golf Course and to the city's landfill operation, and the Series 2016C bonds will fund the city's self insurance and risk management program.

Obligor Profile

The city of Arlington, TX is located in the center of the Dallas/Fort Worth Metroplex. The city encompasses 99.5 square miles and has a current population of approximately 379,000.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Arlington (City of) TX

Issue	Rating
Permanent Improvement Bonds, Series 2016A	Aa1
Rating Type	Underlying LT
Sale Amount	$32,465,000
Expected Sale Date	05/10/2016
Rating Description	General Obligation Limited Tax
Combination Tax and Revenue Certificates of Obligation, Series 2016B	Aa1
Rating Type	Underlying LT
Sale Amount	$14,515,000
Expected Sale Date	05/10/2016
Rating Description	General Obligation Limited Tax

Combination Tax and Revenue Certificates of Obligation, Taxable Series 2016C	Aa1
Rating Type	Underlying LT
Sale Amount	$12,415,000
Expected Sale Date	06/07/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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Contacts

Denise Rappmund *VP-Senior Analyst* denise.rappmund@moodys.com	214-979-6865	Gera M. McGuire *VP-Sr Credit Officer/Mgr* gera.mcguire@moodys.com	214-979-6850

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
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