

RatingsDirect®

Summary:

Arlington, Texas; General Obligation

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Credit Profile

US\$32.465 mil perm imp bnds ser 2016A

Long Term Rating AAA/Stable New

US\$14.515 mil comb tax and rev certs of oblig ser 2016B

Long Term Rating AAA/Stable New

US\$14.2 mil comb tax and rev certs of oblig ser 2016C

Long Term Rating AAA/Stable New

Arlington GO

Unenhanced Rating AAA(SPUR)/Stable Affirmed

Long Term Rating AAA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Arlington, Texas' series 2016A permanent improvement general obligation (GO) bonds and series 2016B-2016C combination tax and revenue certificates of obligation and affirmed its 'AAA' rating, with a stable outlook, on the city's existing GO debt.

The series 2016A bonds are payable from an ad valorem tax, levied within the limits prescribed by law, on all taxable property in the city. Officials intend to use series 2016A bond proceeds to finance library, parks, golf course, and street improvements. State statutes provide for a maximum ad valorem tax rate of \$2.50 per \$100 of taxable assessed valuation (AV) for all purposes. The state attorney general has adopted an administrative policy that generally prohibits the issuance of debt by a municipality, such as the city, if its issuance produces debt service requirements exceeding that which it can pay from \$1.50 of the foregoing \$2.50 maximum tax rate, as calculated at the time of issuance. For fiscal 2016, the total tax rate is 64.8 cents per \$100 of AV, including 20.2 cents for debt service, well below the maximum allowable \$2.50 per \$100 of AV.

The series 2016B and 2016C certificates are payable from a combination of an ad valorem tax levied annually, within the limits prescribed by law, against all taxable property in the city, coupled with a pledge of limited surplus revenue of \$1,000 of the city's water and wastewater system; however, we rate the bonds based on the city's ad valorem pledge. We understand officials will use series 2016B certificate proceeds to fund improvements to city park and recreation and solid waste facilities and series 2016C certificate proceeds to finance a self-insurance fund to protect the city and its officers, employees, and agents from insurable risks or hazards.

We rate Arlington's property-tax-supported bonds higher than the sovereign because we believe the city can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, we consider U.S. local governments as having moderate sensitivity to national risk. The city's property

tax pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or the city's operations. The institutional framework in the nation is predictable for local governments, allowing local governments significant autonomy, independent treasury management, and no history of government intervention. Arlington has considerable financial flexibility, demonstrated by a very high general fund balance as a percent of expenditures and very strong liquidity.

The rating reflects our opinion of the following factors for the city, specifically its:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 37.2% of total governmental fund expenditures and 1.8x governmental debt service, and access to external liquidity we consider exceptional;
- Weak debt and contingent liability position, with debt service carrying charges at 21.1% of expenditures and net direct debt that is 153.6% of total governmental fund revenue, but rapid amortization, with 69.6% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Strong economy

We consider Arlington's economy strong. The city, with an estimated population of 370,367, is in Tarrant County in the Dallas-Fort Worth-Arlington MSA, which we consider broad and diverse. The city also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 87.1% of the national level and per capita market value of \$52,782. Overall, the city's market value grew by 3.4% over the past year to \$19.5 billion in 2016. The county unemployment rate was 5% in 2014.

Various industries support Arlington's local economy. Residents have access to larger employment bases in nearby Fort Worth and Dallas. Leading city employers include Arlington Independent School District, University of Texas-Arlington, General Motors Corp., Texas Health Resources, and Six Flags Over Texas. The Arlington economy also has a strong tourism sector. Leading attractions include:

- AT&T Stadium, home of the National Football League's Dallas Cowboys and a major venue for concerts and national sporting events;
- Globe Life Park, home of Major League Baseball's Texas Rangers;
- Six Flags Over Texas (an amusement park);
- Hurricane Harbor (a waterpark); and
- Lake Arlington.

After contracting in fiscal 2011 due to the national economic downturn, the city's property tax base has demonstrated steady growth; the tax base recently surpassed its prerecessionary peak. Taxable AV has grown by an aggregate 13.7% since fiscal 2011, including 3.4% in fiscal 2016, to \$19.5 billion in fiscal 2016. The tax base is diverse with the 10 leading taxpayers accounting for just 6.6% 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:

- Revenue and expenditure assumptions based, in part, on up to 10 years of historical data and information from outside sources;
- Quarterly budget reports to the city council, including budget-to-actual result comparisons;
- Long-term financial forecasting for revenue and expenditures five years beyond the current budget year;
- Use of a five-year capital plan that it updates, at least, annually with identified funding sources;
- Formal investment policy with quarterly reports on performance and holdings to the council;
- Formal debt management policy, including quantitative measurable parameters and benchmarks; and
- Working capital reserve policy in the general fund to maintain a minimum 8.33% of annual expenditures and a total general fund balance policy of maintaining a minimum 15% of expenditures.

Strong budgetary performance

Arlington's budgetary performance is strong in our opinion. The city had slight operating surpluses of 0.8% of expenditures in the general fund and 1% of expenditures across all governmental funds in fiscal 2015. General fund operating results of the city have been stable over the past three years, with a result of 1.1% of expenditures in 2014 and a result of negative 0.6% of expenditures in 2013.

We expect budgetary performance to remain strong over the next two fiscal years. Officials expect a similar performance in fiscal 2016 compared with fiscal 2015 results, and they do not currently plan to draw down fund balance. The city's comprehensive financial forecast, which projects general fund revenue will exceed expenditures in fiscal 2017, also supports our expectation that budgetary performance will likely remain strong. Taxes--including property and sales taxes--generated 67% of fiscal 2015 general fund revenue.

Very strong budgetary flexibility

Arlington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 26% of operating expenditures, or \$56.2 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 25% of expenditures in 2014 and 26% of expenditures in 2013.

When factoring \$100 million in the Arlington Tomorrow Fund--which receives natural gas royalties from city-owned property and which management can use for any purpose, if necessary--total available fund balance equals an even-stronger 72% of expenditures. Officials plan to use about \$50 million in fiscal 2016 to support the Texas LIVE program, a joint collaboration with Major League Baseball's Texas Rangers; this program involves the developing of a hotel and entertainment facility between Globe Life Park and AT&T Stadium. Officials plan to replenish the Arlington Tomorrow Fund gradually to its \$100 million level, plus a Consumer Price Index increase, over the next 15 years.

Very strong liquidity

In our opinion, Arlington's liquidity is very strong, with total government available cash at 37.2% of total governmental fund expenditures and 1.8x governmental debt service in 2015. In our view, the city has exceptional access to external liquidity if necessary.

Arlington has issued debt backed by various revenue streams over the past 15 years, including GO, utility revenue, and special tax. As of December 2015, the city held investable funds mainly in certificates of deposit, demand accounts, and state investment pools. We do not view these investments as aggressive, and the city is budgeting for less than 1% for the annual return.

Weak debt and contingent liability profile

In our view, Arlington's debt and contingent liability profile is weak. Total governmental fund debt service is 21.1% of total governmental fund expenditures, and net direct debt is 153.6% of total governmental fund revenue.

Approximately 69.6% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Miscellaneous revenue--such as hotel occupancy taxes, utility revenue, incremental taxes, and airport general gas lease revenue, among others--supports a significant portion of debt. Including all overlapping entities, overall debt is 7.3% of taxable AV. Arlington's formal policy is to retire level principal every year rather than make level payments, including interest. The electorate approved the city's most recent permanent improvement bond authorization for \$236 million in 2014. Combined with authorized, but unissued, bonds from prior elections, the city has \$226.1 million of unissued bonding authority. Officials will likely issue the remainder of these authorizations over the next five years. Therefore, we believe the city's debt profile will likely remain weak.

Arlington's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 8% of total governmental fund expenditures in fiscal 2015. Of that amount, 6.6% represented required contributions to pension obligations, and 1.4% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2015.

Arlington participates in the Texas Municipal Retirement System (TMRS). The plan maintained a funded level of 89.92%, using its fiduciary net position as a percent of the total pension liability. Pursuant to the TMRS policy of conducting experience studies every four years, the TMRS board, at its July 31, 2015, meeting, determined it would change certain actuarial assumptions, including reducing the long-term expected rate of return to 6.75% from the current 7% and the inflation assumption to 2.5% from 3%. The reduction of expected investment returns and related discount rates will increase projected pension liabilities. Reducing the inflation assumption decreases liabilities because future annuity levels and cost-of-living adjustments will not be as large as originally projected. While the actual effect on the city's valuation for Dec. 31, 2015, is currently unknown, Arlington expects some downward pressure on its funded status and upward pressure on its fiscal 2017 actuarially determined contribution due to this change.

Arlington also offers a thrift savings plan, a part-time deferred-income trust, the deferred-compensation plans, a retiree health insurance plan, and the supplemental death benefits to eligible employees.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion that it will likely not change the rating over the two-year outlook period. We expect that Arlington will likely continue to benefit from its participation in the broad and diverse Dallas-Fort Worth-Arlington MSA and that the presence of many large, longstanding institutions will likely continue to provide a degree of economic stability.

The outlook also reflects our view that Arlington will likely sustain its very strong financial profile with the Arlington Tomorrow Fund remaining a source of liquidity and budgetary flexibility, if needed. We also expect that, due to bonding plans, the city's debt and liabilities profile will likely remain weak but that its policy of annual level principal payments will likely promote faster-than-average principal amortization.

Although unlikely to occur within the two-year outlook period, we could lower the rating if finances or the local economy were to deteriorate.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Institutional Framework Overview: Texas Local Governments

Ratings Detail (As Of April 27, 2016)

Arlington GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Arlington GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria.

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