Arlington, Texas

General Government
Full Rating Report

Ratings

New Issues

Permanent Improvement Bonds, Series 2016A	AAA
Combination Tax and Revenue Certificates of Obligation, Series 2016B	AAA
Combination Tax and Revenue Certificates of Obligation, Taxable Series 2016C	AAA

Outstanding Debt

Issuer Default Rating	AAA
Permanent Improvement Bonds	AAA
Certificates of Obligation	AAA
Special Tax Bonds[a]	AA+

[a]Upgraded from 'A+' on April 26, 2016.

Rating Outlook
Stable

Related Research
Fitch Rates Arlington, TX's IDR 'AAA'; Outlook Stable (April 2016)

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New Issue Details

Sale Information: $32,465,000 Permanent Improvement Bonds, Series 2016A, $14,515,000 Combination Tax and Revenue Certificates of Obligation, Series 2016B, scheduled to sell May 10 competitively, and $14,200,000 Combination Tax and Revenue Certificates of Obligation, Taxable, Series 2016C, scheduled to sell June 7 competitively.

Security: The bonds and certificates of obligation (COs) are payable by an ad valorem tax levied on all taxable property within Arlington (the city), limited to $2.50 per $100 taxable assessed valuation (TAV). COs are also secured by a pledge of limited surplus revenues ($1,000) of the city's water and wastewater system.

Purpose: To fund governmental improvements, projects and programs.

Final Maturity: Series 2016A and 2016B: Aug. 15, 2036; taxable series 2016: Aug. 15, 2026.

Key Rating Drivers

The 'AAA' issuer default and GO ratings reflect Fitch Ratings' expectation for the city of Arlington to maintain healthy financial flexibility throughout economic cycles, consistent with a history of strong operating performance and robust reserves. Fitch expects long-term liabilities to remain moderate based on manageable capital needs and rapid amortization.

Solid Coverage Cushion: The rating upgrade of the special tax bonds to 'AA+' from 'A+' reflects application of Fitch's revised criteria for U.S. state and local government credits, which was released on April 18. Under the new criteria, Fitch considers debt service coverage in light of the sensitivity of the dedicated revenue stream to downturns. The coverage provides ample cushion to absorb a downturn in expected revenues in a moderate recession. The 'AA+' rating also reflects a closed lien.

Revenue Framework: 'aaa' factor assessment. Fitch expects Arlington to realize continued sound revenue growth based on economic development currently under way and the city's participation in the expanding regional economy. Revenue-raising capacity is strong, supported by ample tax rate capacity.

Expenditure Framework: 'aa' factor assessment. The city of Arlington is mature with a modest pace of spending. The city's carrying costs are elevated, reflecting a rapid principal amortization schedule. The city has demonstrated the flexibility and willingness to cut salary and other costs during economic downturns.

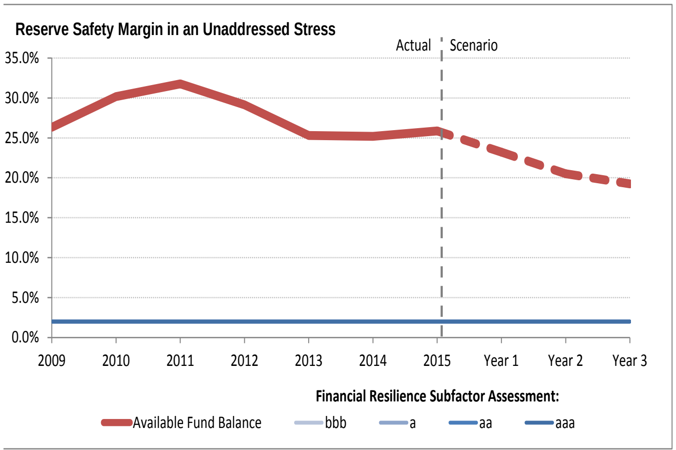
Long-Term Liability Burden: 'aa' factor assessment. Fitch anticipates the city of Arlington's long-term liability burden, 10.3% of personal income, to remain moderate based on a manageable capital plan, rapid amortization and well-funded pensions.

Operating Performance: 'aaa' factor assessment. Arlington maintains bountiful reserves. Operations respond well to stress, consistent with the city's history of balanced operations and reserve adequacy throughout economic cycles.

Arlington (TX)

Scenario Analysis

v. 1.06 2016/05/04



Analyst Interpretation of Scenario Results:

The city is projected to maintain a solid financial position through an economic downturn, aided by ample revenue and expenditure flexibility.

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)	(1.0%)	1.9%	3.4%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2009	2010	2011	2012	2013	2014	2015	Year 1	Year 2	Year 3
Total Revenues	187,344	190,044	189,270	190,156	194,190	197,756	201,581	199,565	203,303	210,298
% Change in Revenues	-	1.4%	(0.4%)	0.5%	2.1%	1.8%	1.9%	(1.0%)	1.9%	3.4%
Total Expenditures	191,612	186,835	189,505	198,279	205,802	206,056	208,798	212,974	217,233	221,578
% Change in Expenditures	-	(2.5%)	1.4%	4.6%	3.8%	0.1%	1.3%	2.0%	2.0%	2.0%
Transfers In and Other Sources	16,606	18,992	17,237	20,142	18,710	19,873	19,639	19,443	19,807	20,488
Transfers Out and Other Uses	10,246	13,915	16,794	15,297	13,855	12,122	10,590	10,802	11,018	11,238
Net Transfers	6,360	5,077	443	4,845	4,855	7,751	9,049	8,641	8,789	9,250
Bond Proceeds and Other One-Time Uses	0	0	0	0	0	0	0	0	0	0
Net Operating Surplus(+)/Deficit(-) After Transfers	2,092	8,286	208	(3,278)	(6,757)	(549)	1,832	(4,768)	(5,141)	(2,030)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	1.0%	4.1%	0.1%	(1.5%)	(3.1%)	(0.3%)	0.8%	(2.1%)	(2.3%)	(0.9%)
Unrestricted/Unreserved Fund Balance (General Fund)	53,166	60,588	65,531	62,229	55,548	54,962	56,745	51,977	46,836	44,806
Other Available Funds (Analyst Input)	0	0	0	0	0	0	0	0	0	0
Combined Available Funds Balance (GF + Analyst Input)	53,166	60,588	65,531	62,229	55,548	54,962	56,745	51,977	46,836	44,806
Combined Available Fund Bal. (% of Expend. and Transfers Out)	26.3%	30.2%	31.8%	29.1%	25.3%	25.2%	25.9%	23.2%	20.5%	19.2%

Reserve Safety Margins	Inherent Budget Flexibility				
	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 downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. 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.

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	4/26/16
AAA	Affirmed	Stable	2/18/16
AAA	Upgraded	Stable	5/11/15
AA+	Affirmed	Positive	5/22/14
AA+	Affirmed	Stable	6/3/13
AA+	Affirmed	Stable	5/10/12
AA+	Affirmed	Stable	6/6/11
AA+	Affirmed	Stable	10/19/10
AA+	Affirmed	Stable	6/8/10
AA+	Revised	Stable	4/30/10
AA	Affirmed	Stable	9/15/09
AA	Affirmed	Stable	9/11/07
AA	Affirmed	Stable	7/19/06
AA	Assigned	Stable	7/12/00

Related Criteria

U.S. Tax-Supported Rating Criteria (April 2016)

Credit Profile

Arlington is located in the center of the DFW metroplex (about 20 miles west of Dallas) with an estimated 2016 population of 384,460. The city is mature with a diverse tax base. Low unemployment reflects historical growth in the local and regional job market.

The diverse Arlington economy includes manufacturing, distribution and retail trade and benefits from its proximity to the DFW International Airport and well-developed highway transportation network. Tourism is a significant component of the local economy. Arlington's tax base is broad, and TAV has realized five consecutive years of growth averaging 2.5% subsequent to a recessionary dip in fiscal 2011.

Higher education rounds out the economic base with the presence of the University of Texas-Arlington, a growing 38,600 enrollment campus that continues to invest in facility improvements. Other top employers include the Arlington Independent School District, General Motors and GM Financial, Texas Health Resources, Six Flags Over Texas, JP Morgan Chase and the Texas Rangers Baseball Club. Notable near-term development includes the $1.4 billion GM plant expansion and DR Horton relocation. Longer term, Fitch anticipates that the city's pivotal role in the regional economy will continue to expand the city's employment and tax base. Although city buildout is mature with respect to residential property, Fitch anticipates significant ongoing commercial development.

Revenue Framework

Arlington's fiscal 2016 TAV increased 3.4%, above the 3.1% five-year CAGR. Property taxes make up 37% of Arlington's general fund revenues, followed by sales tax revenues at 26%. Fiscal years 2015 and 2016 year-to-date sales tax revenues are trending at growth rates moderately above the five-year CAGR of 2.8%. Fitch expects increases in the city's property and sales tax bases to mirror the steadily expanding commercial, industrial and retail economic base in the city. Fitch considers the city to realize ongoing buildout in these sectors through the medium- and long-term horizons.

The city of Arlington's fiscal 2016 tax rate, $0.648, provides ample tax rate capacity below the statutory cap of $2.50 per $100 of TAV.

Expenditure Framework

Public safety accounts for 65% of general fund expenditures. The pace of spending is likely to remain in line with or below revenue growth. Fitch does not anticipate pressure on service levels given the relative maturity of the city's residential tax base.

Expenditure flexibility is derived from management's strong control over headcount and lack of collective bargaining, which help to mitigate the constraints on flexibility of elevated carrying costs, 27.2% of fiscal 2015 governmental spending. Arlington's carrying costs reflect a 10-year amortization rate of 76.3%.

Long-Term Liability Burden

Fitch anticipates Arlington's long-term liabilities, currently 10.3% of personal income, to remain moderate given manageable capital needs and well-funded pensions. Voters overwhelmingly approved $236 million in GO bonds in November 2014. Authorization of $226 remains subsequent to this permanent improvement bond issuance. Arlington's capital plan includes

$212 million of general governmental debt issuance over the next four years compared with amortization of $154.2 million in tax-supported debt during the same period.

The city of Arlington pensions are provided through the Texas Municipal Retirement System, an agent multiple-employer-defined benefit plan. Under GASB Statement 68, the city reports a fiscal 2015 net pension liability (NPL) of $104.6 million, with fiduciary assets covering 90% of total pension liabilities at the plan's 7% investment return assumption. The NPL of the plan represents a very small 0.4% of the city's fiscal 2015 market value. The city administers a single-employer retiree healthcare plan with an unfunded liability representing less than one-half of 1% of fiscal 2015 market value.

Operating Performance

The city is projected to maintain a solid financial position through an economic downturn, aided by ample revenue and expenditure flexibility.

The city maintains a 15% minimum general fund balance policy. Included therein are a one-month working capital reserve, an unallocated reserve for emergencies and a business continuity reserve that provides funding for operational needs as needed.

In addition, the city maintains a community foundation dedicated to cultural/quality of life projects and neighborhood revitalization. The endowment is funded primarily from natural gas lease and royalty payments and could be used for general purposes, if needed, with supermajority approval of the city council. The endowment has grown substantially since its incorporation in 2007, with a current balance of $51.9 million subsequent to the expenditure of $50 million of the fund's corpus during fiscal 2016 in a strategic partnership with the Texas Rangers sports franchise to develop local hotel and event space. The city anticipates rebuilding the reserve over 15 years.

Dedicated Revenue Stream Details

Arlington's series 2008 and 2009 special tax bond pledged revenues consist primarily of a citywide 0.5% sales and use tax rate, as well as a 5% tax on motor vehicle rentals and 2% hotel occupancy tax. Sales tax revenues and combined motor vehicle and hotel tax revenues contributed 88% and 9.3%, respectively, of the $31.9 million in fiscal 2015 pledged revenues, net of naming rights and rents applicable to the recently defeased series 2005C taxable bonds.

Revenue Stream Sensitivity

Dedicated Revenue Stream Details

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Revenue Stream Sensitivity

A fiscal years 2006–2015 pledged revenue CAGR, net of naming rights and rents, of 2.8% reflects sound economic activity. Pledged revenues declined just once by 3.5% in 2009, followed by a strong rebound. Growth prospects remain strong given the central location of Arlington within the DFW metroplex.

Fiscal 2015 pledged revenues, net of naming rights and rent, covered debt service 1.72x and cover maximum annual debt service (2025) 1.40x. Current coverage levels provide a strong cushion against revenue decline due to changing economic conditions or other unanticipated events. Pledged revenues would not be adversely affected by a 1% national GDP decline. Ample coverage remains when considering the stress Fitch applies using the largest single year of historical revenue decline (3.5% in fiscal 2009).

The city continues to redeem the outstanding debt ahead of schedule based on strong sales tax performance and anticipates final payoff in August 2021, ahead of the current 2028 and original 2035 maturity dates. No new money debt secured by the pledged revenues may be issued under the indenture. The master ordinance limits the use of taxes to pay debt service, replenish reserve funds or redeem bonds since the project is complete.

Issuing Entity Exposure

The special tax bond rating is limited by the city of Arlington's 'AAA' IDR.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.