FITCH RATES ARLINGTON, TX'S PERM IMPROV & RFDG BONDS 'AA+'; OUTLOOK STABLE

Fitch Ratings-Austin-03 June 2013: Fitch Ratings has assigned an 'AA+' rating to the following Arlington, Texas (the city) limited tax bonds:

--$17.55 million permanent improvement bonds, series 2013A
--$6.1 million permanent improvement refunding bonds, series 2013B.

The bonds are scheduled for competitive sale on June 18. Proceeds from the 2013A bonds will be used for streets, parks, fire facilities and recreation facility improvements. The 2013B bonds will be used to refund outstanding debt for interest cost savings.

In addition, Fitch affirms its ratings on the following bonds:

--$259.8 million in outstanding permanent improvement bonds at 'AA+';
--$61 million in outstanding certificates of obligation (COs) at 'AA+';
--$238 million in special tax bonds at 'A+'.

The Rating Outlook for all securities is Stable.

SECURITY

The permanent improvement bonds and COs are secured by an ad valorem tax levied on all taxable property within the city, limited to $2.50 per $100 taxable assessed valuation (TAV). Outstanding COs also carry a limited, de minimis pledge of net revenues of the city's waterworks and sewer system.

The special tax bonds are secured by a first lien on pledged special taxes and pledged accounts. The pledged taxes consist of a 0.5% sales and use tax, a 5% tax on short-term motor vehicle rentals, and a 2% hotel occupancy tax. Each tax is collected citywide. The series 2005C bonds are secured further by annual rental payments from the National Football League's Dallas Cowboys and a portion of annual stadium naming rights fees (no naming rights secured to date).

KEY RATING DRIVERS

FAVORABLE LOCATION IN DFW: This mature city benefits from its central location in the Dallas-Fort Worth (DFW) metropolitan area and status as a regional hub for entertainment and tourism. Job growth is continuing and unemployment is relatively low. Wealth levels remain average.

RESILIENT TAX BASE: TAV has resumed modest growth following a one-year recessionary contraction. Fitch believes long-term prospects for tax base growth are favorable given rising home values, continuing development, and favorable economic metrics of the broader DFW region.

SOUND FISCAL CUSHION MAINTAINED: Operating margins have been mixed in recent years but general fund reserves and liquidity provide good flexibility. Management adheres to its prudent financial policies.

ABOVE AVERAGE DEBT: Key debt ratios are moderate to high. Rapid amortization offsets Fitch's concerns about the high annual debt service costs as a percent of the budget.

IMPROVED PENSION PICTURE: Unfunded pension liabilities were significantly reduced by recent system-wide structural and actuarial changes, resulting in a sound funded position and level annual contributions.

RATING SENSITIVITIES

BUDGET BALANCE; DEBT REDUCTION: The city's ability to sustain its strong financial position, together with moderation of the debt burden and continued tax base momentum could lead to positive action on the rating and or outlook in the near-to-intermediate term.

CREDIT PROFILE

Arlington is located in the center of the DFW metroplex and has an estimated 2012 population of 365,860. The city is home to the Dallas Cowboys and Major League Baseball's Texas Rangers.

DIVERSE, RESILIENT ECONOMY IN THE HEART OF DFW

The city is a natural center for manufacturing, distribution, and retail trade given its central location in DFW, proximity to the DFW International Airport, and well-developed highway transportation network. Tourism is also a significant component of the local economy given the presence of popular amusement parks and professional sports franchises, which are a major draw for residents from the area and around the state. Higher education rounds out the economic base with the presence of The University of Texas-Arlington (UTA), a growing 34,000 enrollment campus that continues to invest in facility improvements.

The city's tax base is comprised of about 60% residential and 35% commercial or industrial properties. TAV contracted sharply in fiscal 2011 due to lower housing and commercial valuations but quickly stabilized in fiscal 2012 and saw 2% growth in fiscal 2013. Housing data available to Fitch suggest improvement in home prices, which when coupled with the continuing commercial/industrial development occurring within the city, supports projections for continued modest TAV growth over the near-term.

General Motors (GM; Fitch IDR of 'BB+' with Stable Outlook) is the top taxpayer (1.1% of fiscal 2013 TAV) and a major local employer with roughly 2,400 workers. The GM plant, which manufactures light trucks and sport utility vehicles, recently added a third shift to its operations and is in the midst of expanding its facilities. Additionally, a $1 billion mixed-use development (Viridian) is currently under construction and is anticipated to be completed in phases over a 10-year period, bringing additional office, retail and residential values to the tax base.

AVERAGE WEALTH; GOOD EMPLOYMENT PROFILE

Per capita market value is below average at $65,000 when compared to highly-rated peers. Residents' income levels, as measured by per capita income and median household income, approximate national averages. The city, like the region, continues to outpace the nation in job growth. Arlington's March unemployment rate improved to 5.7% from 6.5% in March 2013 due to employment growth of 2.3%. This unemployment rate compares favorably to the state (6.3%) and national averages (7.6%).

PRUDENT FINANCIAL POLICIES

Fitch views the city's financial practices and reserve policies as positive credit factors. The city maintains a 15% 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 council. The endowment has grown substantially since its incorporation in 2007 and has a current balance of $96 million.

SOLID GENERAL FUND RESOURCES MAINTAINED

Property taxes and sales taxes are the primary revenue sources, comprising about 40% and 25% of fiscal 2012 general fund revenues, respectively. Both revenue sources exhibited some weakness in recent years but this was prudently managed through spending reductions as well as the use of some one-time funds including excess internal fund reserves and gas royalties.

Fiscal 2012 ended with an operating deficit after transfers equal to $3.3 million or a manageable 1.5% of spending. The deficit, the first since fiscal 2008, was the result of a non-recurring 4% retention payment to staff, increased costs for police and fire personnel (partly due to tornado damage cleanup costs), and budget amendments during the year. The fiscal 2012 unrestricted fund balance declined slightly to $62.3 million or still sound 29% of spending.

The fiscal 2013 budget forecast a more modest $1 million use of reserves. The budget includes new police positions, some paygo capital, a recurring 3% pay increase for staff, and higher health insurance costs. Assumptions for a 3.75% increase in recurring operating revenues appear reasonable, led by strengthening sales tax and property tax revenues. Fitch views positively management's track record of outperforming the initial budget by year-end and would view the small fund balance draw-down budgeted for fiscal 2013 as manageable. Continued reliance on fund balance for annual spending to more than a modest degree would be of concern given the high rating level.

Fitch favorably notes the city returned to full funding of the actuarially-determined annual required contributions (ARC) for pensions in fiscal 2012. The city under-funded the pension ARC by an aggregate of $17.5 million from fiscal years 2009 - 2011, during which time general fund reserves improved by $10.6 million.

ABOVE AVERAGE DEBT BURDEN

Overall debt per capita is moderate but debt to full value is above average at 5.2% primarily due to significant overlapping school district debt. Annual debt service costs for GO and special tax bonds consumed an elevated 20.5% of governmental fund expenditures net of capital projects funds expenditures. Fitch notes that this is in part due to the above-average pace of debt retirement, with 67% of GO and special tax debt retired in 10 years.

With about $75 million in tax-supported debt to be issued through 2014 the city's near term capital needs appear manageable. Nevertheless, Fitch expects overall debt ratios to remain elevated given the city's continuing capital needs and planned debt issuances of overlapping school districts.

IMPROVED PENSION OUTLOOK

Pension benefits are provided through the Texas Municipal Retirement System (TMRS), an agent multiple-employer plan. Recent system-level structural and actuarial changes to TMRS, coupled with the city's reduction to its cost-of-living adjustment (COLA), have together produced stabilization of the ARC and significant improvement in the city's funded position to a sound 84.9% from 60% while using a more conservative 7% investment return. Fitch notes this improvement is consistent with the vast majority of participating TMRS entities. While the trajectory for the pension ARC is now more stable, combined fixed costs for debt service, pension ARC, and OPEB paygo will likely continue to consume an elevated share of the budget; these fixed costs totaled 30% of governmental expenditures (less capital expenditures) in fiscal 2012.

SATISFACTORY COVERAGE OF SPECIAL TAX BONDS

Coverage of the special tax stadium bonds remains satisfactory due to growth of the pledged tax revenues. Annual rental payments from the Dallas Cowboys NFL football club are also pledged to the series 2005C bonds. Pledged tax revenues excluding rent payments covered MADS 1.18x in fiscal 2012 and covers annual debt service between 1.2x - 1.5x over the next 10 years. When rent payments are included in the coverage calculation, MADS coverage improves to 1.27x. 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.

The pledged tax revenues demonstrated some sensitivity to the recession but have generally remained on a positive trajectory and saw healthy annual growth in fiscal years 2011 and 2012 equal to 6% and 3%, respectively. Year-to-date tax receipts, which are mostly comprised of the sales tax considered to be most stable by Fitch, are up 10% from last year during the same period. Fitch expects coverage will remain sound over the near-term given the economic trends in the city and addition of several marquee events at the stadium (annual Cotton Bowl and Academy of Country Music Awards, the 2014 NCAA Final Four, and the 2015 College Football Championship).

Arlington voters approved the three taxes in 2004 to help finance the new Dallas Cowboys stadium. Owned by the city, the 75,000-seat retractable roof stadium opened in summer 2009. The Cowboys club leased the land and stadium for an initial 30-year term at $2 million annually, commencing with the opening of the facility. The club has renewal options and also a purchase option at the end of the initial lease term. The lease is triple-net, and the club receives all operation-related revenues. The club also pays 5% of annual naming rights fees (not yet secured) to the city, capped at $500,000 per year.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors. ,

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

FITCH RATES ARLINGTON, TX, WATER AND SEWER REVS 'AAA'; OUTLOOK STABLE

Fitch Ratings-Austin-03 June 2013: Fitch Ratings has assigned an 'AAA' rating to the following revenue bonds of the City of Arlington, Texas (the city):

--Approximately $7.995 million water and wastewater revenue bonds, series 2013A;
--Approximately $15.4 million water and wastewater revenue refunding bonds, series 2013B.

The bonds will be sold via competitive bidding the week of June 18. Series 2013A bond proceeds will be used to improve and extend the system. Series 2013B bond proceeds will be used to refund certain outstanding obligations of the system for debt service savings.

Fitch also affirms the following parity system revenues bonds at 'AAA' as follows:

--$30.88 million outstanding water and wastewater system revenue refunding bonds, series 2003, 2009 and 2010 (pre-refunding);
--$97.14 million outstanding water and wastewater system revenue bonds, series 2004, 2005, 2007, 2008, 2010 and 2012 (pre-refunding).

The Rating Outlook is Stable.

SECURITY

The bonds are secured by a senior lien on combined net revenues of the city's water and sewer system (the system).

KEY RATING DRIVERS

CONSISTENTLY STRONG DEBT SERVICE COVERAGE: The financial performance of the city of Arlington's water and wastewater system is strong, characterized by solid debt service coverage in excess of 3.0x over the past four fiscal years.

LOW DEBT, MANAGEABLE CAPITAL PLAN: System debt levels compare favorably to other 'AAA' rated credits. The system's capital improvement program (CIP) is manageable and debt levels are projected to remain favorable due to the system's rapid principal amortization, combined with limited debt issuance plans. However, the system's overall debt burden grows significantly when the off-balance-sheet debt of Tarrant Regional Water District (TRWD) and Trinity River Authority (TRA) is taken into consideration.

WHOLESALE COST PRESSURE: The system is susceptible to operating cost pressure from its wholesale purchase of raw water supply and wastewater treatment service.

AFFORDABLE USER RATES: User charges are competitive with those of other regional providers and despite annual pass-through rate hikes, remain very affordable in relation to area wealth levels.

STABLE ECONOMY: The mature service area benefits from its location in the center of the broad and diverse Dallas-Fort Worth Metroplex.

RATING SENSITIVITY

MAINTENANCE OF STRONG FINANCIAL POSITION: The rating is sensitive to shifts in fundamental credit factors. Preservation of the system's solid financial profile consistent with the high credit rating is a key consideration.

CREDIT PROFILE

The system provides retail water service to over 106,000 residential and commercial customers within the city. The city has its own water treatment facilities and purchases raw water supplies on a wholesale basis from TRWD (revenue bonds rated 'AA+' by Fitch). The sewer system serves approximately 98,000 connections with wastewater treatment service provided through a contract with the TRA (revenue bonds rated 'AA+' by Fitch). Total costs for purchased water and sewer treatment equaled 26% and 35%, respectively, of operating expenses in fiscal 2012 and are paid prior to debt service on the bonds.

AMPLE DEBT SERVICE COVERAGE

Financial performance and operating flexibility are solid. To improve operating consistency the city transitioned to a new rate structure beginning in fiscal 2004 with full implementation by fiscal 2008. With the new rate structure base rates were increased while volumetric charges decreased. This change led to increased reliability in fixed revenues relative to fixed expenditures even during periods of low water sales. The stability in revenues allows the city to more accurately forecast revenues available not only for debt service but also capital outlays, which is a key factor in limiting the city's need for additional leveraging.

Debt service coverage (DSC) has exceeded 3.0x in each year from fiscal 2008 after full implementation of the new rate structure. Fiscal 2011 was a very dry year, resulting in high sales volume and high debt service coverage of 3.8x. Fiscal 2012 operations continued the strong trend, registering DSC at 3.1x. Coverage is projected at a minimum of 2.2x from fiscal 2013 to 2015 although the city typically well exceeds its projections. The city is engaged in another rate study to determine revenue sufficiency to be completed over the next few months.

Liquidity is considered somewhat weak for the rating level at just 179 days of operating expenses for fiscal 2012. This takes into account $21 million in the system's capital construction fund which includes annual unbudgeted surpluses generated by the system that are deposited to the fund by policy. The system's consistent operating revenues, the lack of growth pressure, and the city's practice for budgeting annual depreciation (approximately $13 million), all contribute to a very stable operating environment, thereby mitigating the need for higher fund balances.

MANAGEABLE CAPITAL NEEDS

The city recently completed the expansion of its Kubala water treatment plant which was previously a sizeable component of its CIP. The fiscal 2013 through 2015 CIP totals a manageable $94 million, or $463 per customer, which is primarily for line renewals and routine rehabilitation. Planned funding sources are 25% debt and 75% on a pay-go basis. The system debt burden is low with debt per capita of $330, which compares favorably to the 'AAA' median of $352.

The low system leverage is partially a result of the city's purchase of wholesale service but also due to limited growth pressures and the city's proactive policies of debt amortization and funding annual depreciation from current revenues. As a result, amortization of debt is above average with 69% of all principal maturing in 10 years and 100% in 20 years.

GROWING DEBT OF WHOLESALE PROVIDERS

Both TRA and TRWD are moving into capital intensive phases and have notified contracting members that rates will be going up by approximately 10% annually for the next five years. Much of the expansion will be debt funded, adding to the system's annual requirement to both agencies and will result in Arlington's off-balance sheet debt associated with TRA and TRWD climbing to over $2,000 per capita.

System user rates are affordable at approximately $50 a month (based on 7,500 gallons of water usage and 6,000 for sewer usage), registering at 1.1% of median household income (MHI). This compares very well to Fitch's affordability threshold of 2% of MHI and also the system ample flexibility for future rate adjustments. All in all Arlington is well placed with affordable rates and low debt burden to handle the increases in wholesale provider rates. While significant increases in wholesale charges could pressure user charges, Fitch expects financial margins to remain consistent, given the city's policy of passing through provider charges.

MATURE AND STABLE SERVICE AREA

Arlington is located in the center of the Dallas-Fort Worth Metroplex and had an estimated 2012 population of just over 365,000. The city's proximity to the Dallas-Fort Worth International Airport and a well-developed highway transportation network make the city a logical center for manufacturing, distribution, and trade. Its central location in the Metroplex has also led to the development of sizeable retail trade activity. Tourism is another important economic component, with professional sports and amusement parks being a major draw for residents from the area and around the state. The city's unemployment rate of 5.7% for March 2013 is below MSA (6.2%), state (6.3%) and national levels (7.6%).

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In addition to the sources of information identified in Fitch's U.S. Municipal Revenue-Supported Rating Criteria, this action was additionally informed by information from Creditscope and Municipal Advisory Council of Texas.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria' (June 12, 2012);
--'U.S. Water and Sewer Revenue Bond Rating Criteria' (Aug. 3, 2012);
--'2013 Water and Sewer Medians' (Dec. 5, 2012);
--'2013 Sector Outlook: Water and Sewer' (Dec. 5, 2012).

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=709499
U.S. Water and Sewer Revenue Bond Rating Criteria – Effective Aug. 10, 2011 to Aug. 3, 2012
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647331
2013 Water and Sewer Medians

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=695756
2013 Outlook: Water and Sewer Sector
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=695755