MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 underlying rating to the City of Arlington's $17.6 million PIB, Series 2013A and $6.1 million Permanent Improvement Refunding Bonds, Series 2013B.

Global Credit Research - 02 Jun 2013

Aa1 rating affects $338 million in parity debt

ARLINGTON (CITY OF) TX
Cities (including Towns, Villages and Townships)
TX

Moody's Rating

ISSUE		RATING
Permanent Improvement Bonds, Series 2013A		Aa1
Sale Amount	$17,550,000	
Expected Sale Date	06/18/13	
Rating Description	General Obligation	
Permanent Improvement Refunding Bonds, Series 2013B		Aa1
Sale Amount	$6,115,000	
Expected Sale Date	06/18/13	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, June 02, 2013 --Moody's Investors Service has assigned a Aa1 underlying rating to the City of Arlington's $17.6 million Permanent Improvement Bonds, Series 2013A and $6.1 million Permanent Improvement Refunding Bonds, Series 2013B. Concurrently, we have affirmed the Aa1 rating on the city's outstanding parity debt. Proceeds from the Series 2013A will fund improvements throughout the city including parks, streets, and bridges. The refunding bonds are expected to produce at least a 10.5% net present value savings of the refunded bonds. The outlook is stable.

SUMMARY RATINGS RATIONALE

The bonds are secured by a direct and continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the city. The Aa1 rating reflects the city's large and diverse tax base, historically stable financial operations supported by additional liquidity outside the General Fund, and manageable debt profile.

STRENGTHS

Favorably located at the center of the Dallas-Fort Worth Metroplex

Additional liquidity held outside the General Fund

Experienced and sophisticated management team

CHALLENGES

Relatively weak socioeconomic profile for the rating category

DETAILED CREDIT DISCUSSION

TAX BASE STABLE

The City of Arlington is favorably located in the center of the Dallas-Fort Worth Metroplex, approximately eight miles south of the Dallas/Fort Worth International Airport. Arlington is home to the Dallas Cowboys and Texas Rangers which adds to the local tourism industry and enhances sales tax revenues. The local employment base is largely driven by healthcare and education, as five of the top ten employers operate in these sectors. General Motors is a major employer (2,250 employees) as well as the city's largest taxpayer, representing a modest 1.1% of the total assessed valuation. GM has undergone a $300 million expansion that is expected to add over 100 new jobs and a $200 million retooling project that will add over 200 new jobs. The city's top ten taxpayers collectively comprise 5.5% of the total assessed valuation. The tax base grew at a 3.2% average annual rate between fiscal years 2006 and 2010. However, the impact of the global economic downturn on the city's residential properties resulted in a 5.9% decline in assessed valuation, yielding a $17.2 billion tax base for fiscal 2011. New development bolstered the tax base for fiscal 2012 producing a $17.3 billion tax base which was a slight 0.8% increase over the prior year. Another increase of 2% in fiscal 2013 resulted in a $17.6 billion tax base. Additionally, the new Viridian Master Planned Community opened in May of 2011; the project will be a $1.5 to $2 billion investment at the end of the ten to twelve year development. Fiscal 2014 is expected to have another increase over 2013 given new construction underway.

The city's population has grown approximately 10.5% since the 2000 U.S. Census to an estimated 368,854 residents in 2012. The 2010 American Community Survey per capita income was a somewhat weaker 91.6% of the US. The city's March 2013 unemployment rate was 5.7%, below the 6.3% for the state and 7.6% for the US.

HEALTHY GENERAL FUND RESERVE MAINTAINED

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. Fiscal 2010 resulted in an $8.3 million surplus, boosting the General Fund balance to $66.6 million (a healthy 31.8% of revenues). General Fund revenues are largely derived from property taxes (35%), sales taxes (24%), and utility franchise fees (12%).

Decreased property tax revenues and increased pension costs presented a challenge in balancing the fiscal 2011 budget and officials expected a deficit for the year end. However, sales tax revenues were 2% over the prior year and conservative budgeting of expenditures producing a $208,000 surplus for the year-end. The total General Fund balance of $66.7 million, for fiscal 2011, was 32.3% of General Fund revenues. The deficit of $3.3 million in fiscal 2012 was a planned used of reserves for some one time capital projects. The resulting total General Fund balance of $63.5 million remained a healthy 30.2% of General Fund revenues and the unassigned portion of $61.7 million was equal to 29.4% of General Fund revenues. The fund balance includes some internal designations including $4.1 million for business continuity, $6 million for unassigned fund balance, $17 million in net working capital available for contingencies and $21 million from a landfill lease that is also available for future needs. Fiscal 2013 is currently projected to end with a slight $173,288 surplus..

Additionally, the city has $96 million in the Arlington Tomorrow Foundation, which is derived from natural gas bonus payments and royalties received by the city. The Foundation is controlled by a separate board and has provided for non-operating expenditures out of interest earnings. We believe it provides substantial operating flexibility given a super-majority vote of Council could enable it to be used for any lawful purpose of the city.

MODERATE DEBT PROFILE SUPPORTED BY STRONG DEBT MANAGEMENT PRACTICES

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 valuation, 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. The city's debt burdens are moderate at 1.9% direct and 5.5% overall, both expressed as a percentage of fiscal 2013 full value. The higher overall debt burden is largely driven by general obligation debt issued by local school districts, including Arlington ISD (Aa1) and Mansfield ISD (Aa2). Amortization is favorable with 75% of principal retired in ten years. The city has $74.7 million in remaining debt authorization to be issued over the next two years. There could be another bond election in 2015 although there are no definite plans at this time.

Although the city previously used a commercial paper program to begin construction projects, the note is no longer outstanding and there are no plans to use CP notes going forward. All of the city's debt is fixed rate and there are no swap agreements.

The stable outlook reflects the city's large and diverse tax base favorably located in the Dallas/Fort Worth Metroplex. The outlook also takes into account healthy General Fund reserve levels and high yet manageable debt burdens.

WHAT COULD MAKE THE RATING GO UP

Significant tax base growth coupled with improved socioeconomic profile

Trend of operating surpluses, substantially bolstering financial reserves

WHAT COULD MAKE THE RATING GO DOWN

Trend of structural imbalance with significant draw down of General Fund balance

KEY STATISTICS

2012 Estimated Population: 368,854

FY 2013 Full Value: $17.6 billion

Full Value per Capita: $47,926

Per Capita Income (2010 ACS): 91.6% of U.S.

Direct Debt Burden: 1.9%

Overall Debt Burden: 5.5%

Payout of Principal (10 years): 75%

FY 2012 General Fund Balance: $63.5 million (30.2% of General Fund Revenues)

Post-Sale Parity Debt Outstanding: $338 million

RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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Analysts

Kristin Button

Lead Analyst
Public Finance Group
Moody's Investors Service

Adebola Kushimo
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

New Issue: Moody's assigns Aa2 rating to the City of Arlington's (TX) Water and Wastewater System Bonds: $7.9 million Revenue Bonds, Series 2013A and $15.4 million Refunding Bonds, Series 2013B

Global Credit Research - 02 Jun 2013

Aa2 rating affects $135.8 million in parity debt

ARLINGTON (CITY OF) TX
Combined Water & Sewer Enterprise
TX

Moody's Rating

ISSUE		RATING
Water and Wastewater System Revenue Refunding Bonds, Series 2013B		Aa2
Sale Amount	$15,425,000	
Expected Sale Date	06/18/13	
Rating Description	Revenue: Government Enterprise	
Water and Wastewater System Revenue Bonds, Series 2013A		Aa2
Sale Amount	$7,995,000	
Expected Sale Date	06/18/13	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

Opinion

NEW YORK, June 02, 2013 --Moody's Investors Service has assigned a Aa2 rating to the City of Arlington's (TX) $7.9 million Water and Wastewater System Revenue Bonds, Series 2013A and $15.4 million Water and Wastewater System Revenue Refunding Bonds, Series 2013B. Concurrently, we have affirmed the Aa2 rating on the system's outstanding parity debt. Proceeds from Series 2013A will make system improvements and the Series 2013B bonds will refund outstanding net for an estimated 5.6% net present value savings. The bonds are secured by a pledge of and first lien on the net revenues of the city's combined water and wastewater system.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the system's large and diverse service area, satisfactory financial operations which consistently yield healthy debt service coverage and a low debt profile. The rating also takes into consideration somewhat narrow liquidity compared to similar systems and weak legal provisions. The Aa2 revenue rating carries a stable outlook.

STRENGTHS

History of solid debt service coverage

Cash funding for capital reflected in low debt ratio

CHALLENGES

Liquidity on hand remains narrow as excess cash is used for one-time capital

Weak legal provisions using average annual debt service

DETAILED CREDIT DISCUSSION

MATURE SERVICE AREA IN DFW METROPLEX

Located in Tarrant County (Aaa general obligation rating/stable outlook), the City of Arlington (Aa1/stable outlook) has a significant base in single-family residential developments but has also diversified with large commercial and industrial developments, establishing Arlington as a regional employment center located equidistance from Ft. Worth (Aa1/stable) and Dallas (Aa1/stable outlook). New development bolstered the tax base for fiscal 2012 producing a $17.3 billion tax base which was a slight 0.8% increase over the prior year. Fiscal 2013 experienced a 2% increase in assessed valuations from 2012. The city's population has grown approximately 10.5% since the 2000 U.S. Census to an estimated 368,854 residents in 2012.

STABLE CUSTOMER BASE; AMPLE WATER SUPPLY AND TREATMENT CAPACITY

Residential customers represent 93% of the water and sewer customer base by count of units served. The system's historical rate of customer growth has been slow and steady averaging less than 1% annually. The system served 147,488 water utility units in 2012.

The city obtains untreated water from the Tarrant Regional Water District's (TRWD) surface reservoirs. TRWD estimates indicate sufficient supply through 2030 to meet the needs of Arlington and other municipal participants. Treatment of raw water is provided by two city owned treatment facilities that presently have a capacity for 172.5 MGD (million gallons per day), which well exceeds the maximum demand experienced in 2012 of 106.5 MGD. The Trinity River Authority (TRA) treats the city's sanitary sewage at its central regional facility. City officials believe that TRA has sufficient treatment capacity to serve the city's present and foreseeable future needs. They do not anticipate any issues with contracts for water supply or sewer treatment over the near term.

CONSISTENT RATE INCREASES YIELD SOLID DEBT SERVICE COVERAGE

The system's financial operations have been bolstered by multi-year rate increases as a result of the implementation of an across the board restructuring of rates. Beginning in fiscal 2004 the city undertook a rate restructuring. Most fixed expenses previously dependent on the variable part of the charge have been shifted to the fixed charge. To lessen the initial impact of such a change the restructuring was implemented over multi-year period with full implementation being complete by fiscal 2008. The net result of this change is that the typical residential customer has experienced an annual increase in rates for both water and sewer. The most recent rate increases for 2013 included only an adjustment of 0.2% for wastewater and nothing on water. We believe the demonstrated willingness to raise rates as necessary to cover increasing operating costs and maintain a healthy level of debt service coverage is a credit positive.

Net revenues of the system have been healthy, posting debt service coverage greater than 3 times in each of the past five years. Fiscal 2012 net revenues provided a healthy 3.12 times debt service coverage. Coverage calculations include transfers out to the General Fund for administrative costs, franchise fees, and payments-in-lieu-of-taxes approximating $10 to $12 million annually. The system operates under a codified policy of maintaining 60 days of operating expenses (excluding debt service) in reserve. Fiscal 2012 unrestricted reserves equaled 18% of operating and maintenance expenses, slightly exceeding the policy range.

The cash on hand in the system of $12 million for fiscal 2012 is relatively narrow compared to other Aa2 rated systems. Although using excess cash to fund capital needs keeps the debt ratio low, the liquidity on hand for contingency needs is also low.

MODERATE DEBT PROFILE; DETAILED CAPITAL IMPROVEMENT PLAN

As mentioned above, the debt ratio is favorable at 16.5% for fiscal 2012. Amortization is favorable with 73.6% of principal retired in ten years. The system's three-year capital improvement plan includes $70 million in planned capital improvements, of which approximately $24 million will be debt financed. However, it is important to note that management has elected to forego debt issuance in the past when revenues significantly exceed budget. Given the system's historically conservative debt issuance practices, rapid rate of principal payout, and proactive rate adjustments, we believe the debt profile will remain manageable over the long term.

LEGAL PROVISIONS WEAK

Bondholder security is provided by a senior lien on the net revenues of the city's combined water and wastewater system. Legal covenants require the city to set rates and charges that will produce sufficient net revenues equal to at least 1.25 times average annual debt service requirements, and maintenance of a debt service reserve equal to average annual debt service. The debt service reserve will be cash funded. The additional bonds test requires net revenues to provide 1.25 times average annual debt service coverage of currently outstanding and proposed parity debt. The bond ordinance allows excess revenues to be used for any lawful purpose of the city.

WHAT COULD MAKE THE RATING GO UP

Improved liquidity in the system

Strengthened legal covenants

WHAT COULD MAKE THE RATING GO DOWN

Declining debt service coverage

Further deterioration in liquidity

KEY STATISTICS

Water units served 2012: 147,488

FY 2012 Operating Ratio: 61.3%

FY 2012 Debt Ratio: 16.5%

FY 2012 Debt Service Coverage: 3.12 times

Payout of Principal (10 years): 73.6%

Post-sale Parity Debt Outstanding: $135.8 million

RATING METHODOLOGY

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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Analysts

Kristin Button
Lead Analyst
Public Finance Group

Moody's Investors Service

Adebola Kushimo
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA