Arlington, Texas

New Issue Report

Ratings

Long-Term Issuer Default Rating	AAA
New Issues	
$50,920,000 Permanent Improvement Bonds, Series 2018	AAA
$4,660,000 Combination Tax and Revenue Certificates of Obligation, Series 2018	AAA
Outstanding Debt	
Combination Tax and Revenue Certificates of Obligation	AAA
Permanent Improvement Bonds	AAA

Rating Outlook

Stable

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New Issue Summary

Sale Date: Week of May 21 via competitive sale.

Series: $50,920,000 Permanent Improvement Bonds, Series 2018; $4,660,000 Combination Tax and Revenue Certificates of Obligation, Series 2018.

Purpose: Bond and certificate proceeds will be used to finance street improvements, facility enhancements and various quality of life improvements.

Security: The bonds and certificates of obligation are payable by an ad valorem tax levied on all taxable property within the city of Arlington, limited to $2.50 per $100 of taxable assessed valuation (TAV). The certificates are additionally secured by a pledge of limited surplus revenues (not to exceed $1,000) of the city's water and wastewater system.

Analytical Conclusion

The 'AAA' IDR is based on Fitch Ratings' expectation that the city will maintain healthy financial flexibility through economic cycles. The city's solid financial profile reflects a diverse and stable revenue base, modest expenditure growth and a demonstrated ability to reduce expenditures during economic downturns. Fitch expects long-term liabilities to remain moderate based on the city's long-term capital plans.

Economic Resource Base: Arlington is located in the center of the Dallas-Fort Worth (DFW) MSA (about 20 miles west of Dallas), with an estimated 2017 population approaching 400,000. The city's diverse economic base consists of manufacturing, industrial and warehousing operations as well as a sizable entertainment sector. The city's unemployment rate remains well below state and national levels, reflecting the strong local and regional job market.

Key Rating Drivers

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

Expenditure Framework: 'aa'
Arlington's natural pace of spending is likely to be aligned with its revenue growth. The city has demonstrated the flexibility and willingness to cut employee salaries and other costs during economic downturns, as its carrying costs are somewhat elevated.

Long-Term Liability Burden: 'aa'
Arlington's long-term liability burden is 10.6% of estimated personal income. Fitch expects the long-term liability burden to increase but remain close to the current ratio based on the city's capital plan, rapid principal amortization and well-funded pensions.

Operating Performance: 'aaa'
The city of Arlington maintains reserves that are very strong relative to expected revenue volatility. Operations respond well to stress, as demonstrated by the city's history of balanced operations and reserve adequacy throughout economic cycles.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	5/2/18
AAA	Affirmed	Stable	4/25/17
AAA	Upgraded	Stable	5/11/15
AA+	Affirmed	Positive	5/22/14
AA+	Revised	Stable	4/30/10
AA	Affirmed	Stable	6/20/03
AA	Assigned	—	4/20/00

Related Research

Fitch Rates Arlington, TX's Series 2018 Permanent Improvement Bonds and COs 'AAA'; Outlook Stable (May 2018)

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (April 2018)

Rating Sensitivities

Strong Fiscal Health: The rating is sensitive to shifts in expectations for solid economic growth and balanced financial operations.

Credit Profile

Arlington's local economy includes manufacturing, distribution and retail trade, benefiting from its proximity to the DFW International Airport and well-developed highway transportation network as well as higher education and tourism. Top employers include The University of Texas at Arlington, General Motors, Texas Health Resources, Six Flags Over Texas, GM Financial, J.P. Morgan Chase and the Texas Rangers Baseball Club. Economic prospects for both the city and the metropolitan area as a whole are positive. Current TAV, at $23.5 billion, reflects a 10% increase over the prior year. Based on historical trends and several residential, commercial and industrial development projects currently underway (or forthcoming), we expect strong tax base growth to continue.

Revenue Framework

Taxes, including property and sales taxes, account for the bulk of the city's operating revenues. Based on fiscal 2017 audited results, tax receipts accounted for 70% of general fund revenues.

Fitch believes that the city's growth prospects are solid and consistent with regional trends, as demonstrated by its general fund revenue CAGR of 1.9% for the 10 years ended in fiscal 2017.

The city of Arlington's fiscal 2018 tax rate, at 63.98 cents, remains well below the statutory cap of $2.50 per $100 of TAV. Statutory restrictions constrain revenue-raising capabilities through an 8% cap on annual property tax levy increases, above which the city is subject to a tax ratification election. However, Fitch does not believe that Arlington will be materially constrained by the tax cap given its maturity and history of modest expenditure growth.

Expenditure Framework

Public safety accounts for 66% of fiscal 2017 general fund expenditures. The pace of spending is likely to remain in line with revenue growth. Fitch does not anticipate pressure on service levels given the relative maturity of the city's residential tax base.

The pace of spending growth should generally align with a solid revenue growth projection, as increasing population results in additional service demands.

The city of Arlington exercises considerable expenditure flexibility through full control of workforce costs. Management maintains very strong control over headcount, and there are no collective bargaining agreements in place. Fiscal 2017 carrying costs totaled 20.5% of governmental spending. Debt amortization is rapid, with 66.7% of principal debt retiring in 10 years.

Long-Term Liability Burden

Arlington's long-term liabilities, including overlapping debt, are almost 11% of estimated personal income. The city currently plans to fund the bulk of its five-year capital improvement plan with long-term debt. Following this debt issuance, the city will have $137.75 million in debt authorization remaining and plans to approach voters for additional bonding authority over the next several months. The city recently issued about $465 million in special tax debt to fund improvements to the Ranger Baseball Complex Project. Fitch expects the city's long-term liability burden to increase but remain moderate over the next several years, considering Arlington's issuance plans and rapid debt amortization.

The city of Arlington's pensions are provided through the Texas Municipal Retirement System, an agent, multi-employer, defined-benefit plan. Under GASB 68, the city reports a fiscal 2017 net pension liability of $170.4 million, with fiduciary assets covering 85% of total pension liabilities at the plan's 6.75% investment return assumption. Using a more conservative 6% investment return assumption, the estimated ratio of assets to liability declines to 77%.

Operating Performance

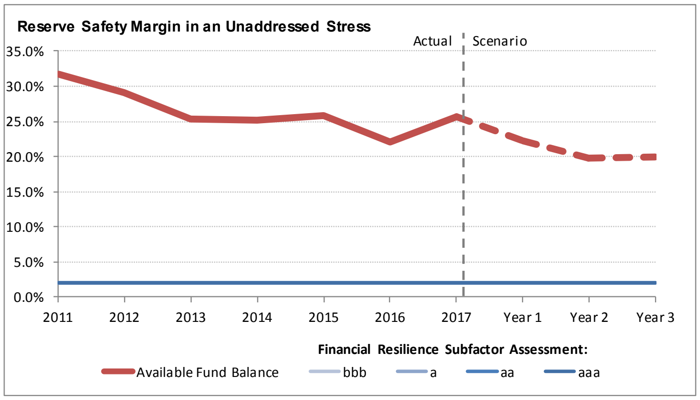
Arlington's revenues reflect low volatility in relation to fluctuations in U.S GDP. For details, see Scenario Analysis, page 4.

Arlington's strong budgetary management is demonstrated by its history of favorable operating performance and commitment to strong reserve levels. 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 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 the next 15 years.

Arlington (TX)

Scenario Analysis

v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results:

Arlington's revenues reflect low volatility in relation to fluctuations in U.S. GDP. The city projects a small operating surplus for fiscal 2018, consistent with a history of strong operating performance. Fitch expects the city to demonstrate strong financial resilience through a moderate economic downturn based on its ample revenue-raising capacity and sound expenditure flexibility, and further supported by healthy reserves.

Arlington's fiscal 2017 available reserves were 25.6% of spending, above the city's 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.

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%)	2.7%	4.7%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2011	2012	2013	2014	2015	2016	2017	Year 1	Year 2	Year 3
Total Revenues	189,270	190,156	194,190	197,756	201,581	258,625	218,642	216,456	222,406	232,895
% Change in Revenues	-	0.5%	2.1%	1.8%	1.9%	28.3%	(15.5%)	(1.0%)	2.7%	4.7%
Total Expenditures	189,505	198,279	205,802	206,056	208,798	216,279	227,375	231,923	236,561	241,292
% Change in Expenditures	-	4.6%	3.8%	0.1%	1.3%	3.6%	5.1%	2.0%	2.0%	2.0%
Transfers In and Other Sources	17,237	20,142	18,710	19,873	19,639	23,202	22,346	22,123	22,731	23,803
Transfers Out and Other Uses	16,794	15,297	13,855	12,122	10,590	61,092	13,242	13,507	13,777	14,053
Net Transfers	443	4,845	4,855	7,751	9,049	(37,890)	9,104	8,616	8,954	9,750
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	208	(3,278)	(6,757)	(549)	1,832	4,456	371	(6,851)	(5,201)	1,353
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	0.1%	(1.5%)	(3.1%)	(0.3%)	0.8%	1.6%	0.2%	(2.8%)	(2.1%)	0.5%
Unrestricted/Unreserved Fund Balance (General Fund)	65,531	62,229	55,548	54,962	56,745	61,096	61,606	54,755	49,553	50,906
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	65,531	62,229	55,548	54,962	56,745	61,096	61,606	54,755	49,553	50,906
Combined Available Fund Bal. (% of Expend. and Transfers Out)	31.8%	29.1%	25.3%	25.2%	25.9%	22.0%	25.6%	22.3%	19.8%	19.9%

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.

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