

## Arlington, Texas

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### *Credit Profile*

**US\$23.325 mil Municipal Drainage Utility System Revenue Bonds, Series 2011, dated 04/15/2011, due 06/01/2031**

Long Term Rating

AAA/Stable

New

### **Rationale**

Standard & Poor's Ratings Services has assigned its 'AAA' rating, with a stable outlook, to Arlington, Texas' series 2011 municipal drainage utility system revenue bonds. The bonds are secured by net revenues of the city's municipal drainage utility system. The rating reflects our assessment of:

- A large and diverse service area and customer base,
- Very strong collections, tied to the city's water and wastewater billing,
- High coverage levels, coupled with practically no revenue volatility, and
- The ability to increase rates that only represent a small portion of the monthly utility bill.

We understand that bond proceeds will be used to fund drainage improvements throughout the city.

The service area is coterminous with the city's water and wastewater system ('AA+' revenue bond rating) and serves the city of Arlington. The city has a population slightly over 370,000, and has a diverse economic base led by the service, manufacturing, education and trade sectors. Major employers include Arlington Independent School District; the Arlington campus of the University of Texas system, with about 31,000 students; General Motors Corp., which produces pickup trucks and sport utility vehicles; and a variety of technology and health care employers. In addition, Six Flags Over Texas, an amusement park, and Rangers Ballpark, home of Major League Baseball's Texas Rangers, anchor a strong regional tourism sector. The



city is also home to the Dallas Cowboys. Arlington's wealth and income levels are in our opinion good with median household income at 110% of the national level.

The system was created in 1990, with related revenues and expenditures accounted for on the city's general fund. In 2007, the fee was increased following the 2005 Citizen Policy Review Committee, and a separate fund established. The residential fee was set at \$2.00 and has steadily risen to \$4.25. The fee for commercial customers is determined by dividing the impervious area square footage by 2,800 and multiplying by the current rate. Fund revenues have increased from \$3.06 million in 2007 to a budgeted \$10.3 million for fiscal 2011. The fee is attached to the customers' water bill and cannot be separated.

Debt service for this series of bonds is scheduled to total \$2.5 million in 2012, which also the current maximum annual debt service (MADS). The amortization schedule indicates a declining debt service requirement, absent the issuance of additional debt. Coverage of MADS based on fiscal 2011 budgeted revenues is in our view very strong at more than 4.0x. Assuming no rate increases or customer base growth, coverage would grow to more than 8.0x by the end of the 20-year schedule.

The capital program for the fund is modest, with additional debt tentatively scheduled for 2012 (\$7.5 million) and 2013 (\$6.9 million). With this additional debt, coverage of MADS would decline, but remain strong at 2.7x. This also assumes no growth in revenues, either from rate increases or growth in the customer base. Management anticipates using debt and recurring revenues to fund the total capital improvement program, which totals about \$35 million over the next three years. At the end of fiscal 2010, the fund had a balance of \$4.4 million.

While a debt service reserve fund is allowed under the indenture, it is not required to be funded unless coverage falls below 2.0x. This is not a credit concern given the high coverage levels, excess system liquidity, and management's ability to increase the fee.

### ***Outlook***

The outlook reflects Standard & Poor's expectation for the utility's maintenance of high coverage levels, as revenue volatility is likely to be minimal. The outlook also reflects management's ability to increase the drainage fee as needed to address future capital needs and to maintain high coverage.

### ***Related Criteria And Research***

USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008

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