S&P Global
Ratings

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Summary:

Arlington, Texas; General Obligation

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Credit Profile		
US$50.92 mil perm imp bnds ser 2018 dtd 05/15/2018 due 08/15/2038		
Long Term Rating	AAA/Stable	New
US$4.66 mil comb tax and rev certs of oblig ser 2018 dtd 05/15/2018 due 08/15/2028		
Long Term Rating	AAA/Stable	New
Arlington GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Arlington, Texas' series 2018 permanent improvement general obligation (GO) bonds and series 2018 combination tax and revenue certificates of obligation and affirmed its 'AAA' rating, with a stable outlook, on the city's existing GO debt.

An ad valorem tax, levied within the limits prescribed by law, on all taxable property in the city secures the permanent improvement bonds and certificates. Based on the application of our criteria, titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Jan. 22, 2018, on RatingsDirect, we do not differentiate between the city's limited-tax GO debt and general creditworthiness. The certificates also have an additional pledge of limited surplus revenue, totaling $1,000, of the city's water and wastewater system. Due to the revenue pledge's limited nature, we rate the certificates based on the city's GO pledge.

We understand officials intend to use series 2018 bond proceeds to finance library, parks, and street improvements and series 2018 certificate proceeds to acquire city information technology infrastructure and equipment and finance the design and construction of city buildings and facilities.

State statutes provide for a maximum ad valorem tax rate of $2.50 per $100 of taxable assessed valuation (AV) for all purposes. The state attorney general has adopted an administrative policy that generally prohibits the issuance of debt by a municipality, such as the city, if its issuance produces debt-service requirements exceeding that which it could pay from $1.50 of the $2.50 maximum tax rate, calculated at the time of issuance. For fiscal 2018, the total tax rate is 63.98 cents per $100 of AV, including 19.89 cents for debt service.

We rate Arlington's property-tax-supported bonds higher than the sovereign because we believe the city can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, we consider U.S. local governments as having moderate sensitivity to national risk. The city's property tax pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of debt or the city's operations. The institutional framework in the nation is predictable for local governments, allowing local governments significant autonomy, independent treasury management, and no history of government intervention. Arlington has considerable financial flexibility, demonstrated by a very high general fund balance as a percent of expenditures and very strong liquidity.

The rating reflects our opinion of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total-governmental-fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 104.9% of total-governmental-fund expenditures and 6.7x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt-and-contingent-liability position, with debt service carrying charges at 15.8% of expenditures and net direct debt that is 140.1% of total-governmental-fund revenue; and
- Strong institutional framework score.

Strong economy

We consider Arlington's economy strong. The city, with an estimated population of 382,230, is in Tarrant County in the Dallas-Fort Worth-Arlington MSA, which we consider broad and diverse. The city also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 96.4% of the national level and per capita market value of $61,490. Overall, market value has grown by 9.9% during the past year to $23.5 billion in fiscal 2018. The county unemployment rate was 3.9% in 2016.

Various industries support Arlington's local economy. We believe University of Texas-Arlington, AT&T Stadium, and Globe Life Park are stabilizing presences to the local economy. Due to student population and tax-exempt properties, we consider the city's income and market value per capita somewhat suppressed. Residents have access to larger employment bases in nearby Fort Worth and Dallas with Arlington equidistant to both cities on interstate highways 20 and 30. Leading city employers include:

- Arlington Independent School District (8,200 employees),
- University of Texas-Arlington (5,300),
- General Motors Corp. (4,484),
- Texas Health Resources (4,063), and
- Six Flags Over Texas (3,800).

Arlington's economy also has a strong tourism sector. Leading attractions include:

- AT&T Stadium, home of the National Football League's Dallas Cowboys and a major venue for concerts and national sporting events;

- Globe Life Park, home of Major League Baseball's Texas Rangers;
- Six Flags Over Texas (an amusement park);
- Hurricane Harbor (a waterpark); and
- Lake Arlington.

In addition, construction has started on Texas Live!, a $250 million entertainment complex between the football and baseball stadiums, which should open in August 2018. The complex will have more than 200,000 square feet of restaurants and retail and entertainment, as well as an outdoor-events pavilion for crowds up to 5,000.

After contracting in fiscal 2011 due to the national economic downturn, the city's property tax base has demonstrated steady growth. Taxable AV has grown by an aggregate 37% since fiscal 2011, or an average of 5.3% annually. The tax base is diverse with the 10 leading taxpayers accounting for just 5% of AV. We expect the city's tax base to continue its solid growth during the next few fiscal years, supported by ongoing economic development in the residential and commercial sectors.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include management's:

- Revenue and expenditure assumptions based, in part, on up to 10 years of historical data and information from outside sources;
- Quarterly budget reports to the city council, including budget-to-actual-result comparisons;
- Long-term financial forecasting for revenue and expenditures five years beyond the current budget year;
- Use of a five-year capital plan it updates, at least, annually with identified funding sources;
- Formal investment policy with quarterly reports on performance and holdings to the council;
- Formal debt-management policy, including quantitative measurable parameters and benchmarks; and
- Working capital-reserve policy in the general fund to maintain a minimum 8.33% of annual expenditures and a total-general-fund-balance policy of maintaining a minimum 15% of expenditures.

Strong budgetary performance

Arlington's budgetary performance is strong, in our opinion. The city had balanced operating results in the general fund of 0.2% of expenditures and surplus results across all governmental funds of 8.4% of expenditures in fiscal 2017. General fund operating results have been stable during the past three fiscal years, with a result of 2% of expenditures in fiscal 2016 and 0.8% in fiscal 2015.

Management attributes fiscal 2017 results largely to general revenue increasing by 4.4% compared with fiscal 2016, supported by residential property value increasing by 11.5%, commercial property value increasing by 10.4%, and sales tax revenue increasing by 2.7%. In addition, actual operating expenditures ended the fiscal year underbudget by 10.6%. We expect budgetary performance will likely remain strong during the next few fiscal years.

Officials expect nearly breakeven operations in fiscal 2018, and they do not currently plan to draw down fund balance. The city's comprehensive financial forecast, which projects general fund revenue will exceed expenditures in fiscal years 2019 and 2020, supports our expectation that budgetary performance will likely remain strong. Property taxes generated 42% of fiscal 2017 general fund revenue, followed by sales taxes at 34%.

Very strong budgetary flexibility

Arlington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 26% of operating expenditures, or $61.6 million. During the past three fiscal years, total available fund balance has remained consistent overall at 27% of expenditures in fiscal 2016 and 26% in fiscal 2015.

We expect budgetary flexibility will likely remain very strong during the next two fiscal years, supported by the formal policy of maintaining a minimum 15% of operating expenses in reserve. When factoring in $68.9 million at fiscal year-end 2017 in the Arlington Tomorrow Fund--which receives natural-gas royalties from city-owned property and which management can use for any purpose, if necessary--total available fund balance equals an even stronger 57% of expenditures. Officials used $50 million from the Arlington Tomorrow Fund in fiscal 2016 to support the Texas Live! program, a joint collaboration with Major League Baseball's Texas Rangers; this program involves the developing of a hotel and entertainment facility between Globe Life Park and AT&T Stadium. Officials plan to replenish the Arlington Tomorrow Fund gradually to its $100-million level, as well as a Consumer Price Index increase, during the next 14 fiscal years.

Very strong liquidity

In our opinion, Arlington's liquidity is very strong, with total government available cash at 104.9% of total-governmental-fund expenditures and 6.7x governmental debt service in fiscal 2017. In our view, the city has exceptional access to external liquidity, if necessary.

Arlington has issued debt backed by various revenue streams during the past 15 years, including GO, utility revenue, and special tax. We expect liquidity will likely remain very strong based on the city's lack of plans to spend down cash and cash-like investments.

At Dec. 31, 2017, investments were primarily in federal agencies, state-investment pools, municipal bonds, and certificates of deposit. We do not consider these investments aggressive. We also understand the city does not currently have any exposure to contingent liabilities.

Very weak debt-and-contingent-liability profile

In our view, Arlington's debt-and-contingent-liability profile is very weak. Total-governmental-fund debt service is 15.8% of total-governmental-fund expenditures, and net direct debt is 140.1% of total-governmental-fund revenue.

Overall net debt is 6.3% of market value. Arlington's capital improvement plan proposes the issuance of $54.2 million in GO debt in fiscal 2019 for various improvements citywide; we do not view the amount as significant, and we expect the city's debt profile will likely remain very weak during the next few years. Arlington's formal policy is to retire level principal every year rather than make level payments, including interest. Officials plan to retire approximately 62% of direct debt within 10 years. We also understand the city is contemplating approaching voters in November 2018 for another bond authorization.

Arlington's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 9.1% of total-governmental-fund expenditures in fiscal 2017. Of that amount, 7% represented required contributions to pension obligations and 2.1% represented OPEB payments. The city made 101% of its annual required pension contribution in fiscal 2017.

Arlington participates in the Texas Municipal Retirement System (TMRS). TMRS maintained a funded level of 85%, using its fiduciary net position as a percent of the total pension liability. Pursuant to TMRS' policy of conducting experience studies every four years, TMRS' board, at its July 31, 2015, meeting, determined it would change certain actuarial assumptions, including reducing the long-term expected rate of return to 6.75% from 7% and changing the inflation assumption to 2.5% from 3%.

Due to, what we consider, very strong available reserves, we do not expect this to have enough of an effect on Arlington to deter the city from continuing to fund pension contributions at the annual required contribution rate during the next few fiscal years. Arlington also offers a thrift-savings plan, a part-time deferred-income trust, the deferred-compensation plans, a retiree-health-insurance plan, and the supplemental-death-benefits plan for eligible employees.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that it will likely not change the rating during the two-year outlook period. We expect that Arlington will likely continue to benefit from its participation in the broad and diverse Dallas-Fort Worth-Arlington MSA and that the presence of many large, longstanding institutions will likely continue to provide a degree of economic stability. The outlook also reflects our view that Arlington will likely sustain its very strong financial profile with the Arlington Tomorrow Fund remaining a source of liquidity and budgetary flexibility, if needed. We also expect that due to bonding plans, the city's debt-and-liabilities profile will likely remain very weak but that its annual level-principal-payments policy will likely promote faster-than-average principal amortization. Although unlikely to occur within the two-year outlook period, we could lower the rating if finances or the local economy were to deteriorate.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 1, 2018)		
Arlington GO		
Long Term Rating	AAA/Stable	Affirmed
Arlington GO		
Long Term Rating	AAA/Stable	Affirmed
Arlington GO		
Long Term Rating	AAA/Stable	Affirmed
Arlington GO		
Long Term Rating	AAA/Stable	Affirmed
Arlington GO		
Long Term Rating	AAA/Stable	Affirmed
Arlington GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.