

RatingsDirect®

Summary:

Arlington, Texas; CP; Water/Sewer

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Summary:

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Credit Profile

US\$17.88 mil Wtr & Wastewater Sys Rev Bnds ser 2015A due 06/15/2028

Long Term Rating AAA/Stable New

US\$11.56 mil Wtr & Wastewater Sys Rev Rfdg Bnds ser 2015B due 06/15/2028

Long Term Rating AAA/Stable New

Trinity River Auth (Central Regional) WS

Long Term Rating AAA/Stable Affirmed

Arlington wastewtr

Long Term Rating AAA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Arlington, Texas' series 2015A water and wastewater system revenue bonds and 2015B revenue refunding bonds. In addition, Standard & Poor's affirmed its 'AAA' long-term and underlying ratings (SPUR) on the system's existing water and wastewater system revenue debt.

The ratings continue to reflect our opinion of the system's general creditworthiness, including its:

- Deep service area economy and stable customer base of the immediate service area, as well as a central location in the Arlington-Dallas-Fort Worth metropolitan statistical area (MSA);
- Limited operational and financial risk by way of its raw-water and wastewater treatment wholesale providers; and
- Strong historical financial risk profile, including coverage metrics and cash reserves, which we believe are sustainable given the limited planned use of additional debt.

The series 2015 A and B bonds are secured by a first-lien pledge on the system's net revenues and are on parity with about \$82 million in revenue bonds, as well as \$38 million in subordinate-lien Texas Water Development Board loans. A fully funded debt service reserve in the amount of average annual debt service provides additional liquidity. We understand that series 2015A bond proceeds will be used to fund rehabilitation and line extension projects in the city's capital improvement program (CIP). Proceeds of the series 2015B bonds will be used to refund various maturities of the series 2007 revenue bonds for interest-rate savings purposes.

Arlington, with a population of about 369,500, is the third-largest city after Dallas and Fort Worth in a metropolitan statistical area (MSA). Besides its central location in the MSA, the city also has a strong employment base of its own, anchored by Arlington Independent School District; the Arlington campus of the University of Texas system (about 31,000 students); General Motors Corp., which manufactures pickup trucks and SUVs; and a variety of technology and health care employers. In addition, the city has a very strong tourist and entertainment sector. Six Flags Over Texas and Hurricane Harbor amusement parks, as well as facilities for Major League Baseball's Texas Rangers and National

Football League's Dallas Cowboys teams serve as anchors for that sector. Although those businesses introduce a small level of seasonality to the employment base, the city's 4.2% unemployment rate as of March 2015 is below that of the state and nation. The median household effective buying income is 109% of the U.S. level.

The city provides retail water and sanitary sewer services to nearly 148,000 metered accounts. While the city is still realizing some residential growth - primarily higher-end single-family homes - via infill, its service area is largely built out. Growth in the number of accounts, therefore, has been very small over the last five years, lessening pressure on the CIP.

Also helping the city's operating profile is its relationship with its wholesale service providers. The city purchases nearly all of its water from the Tarrant Regional Water District (TRWD) under a take-or-pay contract in effect at least until all of TRWD's bonds are repaid. The district has a diverse system of seven reservoirs and projects to enhance its long-term supply. The purchased water is treated at the city's two plants that, combined, have ample capacity even through projected build-out. The city also sends the entirety of its sewer flows to the Trinity River Authority's (TRA) central regional plant for treatment, also under a long-term commitment. Obligations to both TRWD and TRA are treated as operating expenses of Arlington's system. Even with no reliance on any single TRWD reservoir, the city since 2013 has been in stage 1 of its drought management plan, which calls for an overall 5% reduction in consumption. Management does not anticipate this reduction will impede its ability to meet its revenue requirements.

The system's financial position is another identified strength. Annual debt service coverage (DSC) in fiscal 2014 was nearly 3x and in line with its historically robust performance. Even when imputing certain fixed costs of TRWD and TRA onto Arlington's coverage metrics, fixed-charge coverage in fiscal 2014 was still what we view as a very strong 1.6x. Fixed-charge coverage is Standard & Poor's internally adjusted coverage metric which treats certain recurring costs - such as those related to water or wastewater treatment contracts - as if they were debt. Management is conservatively forecasting similarly strong DSC for the five years through fiscal 2019. The system also remains well above its minimum working capital reserve policy of at least 60 days of operating expenses, not including its rate stabilization reserve of \$1.2 million, after a modest draw during fiscal 2015. The city also has designated reserves of over \$100 million, funded from natural gas and oil drilling royalties, which exist for the benefit of general city operational emergencies and unplanned budgetary variances. No draws on that reserve have occurred, and elected officials by policy only appropriate the investment earnings for nonrecurring items.

Management in its fiscal 2015 budget identified approximately \$151.8 million in capital projects through fiscal 2017. It continually updates the utility master plan to determine future projects. Given the strong surplus net revenues and a declining overall debt service schedule, the multiyear forecast indicates an aggressive use of pay-as-you-go funding, including dedicating at least \$13 million per year out of annual revenues. The strong system equity has allowed the city to keep its user rates relatively low; a monthly residential water and sewer bill, based on Standard & Poor's universal assumption of 8,000 gallons of service, is \$65, or an affordable 2.4% of median household effective buying income. The city reviews its rates regularly and relies on regularly updated rate studies for recommendations on future adjustments.

Outlook

The stable outlook reflects Standard & Poor's expectation that the city's strong financial and enterprise risk profiles are sustainable given its largely built-out status and wholesale counterparts. We do not see any downward pressure on the rating in the next two years given strong coverage metrics and ample total available liquidity.

Related Criteria And Research

Related Criteria

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29,

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015

Ratings Detail (As Of May 12, 2015)

Arlington wtr and wastewtr sys rev rfdg bnds ser 2014B dtd 06/01/2014 due 06/01/2034

Long Term Rating AAA/Stable Affirmed

Arlington wtr & swr

Long Term Rating AAA/Stable Affirmed

Trinity River Auth Extendable Cml Pap Fincg Prog rfdg bnds ser A due 04/23/2044

Short Term Rating A-1+ Affirmed

Trinity River Auth Extendable Cml Pap Fincg Prog ser A due 04/23/2044

Short Term Rating A-1+ Affirmed

Trinity River Auth (Cent Regl Wwtr)

Long Term Rating AAA/Stable Affirmed

Arlington wastewtr

Unenhanced Rating AAA(SPUR)/Stable Affirmed

Tarrant Regl Wtr Dist wtr

Unenhanced Rating AAA(SPUR)/Stable Affirmed

Long Term Rating AAA/Stable Affirmed

Trinity River Auth wastewtr sys

Unenhanced Rating AAA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

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