

# RatingsDirect®

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## Summary:

# Arlington, Texas; General Obligation

### Primary Credit Analyst:

Kristin Button, Dallas + 1 (214) 765 5862; kristin.button@spglobal.com

### Secondary Contact:

James M Breeding, New York + 1 (214) 871 1407; james.breeding@spglobal.com

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## Summary:

# Arlington, Texas; General Obligation

### Credit Profile

US\$76.7 mil perm imp bnds ser 2022A dtd 05/15/2022 due 08/15/2042		
<i>Long Term Rating</i>	AAA/Stable	New
US\$16.355 mil perm imp rfdg bnds ser 2022B dtd 05/15/2022 due 08/15/2032		
<i>Long Term Rating</i>	AAA/Stable	New
Arlington GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to the City of Arlington, Texas' \$76.7 million series 2022A permanent improvement bonds and \$16.355 million series 2022B permanent improvement bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating, with a stable outlook, on the city's existing general obligation (GO) debt. Post-issuance, Arlington will have approximately \$671 million in GO debt.

The bonds are payable from revenue from a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within Arlington. The city's GO debt includes certificates of obligation that carry an additional limited pledge of the net revenue of Arlington's waterworks and sewer system in an amount not to exceed \$1,000. We rate the bonds and certificates on par with our view of the city's general creditworthiness because the tax base supporting the obligations is coterminous with Arlington, and we see no unusual risks regarding the fungibility of resources or the city's willingness to support the debt.

Texas statutes limit the maximum ad valorem tax rate to \$2.50 per \$100 of taxable assessed valuation (AV) for all city purposes. Administratively, the state attorney general will permit the allocation of \$1.50 of the \$2.50 maximum tax rate for ad valorem tax debt service. In fiscal 2022, the city levies well under the maximum, at 62.25 cents per \$100 of AV, of which 21.40 cents is levied 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, we consider U.S. local governments as having moderate sensitivity to national risk. Arlington'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 them governments significant autonomy, independent treasury management, and no history of government intervention. Arlington has considerable financial flexibility, as demonstrated by a very high general fund balance as a percent of expenditures and very strong liquidity.

Proceeds from the 2022A bonds will be used mainly for improvements to public safety and other municipal facilities.

The 2022B proceeds will be used to refund existing debt for savings without extending principal maturities.

### **Credit overview**

We believe Arlington has demonstrated a long trend of strong financial flexibility and very strong management, that has continued to support positive budgetary performance through the COVID-19 pandemic. Despite some softening in revenues during fiscal 2020, revenues started rebounding in fiscal 2021 and continue to grow in fiscal 2022. On the onset of the pandemic, there was some uncertainty regarding revenues derived from entertainment and sports venues given that the city is home to AT&T Stadium, Globe Life Park, and Six Flags Over Texas. With these venues fully open and event activity returning to normal, revenues are performing better than budget.

The rating reflects our opinion of Arlington's:

- Expansive and growing tax base, with participation in the broad and diverse Dallas-Forth Worth-Arlington metropolitan statistical area (MSA);
- Very strong available reserves supported by positive budgetary results;
- Experienced management team that practices conservative budgeting and strategic planning and a strong, in our view, institutional framework; and
- Very weak debt ratios that are likely not going to improve given growth-driven capital needs.

### **Environmental, social, and governance**

We assessed the city's environmental, social, and governance (ESG) risks relative to Arlington's economy, management, financial measures, and debt and liability profile, and determined that these are what we consider standard for the sector.

## **Stable Outlook**

### **Downside scenario**

We could consider lowering the rating if the city experiences significant economic or financial stress that results in structural imbalance or the inability to follow financial practices and policies that have historically supported the high 'AAA' rating.

## **Credit Opinion**

### **Participation in the Dallas-Fort Worth-Arlington MSA contributes to strong growth**

We consider Arlington's economy strong, with an estimated population of 399,435, and consistent growth reflected in market valuation that increased 6.8% to \$33 billion for fiscal 2022. Tax base growth continues with commercial, retail, and residential development across the city. There is also a large tourism component of the local economy that was shut down for most of 2020 but began slowly opening up again in 2021 as evidenced by the resumption of ballgames, concerts, and live events. Along with the Dallas Cowboys' AT&T Stadium, the Texas Rangers' Globe Life Park, Six Flags, and Hurricane Harbor, a \$250 million entertainment complex --Texas Live!--opened in August 2018.

### **Strong management, with conservative financial practices and strategic planning**

Revenue and expenditure assumptions are based, in part, on up to 10 years of historical data and information from outside sources. Arlington provides quarterly budget reports to the city council, including budget-to-actual-result comparisons. Long-term financial forecasting for revenue and expenditures are produced for five years beyond the current budget year. Management uses a five-year capital plan that is updated at least annually with identified funding sources. A formal investment policy has been adopted. The formal debt management policy includes quantitative measurable parameters and benchmarks. The working capital reserve policy for the general fund is to maintain a minimum 8.33% of annual expenditures, coupled with a total general fund balance policy of maintaining a minimum 15% of expenditures.

### **Long historical trend of positive budgetary performance and strong reserves**

For fiscal 2021, the audit is near final completion and general fund and total governmental funds have operating surpluses. We have adjusted our ratios for what we view as recurring revenue and expenditures in and out of the general fund and across all governmental funds. We also adjusted for expenditures funded through debt.

Management frequently monitors monthly revenues and expenditures, making adjustments as needed to maintain structural balance. Conservative estimates for fiscal 2021 reflected a slight surplus; however, actual results were much stronger with a \$15 million surplus when netting transfers in and out of the general fund. Sales tax revenues were 15% ahead of fiscal 2020. Other revenues, such as property taxes, were also stronger than budgeted and expenditures came in under budget. The city expects to receive approximately \$85 million from the American Rescue Plan Act that will be used through Dec. 31, 2024.

For fiscal 2022, although sales taxes are tracking 4% ahead of budget, other revenues such as fines and service charges are below budget for the first quarter of the year. Expenditures are under budget reflecting a positive net result so far. The available general fund balance in fiscal 2020 totaled \$68.4 million. Results for fiscal 2021 reflect that the available fund balance will increase to a little more than \$80 million and will be over 30% of general fund expenditures. While not included in our calculation for available general fund reserve, the city also has access to \$71 million in the Arlington Tomorrow Fund. This fund receives natural gas royalties from city-owned property and management can use for any purpose. Historically, officials used \$50 million from the Arlington Tomorrow Fund in fiscal 2016 to support economic development in the city. Officials have a goal of gradually replenishing the fund to its \$100 million level, as well as a Consumer Price Index increase. We believe the city will continue its practice of conservative budgeting that will support positive budgetary performance and access to very strong reserve levels.

### **Debt expected to remain very weak due to capital needs associated with growth**

Arlington's capital improvement plan anticipates ongoing GO debt, but the timing will be determined by affordability and economic conditions. With additional debt likely, we expect the city's debt profile will 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 about 66% of direct GO debt within 10 years.

We do not view pension and other postemployment benefit liabilities as a pressure for the city. Following a pension obligation issuance in fiscal 2021, the pension is over funded.

The city participates in the following pension plan:

- Texas Municipal Retirement System, a nontraditional, joint contributory, hybrid defined-benefit pension plan administered by the state. An actuary determines the contribution rate annually. Arlington's net pension asset was \$26.8 million as of Dec. 31, 2021, and the plan's funded ratio was 102%, assuming a 6.75% discount rate.

Arlington, Texas--Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
<b>Strong economy</b>				
Projected per capita EBI % of U.S.	84.8			
Market value per capita (\$)	81,139.7			
Population (no.)		403,588	399,435	397,111
County unemployment rate(%)		7.3		
Market value (\$000)	32,747,019	29,238,009		
Ten largest taxpayers % of taxable value	5.1			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		1.8	(0.2)	1.4
Total governmental fund result % of expenditures		(1.6)	(3.9)	(6.0)
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		26.1	23.9	25.8
Total available reserves (\$000)		68,445	64,311	65,047
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		51.0	44.8	36.7
Total government cash % of governmental fund debt service		311.4	268.4	227.6
<b>Very strong management</b>				
Financial Management Assessment	Strong			
<b>Very weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		16.4	16.7	16.1
Net direct debt % of governmental fund revenue	243.4			
Overall net debt % of market value	7.9			
Direct debt 10-year amortization (%)	49.5			
Required pension contribution % of governmental fund expenditures		6.3		
OPEB actual contribution % of governmental fund expenditures		1.3		
<b>Strong institutional framework</b>				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

## Ratings Detail (As Of April 28, 2022)

**Ratings Detail (As Of April 28, 2022) (cont.)**

Arlington GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
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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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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