

28 APR 2022

Fitch Rates Arlington, TX's Series 2022 Public Improvement Bonds 'AAA'; Outlook Stable

Fitch Ratings - Austin - 28 Apr 2022: Fitch Ratings has assigned a 'AAA' rating to the following Arlington (TX) obligations:

--\$76.700 million permanent improvement bonds (PIBs) series 2022A;

--\$16.355 million permanent improvement refunding bonds, series 2022B.

Fitch has also affirmed the 'AAA' Issuer Default Rating (IDR) and the 'AAA' limited tax rating on Arlington's more than \$500 million in outstanding general obligation (GO) bonds, which includes PIBs and certificates of obligation (CO).

The Rating Outlook is Stable.

The series 2022 PIBs are scheduled for a competitive sale on or around May 18. The series 2022A bonds will be used to finance several capital needs, while the series 2022B bonds will be used to refund a portion of the city's outstanding debt for interest cost savings.

SECURITY

The PIBs 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).

ANALYTICAL CONCLUSION

The 'AAA' IDR GO, PIB and CO bond ratings incorporate Fitch's expectation for the city to maintain healthy financial flexibility through economic cycles, as demonstrated throughout the coronavirus pandemic. The city's solid financial profile reflects its healthy reserve levels, a diverse and stable revenue base, modest expenditure growth pressures 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 and expected growth in the resource base.

Economic Resource Base

Arlington is located in the center of the Dallas-Fort Worth metroplex, about 20 miles west of Dallas, with an estimated 2020 population approaching 400,000. The city's diverse economic base consists of manufacturing, industrial and warehousing operations, as well as a sizable entertainment sector, including the Six Flags Over Texas theme park, Global Life Field in Arlington (the current home of Major

League Baseball's Texas Rangers) and AT&T Stadium (the current home of the National Football League's Dallas Cowboys).

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Over the long term, Fitch expects Arlington to experience sound revenue growth based on economic development that has been underway and the city's participation in the expanding regional economy. Similar to many Texas municipalities, ad valorem revenue raising authority has weakened following the enactment of Senate Bill 2 but remains high in the context of the city's low expected revenue volatility through typical economic cycles.

Expenditure Framework: 'aa'

Arlington's natural pace of spending is likely to be on par with or slightly above its revenue growth absent significant or other non-discretionary spending pressures. The city has demonstrated the flexibility and willingness to cut employee salaries and other costs during economic downturns. Carrying costs are moderate at 13% of governmental expenditures.

Long-Term Liability Burden: 'aa'

The long-term liability burden is moderate at about 15% of personal income. Fitch expects the long-term liability burden to remain in the moderate range given debt issuance plans, the scheduled pace of amortization of outstanding debt and expectations for population and income growth.

Operating Performance: 'aaa'

The city has historically maintained very strong reserves relative to revenue volatility. Management has responded well to stress, as demonstrated by the city's history of balanced operations and reserve adequacy through economic cycles. Fitch expects management will make necessary budget adjustments, as in prior years, to minimize any revenue loss from cyclical downturns.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable for a 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Increases in the long-term liability burden to above 20% of total personal income;

--A weakening of post-pandemic economic activity that slows the current solid revenue growth or increase in revenue volatility, weakening the revenue framework assessment.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CURRENT DEVELOPMENTS

Given Arlington's historically strong fund balance position and ability to adjust expenditures, Fitch believes the city has the capacity to reasonably absorb financial pressure resulting from economic cycles without impairing its strong financial resilience. The city has a history of strong budgetary management, as demonstrated by its favorable operating performance. Revenues typically outperform budgeted projections, and the city uses excess revenues to finance one-time items and to bolster its financial cushion during economic upturns.

Arlington's fiscal 2020 (FYE September 30) available general fund reserves were roughly \$68 million, or 26% of spending, which is well above the city's 15% minimum general fund balance policy. Included therein is a one-month working capital reserve, an unallocated reserve for emergencies and a business continuity reserve that provides funding for operational needs when necessary. In addition to its general operating reserves, the Arlington Tomorrow Foundation's corpus totaled \$70.6 million and can be used for general purposes with supermajority approval of the city council.

The corpus of the endowment, which is funded primarily from natural gas lease and royalty payments, has been incorporated into Fitch's assessment of the city's available reserve funds. The fiscal 2020 available general fund balance and the Arlington Tomorrow Foundation account for 53% of the city's fiscal 2020 operating expenditures. Preliminary fiscal 2021 audit results, provided by management, indicated about a \$19 million addition to the general fund balance, thus further strengthening the city's financial cushion.

The adopted fiscal 2022 budget reflects balanced general operations, net of transfers. Based on mid-year results, provided by management, the budget is trending well, with sales tax revenues outpacing earlier projections. Fitch expects the city to continue making budget adjustments as needed in order to maintain its strong operating performance, similar to prior years. Fitch also expects any use of reserves to maintain balance to be restored in subsequent fiscal years.

In 2021 the city was awarded \$81.5 million in American Rescue Plan Act funds. According to management, the city received half of its allocation in 2021 and will likely receive the remaining funds in over the coming weeks. The majority of funds are being used for one-time infrastructure needs and community-based programs.

Arlington's long-term liabilities, including net overall debt and net pension liabilities, are a moderate

15% of estimated personal income. Following the series 2022PIB issuance, the city will have about \$100 million in debt authorization remaining. Officials plan to issue the remaining authorization over the next 12 to 24 months; and, management has confirmed that the city will likely approach voters for additional bonding authority within the next 12 months, though the amount of the bond program request is unknown at this time.

CREDIT PROFILE

The city's fiscal 2022 TAV, at \$32.7 billion, is a 9% increase from the prior year. Recent TAV growth is moderate in comparison to prior years, as the city experienced annual double-digit percentage growth in its tax base from fiscals 2018 to 2020. Historically, the city's unemployment rate has been below the state and national levels, reflecting the generally strong local and regional job market.

Unemployment at 4.3% as of February 2022 is slightly below the state level and marginally above the national level. This is a sizable difference from the city's 7.3% unemployment rate for the same time last year, which reflected pandemic-driven business pressure. Improvement in employment rates indicate that the city's economic engines are rebounding. As the economy continues to recover, Fitch expects unemployment rates to decrease and tax base expansion to continually improve.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Arlington (TX) [General Government]	LT IDR	AAA	Affirmed	AAA
• Arlington (TX) /General Obligation - Limited Tax/ 1 LT	LT	AAA	Affirmed	AAA

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(pub.04 May 2021\) \(including rating](#)

assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Arlington (TX) EU Endorsed, UK Endorsed

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