S&P Global Ratings

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Summary:

Arlington, Texas; General Obligation

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Credit Profile		
US$60.0 mil perm imp bnds ser 2023A dtd 06/01/2023 due 08/15/2043		
Long Term Rating	AAA/Stable	New
US$25.68 mil perm imp rfdg bnds ser 2023B dtd 06/01/2023 due 08/15/2033		
Long Term Rating	AAA/Stable	New
Arlington GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the City of Arlington, Texas' $60 million series 2023A permanent improvement bonds and $25.68 million series 2023B permanent improvement refunding bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's existing general obligation (GO) debt.
- The outlook on the ratings is stable.

Security

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 2023, the city levies well under the maximum, at 60 cents per $100 of AV, of which 20 cents is levied for debt service.

Proceeds from the 2023A bonds will be used mainly for improvements to public safety and other municipal facilities. The 2023B 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. As a key contributor to the local metropolitan statistical area (MSA), population and tax base growth are consistent year over year. In addition, Arlington is home to a unique blend of entertainment venues that attract a substantial number of tourists who contribute to sales tax revenues, which is important given sales taxes are about 50% of general fund revenues. Although ongoing growth results in additional debt needs, tax base growth should keep debt levels similar to current levels. The city issued a pension obligation bond in 2021 that resulted in a pension asset.

The rating reflects our opinion of Arlington's:

- Expansive and growing tax base, with participation in the broad and diverse Dallas-Fort Worth-Arlington MSA;
- Very strong available reserves totaling 28% of general fund expenditures in fiscal 2022;
- Experienced management team that practices conservative budgeting and strategic planning and a strong, in our view, institutional framework score; 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 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.

Outlook

The stable outlook reflects our view that Arlington continues to experience strong economic growth and strong reserves will be supported by a sophisticated management team. We also anticipated that additional debt will be mitigated by a growing tax base.

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

Arlington has a key contribution to the MSA, with nearly 400,000 residents and a $36 billion tax base. The local economy continues to experience strong growth across the board in commercial, retail, and residential development across the city. Although the number of residential permits are down, the average value is up, with the average single-family home permitted for $417,030 in February 2023. The city is home to large entertainment venues including the Dallas Cowboys' AT&T Stadium, the Texas Rangers' Globe Life Park, Six Flags, Hurricane Harbor, and Texas Live!.

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

Fiscal 2021 ended with a large $16 million surplus; therefore, management used some excess reserves towards one-time uses, which results in a slight deficit for fiscal 2022. However, the available general fund balance in fiscal 2022 remained very strong totaling $80.5 million, which was equal to 28% of general fund expenditures.

While not included in our calculation for available general fund reserve, the city also has access to $81.8 million in the Arlington Tomorrow Fund. This fund receives natural gas royalties from city-owned property and management can use it for any purpose. Officials have a goal of gradually growing the fund to $100 million. Management frequently monitors monthly revenues and expenditures, making adjustments as needed to maintain structural balance. Conservative estimates for fiscal 2023 reflect a slight surplus with sales tax revenues up 5%, to $1.6 million, through February 2023 compared with the same time period last year.

The city has been allocated $81 million in American Rescue Plan funding. To date, Arlington has spent $70 million of this allocation with $7.6 million to be used in fiscal 2024 and $3.8 million in fiscal 2025. Most of the projects funded were for one-time uses; however, the expenses that are recurring, approximately $36 million, will need to be absorbed into the budget beyond fiscal 2025. 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.

Pension and other postemployment benefit liabilities aren't a pressure thanks to a pension obligation issuance in fiscal 2021

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 $119 million as of Dec. 31, 2021, and the plan's funded ratio was 108%.

Rating above the sovereign

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.

Arlington, Texas--key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Very strong economy				
Projected per capita EBI % of U.S.	85.8			
Market value per capita ($)	89,355.5			
Population (no.)			406,364	403,588
County unemployment rate(%)			5.3	
Market value ($000)	36,310,866	32,747,019	30,614,604	
Ten largest taxpayers % of taxable value	4.6			
Strong budgetary performance				
Operating fund result % of expenditures		3.1	6.6	1.8
Total governmental fund result % of expenditures		7.9	0.9	(1.6)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		28.4	33.7	26.1
Total available reserves ($000)		80,521	84,954	68,445
Very strong liquidity				
Total government cash % of governmental fund expenditures		48.7	49.3	51.0
Total government cash % of governmental fund debt service		259.4	187.4	311.4
Very strong management				
Financial Management Assessment	Strong			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		18.8	26.3	16.4
Net direct debt % of governmental fund revenue	223.1			
Overall net debt % of market value	7.5			
Direct debt 10-year amortization (%)	52.9			
Required pension contribution % of governmental fund expenditures		4.7		
OPEB actual contribution % of governmental fund expenditures		1.3		
Strong institutional framework				

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
- 2022 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 11, 2023)		
Arlington GO		
Long Term Rating	AAA/Stable	Affirmed
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