

**OFFICIAL STATEMENT**

**CITY OF ARLINGTON, TEXAS**

**\$39,880,000**

**Permanent Improvement and Refunding Bonds, Series 2008**

**\$5,920,000**

**Combination Tax and Revenue Certificates of Obligation, Series 2008A**

**Dated: June 3, 2008**

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**OFFICIAL STATEMENT DATED JUNE 3, 2008**

**NEW ISSUE – Book-Entry-Only**

Ratings: Moody's: "Aa2"  
 Standard & Poor's: "AA+"  
 Fitch Ratings: "AA"

(See "OTHER RELEVANT INFORMATION – Ratings")

*In the opinion of Bond Counsel interest on the Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds. See "Tax Exemption" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.*

**\$39,880,000**  
**CITY OF ARLINGTON, TEXAS**  
**(Tarrant County, Texas)**  
**Permanent Improvement and Refunding Bonds, Series 2008**

Dated: June 1, 2008

Due: August 15, as shown below

The \$39,880,000 City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2008 (the "Bonds" and together with the 2008A Certificates, the "Obligations") will be issued in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in principal amounts of \$5,000 or multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Interest on the Bonds will be payable on February 15 and August 15 of each year, commencing February 15, 2009.

**MATURITY SCHEDULE**

**SERIAL BONDS**

| <u>Maturity</u><br><u>(August 15)</u> | <u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Price</u><br><u>or Yield</u> | <u>CUSIP</u><br><u>Number (1)</u> | <u>Maturity</u><br><u>(August 15)</u> | <u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Price</u><br><u>or Yield</u> | <u>CUSIP</u><br><u>Number (1)</u> |
|---------------------------------------|---------------|--------------------------------|---------------------------------|-----------------------------------|---------------------------------------|---------------|--------------------------------|---------------------------------|-----------------------------------|
| 2009                                  | \$1,995,000   | 3.250%                         | 2.000%                          | 0417904D5                         | 2018                                  | \$1,995,000   | 4.000%                         | 3.810%                          | 0417904N3                         |
| 2010                                  | 1,995,000     | 3.250%                         | 2.380%                          | 0417904E3                         | 2019                                  | 1,995,000     | 4.000%                         | 4.000%                          | 0417904P8                         |
| 2011                                  | 1,995,000     | 3.250%                         | 2.740%                          | 0417904F0                         | 2020                                  | 1,995,000     | 4.000%                         | 4.100%                          | 0417904Q6                         |
| 2012                                  | 1,995,000     | 3.500%                         | 2.970%                          | 0417904G8                         | 2021                                  | 1,995,000     | 4.125%                         | 4.210%                          | 0417904R4                         |
| 2013                                  | 1,995,000     | 3.500%                         | 3.120%                          | 0417904H6                         | 2022                                  | 1,995,000     | 4.250%                         | 4.300%                          | 0417904S2                         |
| 2014                                  | 1,995,000     | 3.500%                         | 3.270%                          | 0417904J2                         | 2023                                  | 1,995,000     | 4.300%                         | 4.370%                          | 0417904T0                         |
| 2015                                  | 1,995,000     | 3.625%                         | 3.410%                          | 0417904K9                         | 2024                                  | 1,995,000     | 4.375%                         | 4.420%                          | 0417904U7                         |
| 2016                                  | 1,995,000     | 3.750%                         | 3.540%                          | 0417904L7                         | 2025                                  | 1,990,000     | 4.400%                         | 4.484%                          | 0417904V5                         |
| 2017                                  | 1,995,000     | 4.500%                         | 3.680%                          | 0417904M5                         | 2026                                  | 1,990,000     | 4.500%                         | 4.570%                          | 0417904W3                         |

**TERM BONDS**

\$3,980,000 4.600% Term Bonds Due August 15, 2008; Price to Yield 4.67% 0417904Y9

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

This cover page contains information for quick reference only. It is *not* a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

**Separate Issues.** The Bonds are being offered by the City concurrently with the "City of Arlington, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2008A" (the "2008A Certificates") and under a common Official Statement, and such Bonds and 2008A Certificates are hereinafter sometimes referred to collectively as the "Obligations"). The Bonds and 2008A Certificates are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

The City is also delivering, simultaneously with the Obligations, its Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 2008B, (the "2008B Certificates"). The 2008B Certificates are being offered and sold independently pursuant to a separate Official Statement and are a distinct and separate security from the Obligations.

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2019, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2018, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "THE OBLIGATIONS – Optional Redemption").

The initial reoffering yields were supplied to the City by the Purchaser. The initial reoffering yields shown above will produce compensation to the Purchaser of approximately \$212,838.24.

The Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of Vinson & Elkins L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the Certificates (see APPENDIX C "Form of Bond Counsel's Opinions").

It is expected that the Bonds will be delivered through the facilities of DTC on or about July 3, 2008.

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**OFFICIAL STATEMENT DATED JUNE 3, 2008**

**NEW ISSUE – Book-Entry-Only**

Ratings: Moody's: "Aaa"  
 Standard & Poor's: "AAA"  
 Fitch Ratings: "AAA"

(See "BOND INSURANCE" and "OTHER RELEVANT INFORMATION – Ratings")

*In the opinion of Bond Counsel interest on the 2008A Certificates is excludable from gross income for federal income tax purposes under existing law and the 2008A Certificates are not private activity bonds. See "Tax Exemption" for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.*

**\$5,920,000**  
**CITY OF ARLINGTON, TEXAS**  
**(Tarrant County, Texas)**  
**Combination Tax and Revenue Certificates of Obligation, Series 2008A**

Dated: June 1, 2008

Due: August 15, as shown below

The \$5,920,000 City of Arlington, Texas, Combination Tax & Revenue Certificates of Obligation, Series 2008A (the "2008A Certificates" and together with the Bonds, the "Obligations") will be issued in fully registered form without coupons and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Individual purchases will be made in book-entry form only, in principal amounts of \$5,000 or multiples thereof. Purchasers will not receive certificates representing their interest in the Certificates purchased. Interest on the Certificates will be payable on February 15 and August 15 of each year, commencing February 15, 2009.

**MATURITY SCHEDULE**

| <u>Maturity</u><br><u>(August 15)</u> | <u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Price</u><br><u>or Yield</u> | <u>CUSIP</u><br><u>Number (1)</u> | <u>Maturity</u><br><u>(August 15)</u> | <u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Price</u><br><u>or Yield</u> | <u>CUSIP</u><br><u>Number (1)</u> |
|---------------------------------------|---------------|--------------------------------|---------------------------------|-----------------------------------|---------------------------------------|---------------|--------------------------------|---------------------------------|-----------------------------------|
| 2009                                  | \$300,000     | 5.500%                         | 2.500%                          | 0417904Z6                         | 2019                                  | \$295,000     | 4.000%                         | 3.960% (2)                      | 0417905K8                         |
| 2010                                  | 300,000       | 4.000%                         | 2.600%                          | 0417905A0                         | 2020                                  | 295,000       | 4.000%                         | 4.100%                          | 0417905L6                         |
| 2011                                  | 300,000       | 4.000%                         | 2.800%                          | 0417905B8                         | 2021                                  | 295,000       | 4.000%                         | 4.099%                          | 0417905M4                         |
| 2012                                  | 300,000       | 4.000%                         | 3.000%                          | 0417905C6                         | 2022                                  | 295,000       | 4.125%                         | 4.219%                          | 0417905N2                         |
| 2013                                  | 295,000       | 4.000%                         | 3.080%                          | 0417905D4                         | 2023                                  | 295,000       | 4.250%                         | 4.341%                          | 0417905P7                         |
| 2014                                  | 295,000       | 4.000%                         | 3.250%                          | 0417905E2                         | 2024                                  | 295,000       | 4.250%                         | 4.337%                          | 0417905Q5                         |
| 2015                                  | 295,000       | 4.000%                         | 3.400%                          | 0417905F9                         | 2025                                  | 295,000       | 4.375%                         | 4.459%                          | 0417905R3                         |
| 2016                                  | 295,000       | 4.000%                         | 3.560%                          | 0417905G7                         | 2026                                  | 295,000       | 4.500%                         | 4.500%                          | 0417905S1                         |
| 2017                                  | 295,000       | 4.000%                         | 3.700%                          | 0417905H5                         | 2027                                  | 295,000       | 4.500%                         | 4.500%                          | 0417905T9                         |
| 2018                                  | 295,000       | 4.000%                         | 3.850%                          | 0417905J1                         | 2028                                  | 295,000       | 4.500%                         | 4.557%                          | 0417905U6                         |

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- (2) Priced to the stated yield to the first optional redemption date, August 15, 2018.



The scheduled payment of the principal of and interest on the 2008A Certificates when due will be guaranteed by a bond insurance policy to be issued by Financial Security Assurance Inc. concurrently with the delivery of the 2008A Certificates. See "BOND INSURANCE" herein.

This cover page contains information for quick reference only. It is *not* a summary of this issue. Investors must read the entire official statement to obtain information essential to the making of an informed investment decision.

**Separate Issues.** The 2008A Certificates are being offered by the City concurrently with the "City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2008" (the "Bonds"), under a common Official Statement, and such Bonds are hereinafter sometimes referred to collectively as the "Obligations"). The 2008A Certificates and the Bonds are separate and distinct securities offerings being issued and sold independently except for the common Official Statement, and while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

The City is also delivering, simultaneously with the Obligations, its Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 2008B, (the "2008B Certificates"). The 2008B Certificates are being offered pursuant to a separate Official Statement and are a distinct and separate security from the Obligations.

The City reserves the right, at its option, to redeem 2008A Certificates having stated maturities on and after August 15, 2019, in whole or in part in the principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2018, or any date thereafter, at the par value thereof, without premium, plus accrued interest to the date fixed for redemption (see "THE OBLIGATIONS – Optional Redemption").

The initial reoffering yields were supplied to the City by the Purchaser. The initial reoffering yields shown above less the insurance premium will produce compensation to the Purchaser of approximately \$51,347.45.

The 2008A Certificates are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of Vinson & Elkins L.L.P., Bond Counsel. The opinion of Bond Counsel will be printed on or attached to the 2008A Certificates (see APPENDIX C "Form of Bond Counsel's Opinions").

It is expected that the 2008A Certificates will be delivered through the facilities of DTC on or about July 3, 2008.

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**CITY OF ARLINGTON**

**Elected Officials**

|                    |                | <u>Length of Service</u> | <u>Term Expires</u> | <u>Occupation</u>                  |
|--------------------|----------------|--------------------------|---------------------|------------------------------------|
| Robert Cluck, M.D. | Mayor          | 8 years (1)              | May 2009            | Doctor                             |
| Ron Wright (3)     | Mayor Pro Tem  | 7 years                  | May 2008            | Congressman’s District Director    |
| Mel LeBlanc        | Council Member | 1 year                   | May 2010            | Account Manager                    |
| Sheri Capehart     | Council Member | 6 years (2)              | May 2010            | Computer Security Analyst, Retired |
| Robert Rivera      | Council Member | 2 years                  | May 2009            | Real Estate Developer              |
| Kathryn Wilemon    | Council Member | 4 years                  | May 2009            | Community Volunteer                |
| Lana Wolff         | Council Member | 4 years                  | May 2009            | Community Volunteer                |
| Steve McCollum (3) | Council Member | 7 years                  | May 2008            | Small Business Owner               |
| Gene Patrick       | Council Member | 4 years                  | May 2009            | Small Business Owner               |

- (1) Served as Council member from May 2000 to May 2003 and elected Mayor in May 2004.  
 (2) Served as Council member from May 1999 to May 2003.  
 (3) The City will hold a run-off election for these positions on June 14, 2008. The current council members did not run for re-election, but will serve until the council members elected at the June 14, 2008 run-off election take the oath of office. The Council members elected at the June 14, 2008 run-off election will serve terms that expire in May 2010.

**Appointed Officials**

| <u>Name</u>     | <u>Position</u>                             | <u>Years of<br/>Employment With City</u> |
|-----------------|---|--|
| Jim Holgersson  | City Manager                                | 3  |
| Fiona Allen     | Deputy City Manager – Capital Investment    | 17                                       |
| Gilbert Perales | Deputy City Manager – Neighborhood Services | 2  |
| Trey Yelverton  | Deputy City Manager – Economic Development  | 15                                       |
| Bob Byrd        | Deputy City Manager – Strategic Support     | 23                                       |
| Anna Mosqueda   | Director, Financial Services                | 3  |
| Jay Doegey      | City Attorney                               | 22                                       |
| Karen Barlar    | Acting City Secretary                       | 16                                       |

**ADVISORS**

|                                  |  |
|----------------------------------|--|
| Independent Public Auditors..... | Deloitte & Touché, LLP<br>Dallas, Texas            |
| Bond Counsel.....                | Vinson & Elkins L.L.P.<br>Dallas, Texas            |
| Financial Advisor.....           | Public Financial Management, Inc.<br>Austin, Texas |

## USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon. This Official Statement does not constitute an offer to sell and is not to be used in an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Certain information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriter. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The delivery of this Official Statement at any time does not imply that the information herein is correct as to any time subsequent to its date. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

THE OBLIGATIONS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE OBLIGATIONS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE CERTIFICATES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED FROM REGISTRATION SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED ANY OF THE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "Bond Insurance" and APPENDIX D specimen "Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Obligations; or (iii) the tax exempt status of the interest on the Obligations.

Neither the City, nor The PFM Group, Financial Advisor to the City, make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company, or its book-entry-only system, as such information has been furnished by the Depository Trust Company.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. SEE "OTHER RELEVANT INFORMATION – FORWARD-LOOKING STATEMENTS."



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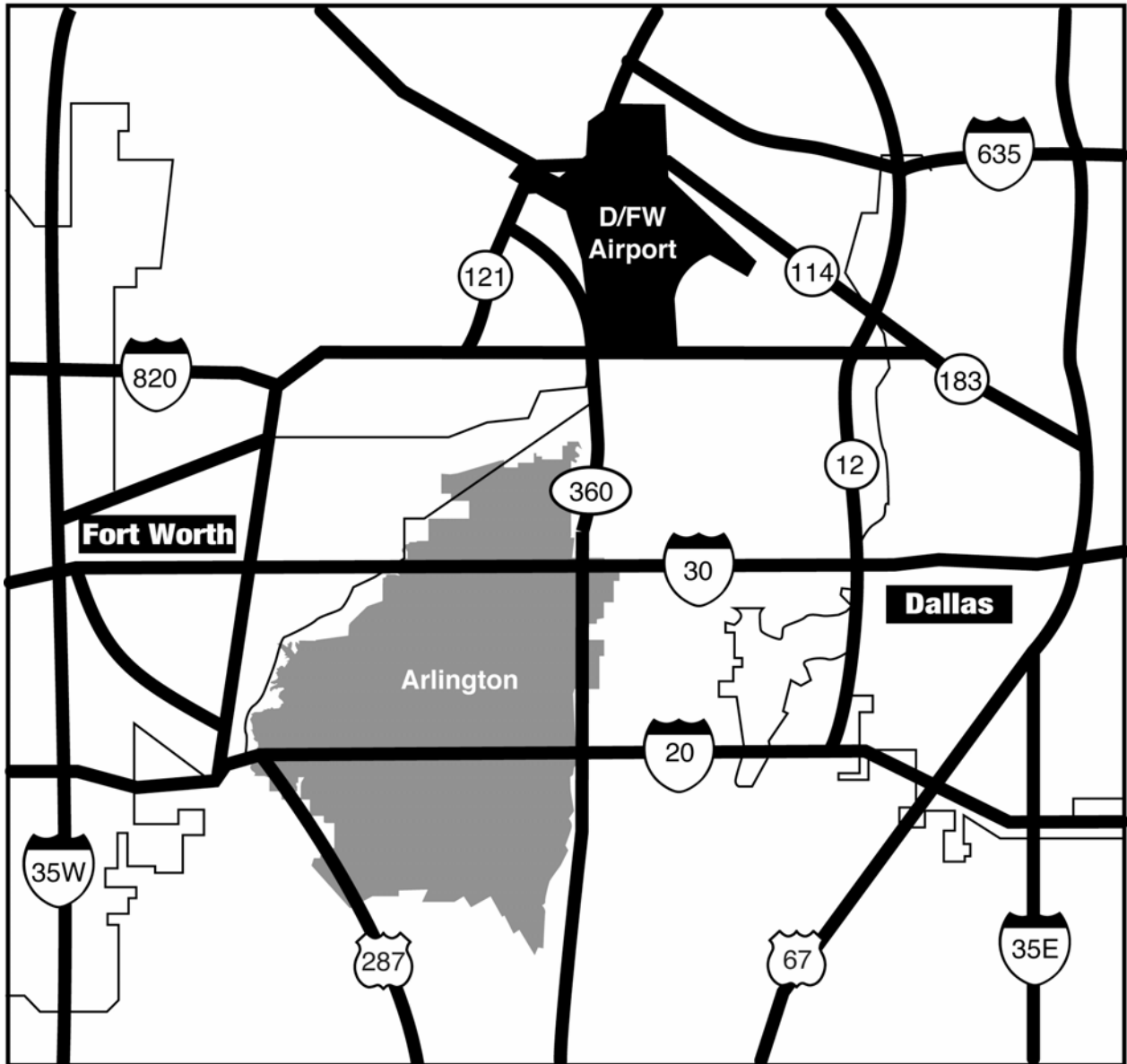
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# Dallas/Fort Worth/Arlington Metropolitan Area



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**\$39,880,000**  
**CITY OF ARLINGTON, TEXAS**  
**(Tarrant County, Texas)**  
**Permanent Improvement and Refunding Bonds, Series 2008**

**\$5,920,000**  
**CITY OF ARLINGTON, TEXAS**  
**(Tarrant County, Texas)**  
**Combination Tax and Revenue Certificates of Obligation, Series 2008A**

**INTRODUCTION**

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is hereby made for all purposes.

**The Issuer**

The City of Arlington, Texas (the “City”), is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and 8 miles south of the Dallas/Fort Worth International Airport. The City, which encompasses 98.7 square miles, had a 2000 census population of 332,969. The Community Development and Planning Department estimated the 2007 population of the City to be 364,300 residents. The City operates under a Council-Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services. The City operates its water and wastewater system and its sanitary landfill operation (currently outsourced) as self-supporting enterprise funds.

**THE OBLIGATIONS**

**Authority for Issuance**

The Bonds are authorized and issued pursuant to authority granted by the resident qualified voters at elections held within the City on January 18, 1997, January 16, 1999, February 1, 2003, November 4, 2003 and May 7, 2005, the Constitution and the general laws of the State of Texas, particularly Chapters 1331 and 1207, Texas Government Code as amended, Article XIII of the City’s Home Rule Charter and to the Ordinance passed by the City Council on the date of the sale of the Bonds (the “Bond Ordinance” and together with the 2008A Certificate Ordinance, the “Ordinances”).

The 2008A Certificates are authorized and issued pursuant to the Constitution and the general laws of the State of Texas, particularly Subchapter C of Chapter 271, Local Government Code, V.T.C.A., Article XIII of the City’s Home Rule Charter and to the Ordinance passed by the City Council on the date of sale of the 2008A Certificates (the “2008A Certificate Ordinance” and together with the Bond Ordinance, the “Ordinances”).

**General**

\$38,990,000 City of Arlington, Texas, Permanent Improvement and Refunding Bonds, Series 2008 (the “Bonds”), will be dated June 1 2008, and will mature on the dates set forth on the respective cover of this Official Statement. Interest will be paid on February 15, 2009, and on each August 15 and February 15 thereafter until the earlier of maturity or prior redemption.

\$5,920,000 City of Arlington, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2008A (the “2008A Certificates”), will be dated June 1, 2008, and will mature on the dates set forth on the respective cover of this Official Statement. Interest will be paid on February 15, 2009, and on each August 15 and February 15 thereafter until maturity or prior redemption.

**Security**

The Bonds, when issued, will be direct obligations of the City, payable from the proceeds of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City.

The 2008A Certificates, when issued, will be direct obligations of the City, payable from the proceeds of a direct and continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and from a limited pledge of the surplus revenues of the City's combined water and wastewater system; provided, however, that such pledge of surplus revenues shall be limited to \$1,000.

### Use of Proceeds

The proceeds from the sale of the Bonds are being used to provide funds for (i) designing, developing, constructing, improving, extending, and expanding streets, thoroughfares, sidewalks, bridges, and other public ways of the City, including street lighting, right-of-way protection, and related storm drainage improvements; designing, constructing, acquiring and upgrading computerized signal and traffic control management system and other traffic controls; and acquiring rights-of-way in connection therewith; (ii) acquiring, developing, renovating and improving parks and open spaces for park and recreation purposes in and for the City; (iii) designing, constructing, improving, renovating and equipping of fire station facilities, and acquiring land therefor; demolition of certain existing fire station facilities; acquisition and installation of automated vehicle location program; acquiring, installing, improving and implementing additional emergency vehicle preemption signaling system; and improving and upgrading burn building, in and for the City; (iv) acquiring, installing and implementing radio frequency identification system to provide for automated check-in and check-out, inventory control and theft detection for libraries; and acquiring library materials; and (v) the refunding of \$8,000,000 of outstanding Commercial Paper Notes (the "Refunded Commercial Paper Notes"), and (vi) to pay the costs related to the issuance of the Bonds.

The proceeds from the sale of the 2008A Certificates are being used to provide funds for (i) designing, constructing, improving, renovating and equipping fire station facilities, including demolition and reconstruction of existing facilities; (ii) designing, constructing, improving, renovating and equipping City airport and aircraft facilities; (iii) engineering, designing, and planning for the construction, and improvement of Interstate 30 bridges and overpasses within the City, including signage, signalization, street lighting, related storm drainage and environmental improvements, and the acquisition of land therefor; (iv) designing, constructing, improving, renovating and equipping the South Arlington Public Safety Center, including the acquisition of land therefor; (v) designing, constructing, improving and renovating the City's Convention Center, including improving, constructing and renovating the Convention Center roof; (items (i) through (v), collectively, the "Project"); and (vi) to pay for professional services of attorneys, financial advisors and other professionals in connection with the Project and the issuance of the 2008A Certificates.

### Sources and Uses

The estimated sources and uses of funds are as follows.

| Sources:                                 | <u>Bonds</u>           | <u>2008A Certificates</u> |
|--|------------------------|---------------------------|
| Par Amount                               | \$39,880,000.00        | \$5,920,000.00            |
| Accrued Interest                         | 140,500.56             | 22,204.44                 |
| Net Premium                              | 49,129.91              | -                         |
| Total                                    | <u>\$40,069,630.47</u> | <u>\$5,942,104.44</u>     |
| Uses:                                    |                        |                           |
| Deposit to Construction Fund             | \$31,804,129.91        | \$5,895,000.00            |
| Payment of Refunded CP Notes             | 8,000,000.00           | -                         |
| Deposit to the Interest and Sinking Fund | 140,500.56             | 22,104.44                 |
| Cost of Issuance                         | 125,000.00             | 25,000.00                 |
| Total                                    | <u>\$40,069,630.47</u> | <u>\$5,942,104.44</u>     |

### Legal Matters

The City will furnish the initial purchasers of the Bonds and the 2008A Certificates, respective transcripts of certain certified proceedings incident to the issuance and authorization of the Bonds and the 2008A Certificates, including a certified copy of the Bond Ordinance and the 2008A Certificate Ordinance containing the continuing disclosure agreement required pursuant to Rule 15c2-12 of the Securities and Exchange Commission, a certified copy of the



approving opinions of the Attorney General of Texas to the effect that the Bonds and the 2008A Certificates are valid and legally binding obligations of the City, and the approving legal opinions of Vinson & Elkins L.L.P., Dallas, Texas, Bond Counsel, to like effect and to the effect that (i) the interest on the Bonds and the 2008A Certificates is excludable from gross income for federal income tax purposes under existing law and (ii) the Bonds and the 2008A Certificates are not “private activity bonds” under the Internal Revenue Code of 1986, as amended (the “Code”), and interest on the Bonds and the 2008A Certificates will not be subject to the alternative minimum tax on individuals and corporations except as described below under “Tax Exemption.” Forms of the opinions are attached hereto as APPENDIX C. In rendering the aforesaid opinions, the Attorney General of the State of Texas will review the transcripts of proceedings relating to the Bonds and the 2008A Certificates, including the initial Bond and the initial Certificate delivered to the respective initial purchaser or purchasers of such Bonds and the 2008A Certificates.

Bond Counsel has not examined and has not investigated or verified any statements, records, material or matters relating to the financial condition or capabilities of the City, and has assumed no responsibility for the preparation or contents of the Official Statement, except that in its capacity as Bond Counsel, such firm has reviewed the information describing the Obligations in the Official Statement in order to verify that such descriptions conform to the provisions of the Bond Ordinance and 2008A Certificate Ordinance. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds and the 2008A Certificates are contingent on the sale and delivery of the Bonds and the 2008A Certificates. Bond Counsel’s fee for services rendered with respect to the sale of the Bonds and the 2008A Certificates is paid on a “per bond” basis.

The City will furnish to the initial purchaser of the Bonds and the 2008A Certificates a certificate, dated as of the date of delivery of the Bonds and the 2008A Certificates, to the effect that no litigation of any nature has been filed or is pending, as of such date, to restrain or enjoin the issuance and delivery of the Bonds and the 2008A Certificates, or which affect the provisions made for their payments or security or in any manner question the validity of the Bonds and the 2008A Certificates.

The various legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment or the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

#### **Payment Record**

The City has never defaulted on its revenue obligations and has not defaulted on its bonds payable from ad valorem taxation since 1935, when all such bonds were refunded at par with a reduction in interest rate.

#### **Paying Agent/Registrar**

Payments of principal and interest on the Obligations will be payable by Wells Fargo Bank N.A., Austin, Texas (the “Paying Agent/Registrar”) to DTC or its nominee, Cede & Co., which will then remit such payments to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Obligations, as described herein under “BOOK-ENTRY-ONLY SYSTEM.”

#### **Optional Redemption**

The City has reserved the right and option to redeem the Obligations scheduled to mature on or after August 15, 2019, prior to their scheduled maturities, in whole or in part, on August 15, 2018, or on any date thereafter, at par plus accrued interest to the date fixed for redemption in principal amount of \$5,000 or any integral multiple thereof. If less than all of the Obligations are to be redeemed the City reserves the right to determine the maturity or maturities and the amounts thereof to be redeemed and if less than a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Obligations are in Book-Entry-Only form) shall determine by lot which of the Obligations of such maturities, or portions thereof, shall be redeemed. If any Obligation (or portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Obligations (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

## Mandatory Redemption

In addition to the optional redemption described above, the Bonds maturing on August 15 in each of the years 2027 and 2028 (the “Term Bonds”) are subject to mandatory redemption prior to maturity in part at random, by lot or other customary method selected by the Paying Agent/Registrar, at 100% of the principal amount thereof plus accrued interest to the date of redemption on the dates, in the years and principal amounts as follows:

| <u>Bonds due August 15, 2028</u> |               |
|----------------------------------|---------------|
| <u>Redemption Date</u>           | <u>Amount</u> |
| <u>(August 15)</u>               |               |
| 2027                             | \$1,990,000   |
| 2028 (a)                         | 1,990,000     |

(a) Maturity.

Approximately forty-five (45) days prior to each mandatory redemption date the Term Bonds are to be mandatorily redeemed, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable stated maturity to be redeemed on the next following August 15 from money set aside for that purpose in the interest and sinking fund maintained for the payment of the Bonds. Any Term Bonds not selected for prior redemption shall be paid on the date of their stated maturity.

The principal amount of the Term Bonds of a stated maturity required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

## Notice of Redemption

Not less than 30 days prior to the redemption date, the Paying Agent/Registrar shall send a notice of redemption by United States mail, first class postage prepaid, to each registered owner (the “Owner”) of an Obligation to be redeemed in whole or in part at the address of the Owner as shown on the records of the Paying Agent/Registrar at the time such notice of redemption is mailed, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by an Owner. Notice having been so given, the Obligations called for redemption shall become due and payable on the specified redemption date and notwithstanding that any Obligation or portion thereof has not been surrendered for payment, interest on such Obligation or portion thereof, shall cease to accrue.

## Redemption Procedures While Obligations Held by DTC

If the Obligations are being held by DTC under the book-entry system and less than all of such Obligations within a maturity are being redeemed, DTC’s current practice is to determine by lot the amount of the interest of each DTC Participant in such maturity to be called for redemption, and each DTC Participant is to then select by lot the ownership interest in each maturity to be redeemed. See “Book-Entry-Only System” herein.

In the event the Obligations are no longer in the book-entry form at DTC, if less than all the Obligations are to be redeemed by the City, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot within a maturity the Obligations or portions thereof to be redeemed.

## Holders’ Remedies

The Ordinances provide that while any of the Obligations are outstanding there shall be levied, assessed and collected a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, sufficient to pay principal of and interest on the Obligations when due and to pay the expenses necessary in collecting such taxes. If the City defaults in the payment of the principal of or interest on the Obligations when due, or the City

defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. Such right is in addition to any other rights the registered owners of the Obligations may be provided by the laws of the State. Under Texas law, there is no right to the acceleration of maturity of the Obligations upon the failure of the City to observe any covenant under the Ordinances. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City, to assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Obligations as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) (“*Tooke*”) that a waiver of sovereign immunity must be provided for by statute in “clear and unambiguous” language. In so ruling, the Court declared that statutory language such as “sue and be sued”, in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities in certain circumstances.” Because it is not clear that the Texas Legislature has effectively waived the City’s immunity from suit of money damages, holders of the Obligations may not be able to bring suit against the City for breach of the Ordinances or the Obligations. The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. As noted above, the Ordinances provide that holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinances. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

The Ordinances do not provide for the appointment of a trustee to represent the interest of the holders upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Certificateholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinances and the Obligations are qualified with respect to the customary rights of debtors relative to their creditors.

## **Registration**

Registration and Payment. The Obligations will be initially issuable only in the name of Cede & Co., as nominee of DTC which will act as securities depository for the Obligations. Principal and semiannual interest on the Obligations will be paid by the Paying Agent/Registrar to Cede & Co., as nominee for DTC, which shall disburse such payments to the DTC Participants who will distribute such payments to the Beneficial Owners as described herein.

For so long as DTC is the securities depository for the Obligations, then the “Owner” shall refer solely to DTC. In the

event that DTC is no longer the securities depository for the Obligations, the term “Owner” shall refer to a successor securities depository or the Beneficial Owners of the Obligations which are shown as registered Owners on the registration books of the Paying Agent/Registrar. Principal of the Obligations will be payable to the Owner at maturity or prior redemption upon presentation to the Paying Agent/Registrar. Interest on the Obligations will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the Owner(s) as shown on the records of the Paying Agent/Registrar on the last business day of the month preceding such interest payment date (the “Record Date”), or by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on the Obligations shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

Future Registration. In the event that DTC is no longer the securities depository for the Obligations and a successor securities depository is not appointed by the City, the Obligations may be transferred, registered and assigned only on the registration books of the Paying Agent/Registrar and such registration shall be at the expense of the City except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. An Obligation may be assigned by execution of an assignment form on the Obligations or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Obligation or Obligations will be delivered by the Paying Agent/Registrar to the last assignee (the new Owner) in exchange for such transferred and assigned Obligations in accordance with the provisions of the Ordinance. Such new Obligation or Obligations must be in the denomination of \$5,000 for any one maturity or any integral multiple thereof. The last assignee’s claim of title to the Obligation must be proved to the satisfaction of the Paying Agent/Registrar.

Successor Paying Agent/Registrar. Provision is made in the Ordinance for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar’s records and act in the same capacity as the previous Paying Agent/Registrar. The Paying Agent/Registrar selected by the City shall be a commercial bank, a trust company organized under the laws of the State of Texas, or other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Obligations. A successor Paying Agent/Registrar, if any, shall be determined by the City. Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer or exchange any Obligation or portion thereof, called for redemption prior to maturity, within 45 days prior to the date fixed for redemption.

## **BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the 2008A Certificates, Financial Security Assurance Inc. (“Financial Security”) will issue its Municipal Bond Insurance Policy for the 2008A Certificates (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the 2008A Certificates when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Financial Security Assurance Inc.**

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2008, Financial Security’s consolidated policyholders’ surplus and contingency reserves were approximately \$3,012,872,486 and its total net unearned premium reserve was approximately \$2,419,501,630 in accordance with

statutory accounting principles. At March 31, 2008, Financial Security's consolidated shareholder's equity was approximately \$3,053,752,711 and its total net unearned premium reserve was approximately \$1,882,057,335 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2007 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the 2008A Certificates shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the 2008A Certificates, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the 2008A Certificates or the advisability of investing in the 2008A Certificates. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the City the information presented under this caption for inclusion in the Official Statement.

### **BOOK-ENTRY-ONLY SYSTEM**

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Obligations. The Obligations will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTC is owned by the users of its registered subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC's records. The ownership interest of each actual purchaser of each Obligation ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations for their benefit has agreed to obtain and transmit notices to Beneficial owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Obligations within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct and Indirect Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Obligations at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Obligation certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Obligation certificates will be printed and delivered.

**The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.**

#### **LEGAL HOLDINGS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Obligations (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Obligations are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security

for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Obligations may have to be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Obligations for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Obligations for such purposes. The City has made no review of laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

## **THE CITY OF ARLINGTON**

### **Introduction**

The City is located in the eastern part of Tarrant County, equidistant between Dallas and Fort Worth on Interstate Highways 20 and 30, which are limited access highways. The City’s location places it at the geographical center of the Dallas-Fort Worth metropolitan area. The land area of the City contained within its corporate boundary is approximately 98.7 square miles and approximately three quarters of a square mile are contained within its extra-territorial jurisdiction.

The City was incorporated January 17, 1920, under the provisions of the Home Rule Amendment to the Texas State Constitution. The City operates under a Council-Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services.

### **General**

The City operates under the Council-Manager form of government as established by its Charter. There is a nine member City Council (the “Council”) vested with local legislative power. Three council members and the Mayor are elected “at large” and five council members are elected in five single member districts. All members of the Council are elected for terms of two years, with the elections being held in even/odd years for approximately half the seats. The Council elects a Mayor Pro Tem from among its members.

### **Mayor and City Council**

Policy-making and supervisory functions are the responsibility of and are vested in the Council under provisions of the City Charter. Ordinances, resolutions and zoning decisions are presented at Council meetings at 6:30 p.m. on the second and fourth Tuesday of each month. Council meetings are broadcast on the local cable public access station and webcast. A simple majority of the Council constitutes a quorum. The Mayor is required to vote on all matters considered by the Council, but has limited power to veto Council actions that can be overridden by simple majority action of the Council.

### **Administration**

The City Manager is the administrative head of the municipal government and carries out the policies of the Council. With the assistance of four Deputy City Managers, he coordinates the functions of the various municipal agencies and departments responsible for the delivery of services to residents. The City Manager is appointed by the Council and serves at the pleasure of the Council.

Excluding the positions and offices of the City Attorney, City Auditor and certain others whose appointments are reserved for Council action, the City Manager appoints and removes all City employees. The City Manager exercises control over all City departments and divisions and supervises their personnel; recommends Council legislative actions; advises Council on the City’s financial conditions and needs; prepares and submits to Council the annual budget; and performs such duties required by Council.

### **Certain City Council Appointees**

The Council appoints the City Attorney who has management, charge, and control of all legal business of the City. He is chief legal advisor to the Council, the City Manager, and all City departments and agencies. It is his duty to advise Council concerning the legality of actions by the City and to represent the City in all matters affecting its interest.

The City's Municipal Court Judiciary provides for the adjudication of Class "C" misdemeanor cases, issuance of warrants and the arraignment of prisoners.

The Council appoints the City Auditor who manages the Internal Audit Division which monitors the internal controls and operations of the City and its assets, monitors security of electronic data and responds to management requests for analyses, appraisals and recommendations.

The Council also appoints members to certain boards, commissions, and authorities as it deems necessary to the operation of the City.

### **Principal Executive Officers**

City Manager – Mr. James Holgersson – with the City since June, 2005, received his bachelor's degree from Augustana College in Illinois and a master's degree in public administration from the University of Arkansas. He is an active member of the International City/County Management Association. Prior to joining the City, he served as a deputy city manager with the city of San Jose, California and as city manager for the cities of Waco, Texas and Kalamazoo, Michigan. In addition he served as Executive Director of the Rapoport Foundation in Waco.

Deputy City Manager for Economic Development – Mr. Trey Yelverton – with the City since January 1993, most recently as the Director of the Neighborhood Services Department since 2000. He received an undergraduate degree in Political Science - Public Administration from the University of Texas at Arlington, and a M.P.A. from University of North Texas.

Deputy City Manager for Capital Investment – Ms. Fiona Allen, P.E. – with the City since December 1990, most recently as the Director of the Water Utilities Department since 2003. She received her B.S. in Civil Engineering from Texas A&M University and is a Professional Engineer and Registered Sanitarian.

Deputy City Manager for Neighborhood Services – Mr. Gilbert Perales – with the City since January, 2007. Prior to working for the City, Mr. Perales was the assistant city manager of the city of Irving for over 5 years. He received a Bachelors Degree in Art and a Master's Degree in Public Administration from St. Mary's University.

Deputy City Manager for Strategic Support – Mr. Bob Byrd – with the City since 1985, received his B.S. from the U.S. Naval Academy. He has held management positions in Public Works, Community Development, Neighborhood Services, Municipal Court, and Environmental Services.

Director of Financial Services – Ms. Anna Mosqueda – with the City since November 2006, she received her bachelor's degree in journalism from West Texas State University in Canyon and a master's degree in business administration from Texas Tech University. Prior to joining the City, she served as Director of Finance for the city of Greenville.

Director of Water Utilities – Ms. Julia J. Hunt, P.E. – with the City since September 1984, she received her bachelor's degree in civil engineering from Texas A & M University. She is a licensed professional engineer in Texas. Previously, she was Assistant Director, overseeing operations, and the manager of Water Information Services.

City Attorney – Mr. Jay Doegey – with the City since March 1986, a graduate of Southern Illinois University, he received his law degree from the University of Texas. Prior to joining the City, he was Senior Assistant City Attorney for the city of Corpus Christi, Texas.



## FUNCTIONAL GROUPS

### Governmental Services and Facilities

The City provides a full range of municipal services including police and fire, health, parks and recreation, public works, planning, and general administrative services. Water and wastewater services are accounted for in the City's Enterprise Fund. The City leased operation of the landfill to a private company beginning in May 2005.

The City's main municipal facilities include two general administrative buildings and a public safety building. There are 16 fire stations, four geographically distributed police stations, a police training center, a fire training center, one main and five branch libraries, 84 city parks, and four municipal golf courses.

Some of the other major facilities provided by the City include a convention center, five recreational centers, two senior citizen centers, and a municipal airport.

The City provides a comprehensive range of public services characteristic of its position as the most populous city in the Mid-Cities area of the Dallas-Fort Worth Metroplex. Presented in the following pages is a description of selected City agencies and departments contained within each of the four functional groups.

### Neighborhood Services Group

The Deputy City Manager for Neighborhood Services is responsible for the oversight and management of the Police, Fire, Library, Community Services and the Parks and Recreation Departments. The partnering of these departments provides a strong connection between City resources and neighborhoods.

The Police Department is composed of three major units: Operations, Management Services, and Community Services. More than 745 members of the Arlington Police Department deliver law enforcement services using a neighborhood based policing model. The Police Department responded to 146,408 calls for service in fiscal year 2006. In 1989, the Police Department joined an elite number of police agencies nationwide in achieving the certification standards required by the Commission on Accreditation for Law Enforcement Agencies, Inc. The Department was recertified in 1999.

The City's Fire Department, which is responsible for fire prevention, fire suppression and first response emergency medical services, responded to approximately 48,468 calls for service in fiscal year 2006. The 394 employees of the Fire Department provide emergency responses from the City's 16 fire stations. The Fire Department has responsibility for 9-1-1 dispatch services. The Emergency Management Office is responsible for coordinating major emergency disaster responses for the City and will also report to the Deputy City Manager.

The Library Department is responsible for the management and operation of the City's central library and five branch libraries. Circulation exceeds 1.5 million items annually.

The Community Services Department is responsible for providing a communication and service link between the residents of and business owners of the City and all City Departments. The Code Enforcement Division is responsible for enforcing city regulations related to the maintenance, sanitation, rehabilitation and conservation of existing housing. The Health Division is responsible for the inspection of food services establishments, public swimming pools and new septic system installations. In conjunction with Tarrant County, it operates the Public Health Center which is responsible for administering immunizations to children and supplying preventive health screening for the elderly. The Housing Division is responsible for administering federal and state grant funds and providing housing assistance to qualified citizens.

The Parks and Recreation Department is responsible for the operation and maintenance of the City's 4,652 acres of parks, including four municipal golf courses and five recreational centers, two senior citizen centers, and the management of the Bob Duncan Center. It conducts a wide range of high quality, year-round leisure time programs that are responsive to the physical, social, cultural and environmental needs of the citizens of the City.

## **Economic Development Group**

The Deputy City Manager for Economic Development is responsible for oversight and management of four departments and three outside organizations. The City functions covered by the Economic Development Group include Economic Development, Community Development and Planning, the Convention Center and Aviation. They also oversee the City contract with the Convention and Visitors Bureau, the Downtown Arlington Management Corporation and the Arlington Chamber of Commerce.

Economic Development is responsible for the airport and expanding its opportunities, downtown development as well as growing neighborhood businesses, and managing special districts.

Community Development and Planning is responsible for maintaining a long-range Comprehensive Plan which optimizes the physical, fiscal and natural resources of the City in its development. The Building Inspection Division enforces City ordinances regarding general construction, zoning, mechanical, electrical and plumbing activities. The planning staff provides coordination services in an effort to effectively facilitate program development and implementation. Additional responsibilities include providing City staff and the general public with current zoning and inventory maps and a wide range of demographic statistics.

The Convention and Event Services Department is responsible for the management of the Arlington Convention Center. The City contracts with the Arlington Convention and Visitors Bureau for the tourism marketing of the City.

## **Capital Investment Group**

The Deputy City Manager for Capital Investment is responsible for oversight and management of three departments. The City functions covered by the Capital Investment Group include Environmental Services, the Water Utilities Department, and Public Works and Transportation.

Environmental Services oversees solid waste and fleet services contracts, air and water quality, public health concerns, the natural gas program and stormwater management.

The Water Utilities Department is responsible for assuring a continuous supply of safe high quality drinking water and collection and safe disposal of wastewater. The City's water treatment operations are nationally known and are recognized for their use of advanced technology. Transmission capacity has been designed to anticipate future peak demands well into the century. The department is structured in divisions focusing on Operations, Business Services, and Treatment. The department has received awards from the United States Environmental Protection Agency, Texas Municipal Utilities Association, and the American Water Works Association.

Public Works and Transportation plans, designs, operates, acquires, constructs and maintains public facilities to ensure the safe and efficient movement of people, goods and storm water. The department is structured in divisions focusing on transportation planning, engineering operations, traffic, signal engineering, streets and storm water drainage. This department is also responsible for facilities maintenance and real estate services.

## **Strategic Support Group**

The Deputy City Manager for Strategic Support is responsible for the oversight and management of five City departments which include Management Resources, Financial Services, Workforces Services, Information Technology, and Municipal Court.

Management Resources oversees the budget division, and the City Secretary's Office which transcribes and maintains official City records, minutes and ordinances, and conducts City elections. It is also responsible for improving legislative and lobbying efforts as well as Public Information. It works with news media, issues publications, and implements programs to educate and inform citizens about City policies and programs. It also includes General Services which provides printing, copying, records management, and mailroom services to the organization.

Financial Services oversees the financial affairs of the City and ensures the financial integrity of City operations. Departmental services include accounts payable, accounting, payroll, purchasing, treasury management, and maintenance of the City's fixed asset inventory.

Workforce Services is responsible for planning, developing, and administering the functions of employment, testing, training, and employee relations. It also administers the salary and benefit program and risk management program.

Information Technology has the responsibility for the processing and electronic storage of information used in the daily business of the City. The Geoprocessing Division is responsible for meeting the automated geographic information and mapping needs of the City.

Municipal Court is responsible for collecting court fines, setting trial dockets, and maintaining the Municipal Court records.

## ECONOMIC AND DEMOGRAPHIC FACTORS

### Population

The 2007 estimated population for the City is 364,300. The following table presents population figures for selected years.

**Population and Rates of Change  
Arlington and the United States  
Selected Years**

| <u>Year</u> | <u>Arlington</u> | <u>Annual Rate<br/>Of Change</u> | <u>United States</u> | <u>Annual Rate<br/>of Change</u> |
|-------------|------------------|----------------------------------|----------------------|----------------------------------|
| 1950        | 7,692            | -%                               | 150,697,361          | -%                               |
| 1960        | 44,775           | 19.3%                            | 178,464,236          | 1.71%                            |
| 1970        | 90,229           | 7.3%                             | 203,211,926          | 1.31%                            |
| 1980        | 160,113          | 5.9%                             | 226,545,805          | 1.09%                            |
| 1990        | 261,721          | 5.0%                             | 248,765,170          | 0.94%                            |
| 2000        | 332,969 (1)      | 2.4%                             | 281,421,906          | 1.40%                            |
| 2003        | 351,719          | 1.9%                             | 290,809,777          | 1.11%                            |
| 2004        | 355,630          | 1.1%                             | 293,655,404          | 1.01%                            |
| 2005        | 361,300          | 1.6%                             | 296,410,404          | 0.94%                            |
| 2006        | 362,393          | 0.3%                             | 301,071,787          | 1.02%                            |
| 2007        | 364,300          | 0.5%                             | 303,241,702          | 0.72%                            |
| 2008 (2)    | N/A              | N/A                              | N/A                  | N/A                              |

(1) Actual 2000 Census population.

(2) 2008 information not available.

Source: U.S. Dept. of Commerce, U.S. Census, and the Community Development and Planning Department Estimates.

### Per Capita Personal Income

|                | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|----------------|-------------|-------------|-------------|-------------|
| Tarrant County | \$36,642    | \$34,275    | \$32,735    | \$31,565    |
| Texas          | 35,166      | 32,460      | 30,732      | 29,452      |
| United States  | 36,714      | 34,471      | 33,050      | 31,484      |

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

*[Remainder of page intentionally left blank]*

## Educational Facilities

Public education is provided principally by the Arlington Independent School District (“AISD”) and part of the Mansfield Independent School District (“MISD”) which overlaps all but a small portion of the City. The AISD public schools feature nine high schools, thirteen junior high schools, fifty-two elementary schools, one pre-kindergarten campus, one immigrant education campus, one alternative school and three discipline-management campuses. AISD’s professional staff of 4,229 serves a peak enrollment of 62,157 students. MISD has fifteen schools in the City, including two high schools, four middle schools and nine elementary schools. The fifteen schools serve approximately 14,456 students.

The University of Texas at Arlington, founded in 1895, has an approximate enrollment of 25,000 students and offers 185 degree programs at the bachelor, master, and doctoral levels. The physical plant, located on a 396 acre campus, includes 107 University academic and dormitory buildings.

Tarrant County College opened its Southeast Campus in the City during 1996. The 193-acre site features a current enrollment of approximately 10,000 students and has 750 employees. The college offers Associate degrees in Arts, Applied Sciences, and various Technical certificates.

Summarized below is information concerning the AISD’s annual peak enrollment and the percentage changes for the last ten fiscal years.

### Public School Enrollment

#### Arlington Independent School District

| <u>Fiscal Year</u> | <u>Peak Enrollment</u> | <u>Percentage of Change</u> |
|--------------------|------------------------|-----------------------------|
| 1998               | 54,961                 | 2.24%                       |
| 1999               | 56,234                 | 2.32%                       |
| 2000               | 57,433                 | 2.13%                       |
| 2001               | 59,342                 | 3.32%                       |
| 2002               | 60,760                 | 2.39%                       |
| 2003               | 62,104                 | 2.21%                       |
| 2004               | 62,345                 | 0.39%                       |
| 2005               | 62,531                 | 0.30%                       |
| 2006               | 62,267                 | (0.42%)                     |
| 2007               | 63,397                 | 1.02%                       |
| 2008               | 62,157                 | (2.38%)                     |

Source: Arlington Independent School District.

*[Remainder of page intentionally left blank]*

## Employment

### Arlington Major Employers

| <u>Name</u>                           | <u>Type of Business</u>    | <u>Number of Employees</u> |
|---------------------------------------|----------------------------|----------------------------|
| Arlington Independent School District | Public Education           | 8,000                      |
| University of Texas at Arlington      | Higher Education           | 5,700                      |
| Six Flags Over Texas                  | Amusement Park             | 3,200 (1)                  |
| General Motors                        | Automobile Assembly        | 3,000                      |
| City of Arlington                     | Municipality               | 2,310                      |
| Chase Bank                            | Banking Services           | 1,900                      |
| Texas Rangers Baseball Club           | Sports Entertainment       | 1,800 (1)                  |
| Arlington Memorial Hospital           | Medical Center             | 1,300                      |
| Americredit                           | Finance                    | 1,300                      |
| Providian Financial                   | Financial Services         | 1,200                      |
| Wal-Mart                              | Retail Store               | 1,200                      |
| National Semiconductor                | Semiconductor Manufacturer | 1,100                      |

(1) Includes part-time and peak seasonal employees.

Source: Arlington Chamber of Commerce. This information will continue to be disclosed as long as it is available from the Chamber of Commerce or other reliable sources.

As illustrated in the table below, the City has managed to maintain lower unemployment rates than the United States and the State of Texas. For 2008, the City's unemployment rate averaged 4.2 percent compared to the U.S. rate of 5.1 percent and the Texas rate, which was 4.3 percent.

### Unemployment Rate

#### Annual Average Rates 2004 to 2008

|               | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|---------------|-------------|-------------|-------------|-------------|-------------|
| Arlington     | 4.2%        | 4.2%        | 4.8%        | 5.1%        | 5.8%        |
| Texas         | 4.3%        | 4.3%        | 4.9%        | 5.4%        | 6.0%        |
| United States | 5.1%        | 4.6%        | 4.7%        | 5.2%        | 5.7%        |

Source: U.S. Bureau of Labor Statistics.

### Financial Institutions

There are fifty-five commercial banks, state banks and savings and loan associations in the City.

### Building Permits

During the FY 2007 the City issued 3,235 building permits with a total value of \$268,761,000. Presented below is a table covering building permit activity for the last four fiscal years:

|                                | <u>2007</u>    |                          | <u>2006</u>    |                          | <u>2005</u>    |                          | <u>2004</u>    |                          |
|--------------------------------|----------------|--------------------------|----------------|--------------------------|----------------|--------------------------|----------------|--------------------------|
|                                | <u>Permits</u> | <u>Value<br/>(000's)</u> | <u>Permits</u> | <u>Value<br/>(000's)</u> | <u>Permits</u> | <u>Value<br/>(000's)</u> | <u>Permits</u> | <u>Value<br/>(000's)</u> |
| New Single Family              | 829            | \$126,286                | 1,115          | \$176,935                | 1,367          | \$189,234                | 1,707          | \$251,102                |
| New Multifamily                | 3              | 19,029                   | 35             | 11,601                   | 25             | 12,731                   | 81             | 38,871                   |
| New Commercial                 | 127            | 55,483                   | 77             | 161,884                  | 414            | 75,003                   | 474            | 60,439                   |
| New Institutional              | -              | -                        | 6              | 76,073                   | 45             | 25,149                   | 47             | 49,089                   |
| Other (Additions, fences, etc) | <u>2,276</u>   | <u>67,963</u>            | <u>2,953</u>   | <u>100,402</u>           | <u>3,857</u>   | <u>31,109</u>            | <u>4,509</u>   | <u>44,196</u>            |
| GRAND TOTAL                    | 3,235          | \$268,761                | 4,186          | \$526,895                | 5,708          | \$333,226                | 6,818          | \$443,697                |

Source: City Building Inspections Division.

## INVESTMENTS

The City invests its funds in investments authorized by Texas law in accordance with investment policies approved by the City Council of the City. Both state law and the City investment policies are subject to change.

### Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by Bonds described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where; (a) the funds are invested by the City through a depository institution that has a main office or branch office in this state and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-loan money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "Aaa" or "AAAm" or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying

mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**Investment Policies**

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all City funds must be invested in investments that protect principal, and consistent with the operating requirements of the City, and yield the highest possible rate of return. Under Texas law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest City funds without express written authority from the City Council or chief financial officer of the City.

**Current Investments**

The City’s primary investment objective is to provide for the protection of principal with an emphasis on safety and liquidity. The City maintains a comprehensive cash management program that includes prudent investment of its available funds. Investment maturities are targeted to provide available cash for the operating requirements of the City.

As of April 1, 2008, the following percentages of the City’s operating funds were invested in the following categories of investments:

| <u>Type of Investment</u>   | <u>% Invested</u> |
|-----------------------------|-------------------|
| U.S. Treasury Notes & Bills | 8.24%             |
| Federal Agencies            | 57.85%            |
| Statewide Pool              | <u>33.91%</u>     |
| Totals                      | <u>100.0%</u>     |

As of April 1, 2008, the weighted average maturity of the City’s operating portfolio was 186 days and the market value of the operating portfolio was 99.83 percent of its book value.

**DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM**

**Debt Statement**

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all General Obligation debt service, as calculated at the time of issuance.

The following table details the ad valorem tax-supported debt of the City as of April 1, 2008:

|   |                  |                      |
|---|------------------|----------------------|
| Total Currently Outstanding Tax-Supported Debt..... |                  | \$290,610,000 (1)    |
| The Bonds .....                                     | \$39,880,000     |                      |
| The 2008A Certificates.....                         | <u>5,920,000</u> | <u>45,800,000</u>    |
| Total Tax-Supported Debt .....                      |                  | \$336,410,000        |
| Less Self-Supporting Debt (2).....                  |                  | <u>47,406,448</u>    |
| Net Tax-Supported Debt.....                         |                  | <u>\$289,003,552</u> |

(1) Includes \$37,065,000 Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation Series 2008B to be delivered simultaneous to the Obligations. Preliminary; subject to change.

(2) See “Debt Service Requirements - Net Tax-Supported Debt”.

Source: City Financial Services Department.

**Authorized Permanent Improvement Bonds and Use of Proceeds**

The following table provides information on the outstanding permanent improvement bond authorizations.

| <u>Election Purpose</u>                     | <u>Authorized Amount</u> (1) | <u>Previously Issued</u> | <u>The Bonds</u> | <u>Outstanding Commercial Paper</u> (1) | <u>Unissued</u> |
|---|------------------------------|--------------------------|------------------|---|-----------------|
| 1993 Library Mobile and Portable Facilities | \$ 570                       | \$ -                     | \$ -             | \$ -                                    | \$ 570          |
| 1997 Parks and Recreation                   | 37,860                       | 35,860                   | -                | 2,000                                   | -               |
| 1999 Street and Transportation              | 85,520                       | 85,520                   | -                | -                                       | -               |
| 2003 Fire                                   | 4,935                        | 2,505                    | 1,430            | 1,000 (2)                               | -               |
| 2003 Police                                 | 10,935                       | 3,935                    | 7,000            | 7,000 (2)                               | -               |
| 2003 Library                                | 2,435                        | 1,435                    | 250              | 500                                     | 250             |
| 2003 Erosion Control                        | 1,900                        | -                        | -                | -                                       | 1,900           |
| 2003 Street Improvements                    | 83,635                       | 12,880                   | 26,000           | 17,000                                  | 27,755          |
| 2003 Traffic Management                     | 400                          | -                        | -                | -                                       | 400             |
| 2005 Park and Recreation                    | <u>13,600</u>                | <u>1,495</u>             | <u>4,200</u>     | <u>2,500</u>                            | <u>5,405</u>    |
| Total                                       | \$241,790                    | \$143,630                | \$39,880 (3)     | \$30,000                                | \$36,280        |

- (1) See “GENERAL OBLIGATION COMMERCIAL PAPER PROGRAM” for a discussion regarding the commercial paper program. The City has currently issued \$30 million in commercial paper notes. The Bonds will refund \$8 million of previously issued commercial paper notes.
- (2) Amount to be refunded by the Bonds.
- (3) Includes \$8 million in bonds issued to refund \$8 million of previously issued commercial paper notes.

**DEBT INFORMATION**

Information on the City’s indebtedness is presented in the following tables. Included is information on key debt ratios, rapidity of principal retirement and selected debt service schedules.

In addition to the currently outstanding ad valorem tax-supported debt previously issued by the City, the City has also issued certain combination ad valorem tax and revenue supported debt and has incurred contractual and other indebtedness and liabilities payable from ad valorem taxation. Additionally, the City has issued revenue bonds and other indebtedness payable from specific pledged revenues. Various other political subdivisions, which overlap all or a portion of the area of the City are also empowered to incur debt to be paid from revenues raised or to be raised through taxation.

*[Remainder of page intentionally left blank]*



**Key Debt Ratios**

**Fiscal Years 1999 - 2008**

| <u>Fiscal Year</u> | <u>Estimated Population (1)</u> | <u>Taxable Valuation Calendar Year (2)</u> | <u>Net Tax-Supported Debt Year Ended September 30 (3)</u> | <u>Ratio of Net-Tax-Supported Debt</u> |                          |
|--------------------|---------------------------------|--|---|--|--------------------------|
|                    |                                 |  |   | <u>Per Capita</u>                      | <u>Taxable Valuation</u> |
| 1999               | 309,859                         | \$10,868,585,827                           | \$268,633,000   | \$867                                  | 2.35%                    |
| 2000               | 332,969 (4)                     | 11,415,146,297                             | 276,879,000   | 832                                    | 2.23%                    |
| 2001               | 339,215                         | 12,435,152,758                             | 286,398,601   | 844                                    | 2.12%                    |
| 2002               | 346,197                         | 13,513,378,507                             | 284,539,762   | 822                                    | 1.98%                    |
| 2003               | 351,719                         | 14,344,001,305                             | 283,792,540   | 807                                    | 1.89%                    |
| 2004               | 355,634                         | 15,018,724,599                             | 280,766,546   | 789                                    | 1.80%                    |
| 2005               | 361,300                         | 15,599,320,395                             | 258,483,552   | 715                                    | 1.60%                    |
| 2006               | 362,393                         | 16,143,581,172                             | 243,713,552   | 669                                    | 1.45%                    |
| 2007               | 364,300                         | 16,793,424,763                             | 217,938,552   | 598                                    | 1.24%                    |
| 2008               | N/A (5)                         | 17,591,230,061                             | 289,003,552   | N/A                                    | 1.66%                    |

- (1) Population estimates are based on percent of occupancy in available residences and census data. The method for estimating occupancy rates was revised beginning in 1999.
- (2) Taxable assessed valuation is obtained from the certified value as of September of each year including minimum estimated value of property under protest.
- (3) Does not include self-supporting debt.
- (4) Actual 2000 Census population.
- (5) 2008 not available.

Source: City Financial Services Department.

**Rapidity of Principal Retirement (1)  
All General Obligation Debt**

| <u>Maturing Within</u> | <u>Amount Maturing (2)</u> | <u>Percent of Total Debt Outstanding</u> |
|------------------------|----------------------------|--|
| 5 years                | \$121,145,000              | 36.01%                                   |
| 10 years               | 224,560,000                | 66.75%                                   |
| 15 years               | 287,365,000                | 85.42%                                   |
| 20 years               | 319,385,000                | 94.94%                                   |
| 25 years               | 336,410,000                | 100.00%                                  |

- (1) As of April 1, 2008.
- (2) Includes \$37,065,000 Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 2008B which will be delivered simultaneous to the Obligations. It is intended that the Series 2008B Certificates will be entirely self-supported from Tax Increment Reinvestment Zone #5 revenues. Preliminary; subject to change.

Source: City Financial Services Department.

*[Remainder of page intentionally left blank]*

## DEBT SERVICE REQUIREMENTS(1)

The following schedule sets forth the principal and interest requirements on the City's outstanding debt payable from ad valorem taxation pledged thereto.

### General Obligation Bonds

| Fiscal Year<br>Ending<br>9/30 | Outstanding Debt (2)  |                       | Commercial Paper (3) |                   | The Bonds<br>2008A Certificates |                      | Grand Total<br>Debt Service<br>Requirements | % of<br>Principal<br>Retired |
|-------------------------------|-----------------------|-----------------------|----------------------|-------------------|---------------------------------|----------------------|---|------------------------------|
|                               | Principal             | Interest              | Principal            | Interest          | Principal                       | Interest             |   |                              |
| 2008                          | \$ 24,825,000         | \$ 4,015,550          | \$ 22,000,000        | \$ 449,167        | \$ -                            | \$ -                 | \$ 51,289,717                               |                              |
| 2009                          | 22,935,000            | 10,838,186            | -                    | -                 | 2,295,000                       | 2,205,330            | 38,273,517                                  |                              |
| 2010                          | 21,585,000            | 9,748,314             | -                    | -                 | 2,295,000                       | 1,747,969            | 35,376,283                                  |                              |
| 2011                          | 21,585,000            | 8,743,924             | -                    | -                 | 2,295,000                       | 1,671,131            | 34,295,055                                  |                              |
| 2012                          | 21,035,000            | 9,506,111             | -                    | -                 | 2,295,000                       | 1,594,294            | 34,430,405                                  | 36.01%                       |
| 2013                          | 20,625,000            | 8,495,425             | -                    | -                 | 2,290,000                       | 1,512,469            | 32,922,894                                  |                              |
| 2014                          | 19,960,000            | 7,541,813             | -                    | -                 | 2,290,000                       | 1,430,844            | 31,222,656                                  |                              |
| 2015                          | 18,465,000            | 6,599,313             | -                    | -                 | 2,290,000                       | 1,349,219            | 28,703,531                                  |                              |
| 2016                          | 17,060,000            | 5,734,878             | -                    | -                 | 2,290,000                       | 1,265,100            | 26,349,978                                  |                              |
| 2017                          | 15,855,000            | 4,924,565             | -                    | -                 | 2,290,000                       | 1,178,488            | 24,248,053                                  | 66.75%                       |
| 2018                          | 13,780,000            | 4,161,089             | -                    | -                 | 2,290,000                       | 1,076,913            | 21,308,001                                  |                              |
| 2019                          | 12,550,000            | 3,517,670             | -                    | -                 | 2,290,000                       | 985,313              | 19,342,983                                  |                              |
| 2020                          | 9,860,000             | 2,911,166             | -                    | -                 | 2,290,000                       | 893,713              | 15,954,879                                  |                              |
| 2021                          | 8,275,000             | 2,438,105             | -                    | -                 | 2,290,000                       | 802,113              | 13,805,218                                  |                              |
| 2022                          | 6,890,000             | 2,047,013             | -                    | -                 | 2,290,000                       | 708,019              | 11,935,031                                  | 85.42%                       |
| 2023                          | 5,785,000             | 1,718,119             | -                    | -                 | 2,290,000                       | 611,063              | 10,404,181                                  |                              |
| 2024                          | 4,575,000             | 1,442,694             | -                    | -                 | 2,290,000                       | 512,740              | 8,820,434                                   |                              |
| 2025                          | 3,460,000             | 1,227,375             | -                    | -                 | 2,285,000                       | 412,921              | 7,385,296                                   |                              |
| 2026                          | 3,555,000             | 1,062,088             | -                    | -                 | 2,285,000                       | 312,455              | 7,214,543                                   |                              |
| 2027                          | 3,210,000             | 891,775               | -                    | -                 | 2,285,000                       | 209,630              | 6,596,405                                   | 94.94%                       |
| 2028                          | 2,165,000             | 737,000               | -                    | -                 | 2,285,000                       | 104,815              | 5,291,815                                   |                              |
| 2029                          | 2,275,000             | 628,750               | -                    | -                 | -                               | -                    | 2,903,750                                   |                              |
| 2030                          | 2,390,000             | 515,000               | -                    | -                 | -                               | -                    | 2,905,000                                   |                              |
| 2031                          | 2,510,000             | 395,500               | -                    | -                 | -                               | -                    | 2,905,500                                   |                              |
| 2032                          | 2,635,000             | 270,000               | -                    | -                 | -                               | -                    | 2,905,000                                   |                              |
| 2033                          | 2,765,000             | 138,250               | -                    | -                 | -                               | -                    | 2,903,250                                   | 100.00%                      |
| 2034                          | -                     | -                     | -                    | -                 | -                               | -                    | -   |                              |
| 2035                          | -                     | -                     | -                    | -                 | -                               | -                    | -   |                              |
|                               | <b>\$ 290,610,000</b> | <b>\$ 100,249,670</b> | <b>\$ 22,000,000</b> | <b>\$ 449,167</b> | <b>\$ 45,800,000</b>            | <b>\$ 20,584,535</b> | <b>\$ 479,693,372</b>                       |                              |

(1) As of May 1, 2008.

(2) Includes \$37,065,000 Combination Tax and Tax Increment Reinvestment Zone Certificates of Obligation, Series 2008B to be delivered simultaneously with the Obligations. 2008B debt service estimated using an average coupon rate of 4.92% for illustration purposes only. Includes capitalized interest through August 15, 2011. Preliminary; subject to change.

(3) Excludes \$8 million in notes to be refunded by the Bonds. Although the current outstanding Commercial Paper Notes mature in September, the principal amount will not be paid at this time. Estimated interest assuming 3.5% for a 7 month period.

## Net Tax Supported Debt

| Fiscal Year<br>Ending<br>9/30 | Outstanding General<br>Obligation Debt (1) |                       | Self-Supporting Debt |                      | Net Tax<br>Supported Debt |
|-------------------------------|--|-----------------------|----------------------|----------------------|---------------------------|
|                               | Principal                                  | Interest              | Principal            | Interest             | Total                     |
| 2008                          | \$ 46,825,000                              | \$ 4,464,717          | \$ 670,000           | \$ 485,265           | \$ 50,134,452             |
| 2009                          | 25,230,000                                 | 13,129,586            | 700,000              | 457,108              | 37,202,478                |
| 2010                          | 23,880,000                                 | 11,553,771            | 735,000              | 432,348              | 34,266,423                |
| 2011                          | 23,880,000                                 | 10,454,139            | 744,870              | 403,234              | 33,186,035                |
| 2012                          | 23,330,000                                 | 11,121,084            | 782,875              | 2,153,761            | 31,514,448                |
| 2013                          | 22,915,000                                 | 10,015,155            | 1,535,234            | 2,117,974            | 29,276,947                |
| 2014                          | 22,250,000                                 | 8,966,508             | 2,020,684            | 2,050,886            | 27,144,938                |
| 2015                          | 20,755,000                                 | 7,928,973             | 2,107,571            | 1,961,849            | 24,614,553                |
| 2016                          | 19,350,000                                 | 6,969,503             | 2,196,680            | 1,868,461            | 22,254,362                |
| 2017                          | 18,145,000                                 | 6,064,155             | 2,293,438            | 1,770,703            | 20,145,014                |
| 2018                          | 16,070,000                                 | 5,205,644             | 2,393,855            | 1,668,094            | 17,213,695                |
| 2019                          | 14,840,000                                 | 4,467,190             | 2,486,241            | 1,561,312            | 15,259,637                |
| 2020                          | 12,150,000                                 | 3,765,651             | 1,465,000            | 1,437,000            | 13,013,651                |
| 2021                          | 10,565,000                                 | 3,197,555             | 1,540,000            | 1,363,750            | 10,858,805                |
| 2022                          | 9,180,000                                  | 2,711,428             | 1,615,000            | 1,286,750            | 8,989,678                 |
| 2023                          | 8,075,000                                  | 2,287,499             | 1,700,000            | 1,206,000            | 7,456,499                 |
| 2024                          | 6,865,000                                  | 1,917,039             | 1,780,000            | 1,121,000            | 5,881,039                 |
| 2025                          | 5,745,000                                  | 1,606,685             | 1,870,000            | 1,032,000            | 4,449,685                 |
| 2026                          | 5,840,000                                  | 1,346,570             | 1,965,000            | 938,500              | 4,283,070                 |
| 2027                          | 5,495,000                                  | 1,081,430             | 2,065,000            | 840,250              | 3,671,180                 |
| 2028                          | 4,450,000                                  | 831,828               | 2,165,000            | 737,000              | 2,379,828                 |
| 2029                          | 2,275,000                                  | 628,750               | 2,275,000            | 628,750              | -                         |
| 2030                          | 2,390,000                                  | 515,000               | 2,390,000            | 515,000              | -                         |
| 2031                          | 2,510,000                                  | 395,500               | 2,510,000            | 395,500              | -                         |
| 2032                          | 2,635,000                                  | 270,000               | 2,635,000            | 270,000              | -                         |
| 2033                          | 2,765,000                                  | 138,250               | 2,765,000            | 138,250              | -                         |
| 2034                          | -  | -                     | -                    | -                    | -                         |
|                               | <u>\$ 358,410,000</u>                      | <u>\$ 121,033,607</u> | <u>\$ 47,406,448</u> | <u>\$ 28,840,745</u> | <u>\$ 403,196,414</u>     |

(1) Includes the Obligations and \$37,065,000 Combination Tax & Tax Increment Reinvestment Zone Certificates of Obligation, Series 2008B to be delivered simultaneous to the Obligations.

### Computation of Self-Supporting Hotel Occupancy Tax Revenue Debt

|  |             |
|--|-------------|
| Gross Hotel Occupancy Tax Revenues for Fiscal Year ended September 30, 2007..... | \$5,400,772 |
| Estimated 2008 Net Hotel Occupancy Tax Revenue Available for Debt Service.....   | \$1,155,265 |
| Debt Service Requirements for Hotel Occupancy Tax Revenue Debt.....              | \$1,155,265 |
| Percent of Tax Increment Self-Supporting .....                                   | 100%(a)     |

(a) Historically the City has paid for a portion of its outstanding Combination Tax and Revenue Certificates of Obligation, Series 1998 and Refunding Bonds, Series 2005 from surplus Hotel Occupancy Tax Revenues. There is no guarantee that the discretionary payments from surplus revenues of the Hotel Occupancy Tax Collections will be made in the future or that such revenue will be sufficient to pay such allocated debt service. If payments are not made from such sources, or are not sufficient, the difference will be paid from ad valorem taxes.

## Tax Adequacy

The following analysis as of May 1, 2008, assumes 98 percent collection of ad valorem taxes levied against the City's fiscal year 2008 Net Assessed Valuation, and future Hotel Occupancy Tax collections at a level sufficient to pay debt service on the Combination Tax and Revenue Certificates of Obligations, Series 1998, and the allocable portion of the Series 2005 Refunding Bonds.

|   |              |
|---|--------------|
| Average Annual Requirement (2008/2033).....                       | \$17,576,709 |
| A tax rate of \$0.1008 per \$100 assessed valuation produces..... | 17,576,709   |
| Average Annual Requirement (2008/2017).....                       | 31,477,842   |
| A tax rate of \$0.1805 per \$100 assessed valuation produces..... | 31,477,842   |
| Maximum Annual Requirement (2009).....                            | 38,359,586   |
| A tax rate of \$0.2137 per \$100 assessed valuation produces..... | 38,359,586   |

\*The amounts listed above do not include outstanding principal amount of Commercial Paper. The amounts also include \$37,065,000 Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 2008B which will be delivered simultaneously with the Obligations. It is intended that the Series 2008B Certificates will be entirely self-supported from TIRZ revenues. Preliminary; subject to change.

### GENERAL OBLIGATION COMMERCIAL PAPER PROGRAM

The City Council authorized the issuance of its General Obligation Commercial Paper Notes, Series A (the "Commercial Paper Notes") on May 24, 2005 in an aggregate principal amount not to exceed \$30 million for voter approved capital projects (see "DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM – Tax-Supported Capital Improvement Program" for a description of the approved capital projects for the Commercial Paper Notes). As of April 1, 2008, the City has issued \$30,000,000 in Commercial Paper Notes (see "DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM – Authorized Permanent Improvement Bonds and Use of Proceeds"). \$8 million of the currently outstanding commercial paper notes are being refunded by the Bonds. The liquidity provider for the principal portion of the Commercial Paper Notes is Bank of America, N.A.

The Commercial Paper Notes may be issued for a period not to exceed 270 days and will bear interest based upon the specified terms of the Commercial Paper Notes, but not to exceed 15%. The principal on the Commercial Paper Notes is payable from ad valorem taxes and other funds that may be provided under the Credit Agreement by and between the City and Bank of America, N.A. The interest on the Commercial Paper Notes is payable from the receipts of ad valorem taxes.

*[Remainder of page intentionally left blank]*

## ESTIMATED OVERLAPPING DEBT

The following table indicates the indebtedness, defined as outstanding obligations payable from ad valorem taxes, of governmental entities within which the City is located or with which taxable property is jointly levied against, and the estimated percentages and amounts of such indebtedness attributable to taxable property within the City. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance purposes. Furthermore, certain of the entities listed may have issued additional obligations payable from ad valorem taxes since the date stated in the table, and such entities may have programs requiring the issuance of substantial additional amounts of indebtedness, the amount of which cannot be determined.

| <b>Overlapping Debt</b><br>(amounts in thousands) |                       |                   |                    |                           |
|---|-----------------------|-------------------|--------------------|---------------------------|
| <u>Taxing Jurisdiction</u>                        | <u>Net Amount</u> (1) | <u>Debt as of</u> | <u>Percent</u> (2) | <u>Amount Overlapping</u> |
| Arlington ISD                                     | \$421,113,782         | 3/31/2008         | 78.23              | \$329,437,311             |
| Fort Worth ISD                                    | 518,053,573           | 12/31/2007        | 0.33               | 1,709,577                 |
| Hurst-Eules-Bedford ISD                           | 216,000,307           | 8/31/2007         | 0.35               | 756,001                   |
| Kennedale ISD                                     | 51,390,025            | 3/31/2008         | 54.36              | 27,935,617                |
| Mansfield ISD                                     | 623,034,741           | 3/31/2008         | 33.00              | 205,601,465               |
| Tarrant Co  | 264,335,426           | 7/15/2007         | 15.34              | 40,549,054                |
| Tarrant Co College Dist                           | 49,005,000            | 3/31/2008         | 15.34              | 7,517,367                 |
| Tarrant Co Hosp Dist                              | 29,585,000            | 3/31/2008         | 15.34              | <u>4,538,339</u>          |
| Total Net Overlapping Debt                        |                       |                   |                    | \$618,044,731             |
| Arlington, City of                                |                       |                   |                    | \$289,003,552 (3)         |
| Total Direct and Overlapping Debt                 |                       |                   |                    | \$907,048,283             |
| Total Direct and Overlapping Debt % of AV         |                       |                   |                    | 5.20%                     |
| Total Direct and Overlapping Debt % of Capita     |                       |                   |                    | \$2,489.84                |

(1) Source: Net debt outstanding per representative of each jurisdiction.

(2) Source: Texas Municipal Reports, compiled and published by Municipal Advisory Council of Texas.

(3) See "Debt Statement". Includes the Obligations and excludes self-supporting debt. Includes \$37,065,000 Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 2008B which will be delivered simultaneous to the Obligations. It is intended that the Series 2008B Certificates will be entirely self-supported from TIRZ revenues. Preliminary; subject to change.

## TAX-SUPPORTED CAPITAL IMPROVEMENT PROGRAM

The City's Capital Improvement Program ("CIP") provides for multi-year improvements to the City's public facilities along with the means of financing these improvements. The City's CIP, prepared annually, is primarily driven by recent bond election results. The City's most recent permanent improvement bond election was held on May 7, 2005. The proposition on the ballot for Parks for \$13,600,000 was approved by the voters. Combined with the authorized but unissued bonds from prior elections following the issuance of the Bonds, the City will have \$36,280,000 in unissued permanent improvement bonding authority and no unissued commercial paper authority.

The approved CIP is the result of a process that balances the need for public facilities against the fiscal capability of the City to provide for those needs. The projects which will be funded by the Bonds, totaling \$39,880,000 include \$26,000,000 for Streets and Transportation improvements, \$4,200,000 for Park and Recreation improvements, \$1,430,000 for Fire facilities, \$250,000 for Library improvements and to refund \$7 million in currently outstanding commercial paper notes issued for Police and \$1 million issued for Fire.

**Capital Improvement Program  
Bond Elections (1993, 1997, 1999, 2003 and 2005)  
And 2008A Certificate Sale  
(amounts in thousands)**

| <u>Sources</u>   | Estimated<br>Total<br><u>Costs</u> | Total<br>Financing<br><u>to Date</u> | Estimated<br><u>Issuance</u> | Commercial<br><u>Paper</u> | Total Amount<br><u>Remaining</u> | Percent of<br>Total Amount<br><u>Remaining</u> |
|--|------------------------------------|--------------------------------------|------------------------------|----------------------------|----------------------------------|--|
| General Obligation Bonds/<br>Commercial Paper Notes, Series 2005 | \$241,790                          | \$143,630                            | \$39,880                     | \$30,000                   | \$36,280                         | 15.00%   |
| 2008A Certificates of Obligation                                 | <u>5,920</u>                       | <u>-</u>                             | <u>5,920</u>                 | <u>-</u>                   | <u>-</u>                         | <u>-</u>                                       |
| Total  | \$248,970                          | \$143,630                            | \$45,800                     | \$30,000                   | \$36,280                         | 15.00%   |
| <br>Uses   |                                    |                                      |                              |                            |                                  |  |
| Library Mobile and Portable Facilities                           | \$ 570                             | \$ -                                 | \$ -                         | \$ -                       | \$ 570                           | 0.23%  |
| Library  | 2,435                              | 1,435                                | 250                          | 500                        | 250                              | 0.10%  |
| Parks and Recreation   | 51,460                             | 37,355                               | 4,200                        | 4,500                      | 5,405                            | 2.23%  |
| Streets, Storm Drainage and Transportation                       | 169,155                            | 98,400                               | 26,000                       | 17,000                     | 27,755                           | 11.48%   |
| Police   | 10,935                             | 3,935                                | 7,000 (1)                    | 7,000 (1)                  | -                                | -  |
| Fire   | 4,935                              | 2,505                                | 2,430 (1)                    | 1,000 (1)                  | -                                | -  |
| Erosion Control  | 1,900                              | -                                    | -                            | -                          | 1,900                            | 0.79%  |
| Traffic Management Cameras Certificates                          | 400                                | -                                    | -                            | -                          | 400                              | 0.17%  |
| Itinerant Aircraft Parking Apron Certificates                    | 335                                | -                                    | 335                          | -                          | -                                | -  |
| Convention Center Roof Repair Certificates                       | 1,730                              | -                                    | 1,730                        | -                          | -                                | -  |
| Fire Station #3 and #4 Rebuild Certificates                      | 255                                | -                                    | 255                          | -                          | -                                | -  |
| South Arlington Public Safety Center<br>Certificates             | 1,100                              | -                                    | 1,100                        | -                          | -                                | -  |
| I-30 Bridges Certificates  | <u>2,500</u>                       | <u>-</u>                             | <u>2,500</u>                 | <u>-</u>                   | <u>-</u>                         | <u>-</u>                                       |
| Total  | \$248,970                          | \$143,630                            | \$45,800                     | \$30,000                   | \$36,280                         | 15.00%   |

(1) Includes currently outstanding commercial paper issued under respective authorizations, to be refunded by the Bonds.

**FINANCIAL INFORMATION**

**Basis of Accounting and Accounting Structure**

The accounting records of the City are maintained on the modified accrual basis of accounting for the General Fund, Special Revenue Funds, Capital Projects Funds and Trust and Agency Funds and on the accrual basis of accounting for the Enterprise Funds, and the Internal Service Funds. In general, under the modified accrual basis of accounting, revenues are recorded as received in cash except for material revenues considered to be both measurable and available to finance current year appropriations, which are recognized as revenue when earned. Expenditures are recorded in the period in which liabilities are incurred. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when liabilities are incurred without regard to receipts or disbursements of cash. See "Notes to Financial Statements" in Appendix B for a more detailed discussion for the City's accounting policies.

**Certificate of Achievement**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Arlington for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2005. The City has been awarded a Certificate of Excellence for its CAFR for the year ended April 30, 1966 and then annually from 1977 to 2006. The City has also received GFOA's Award for Distinguished Budget Presentation for fiscal years 1986 through 2007.

## ACCOUNTING STANDARDS

The basic financial statements are prepared in conformity with GASB Statement No. 34 (Statement No. 34) which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. The accrual basis of accounting and the economic resources measurement focus is utilized by proprietary fund types and the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Accordingly, the accounting and financial reporting of the City's General Fund, Capital Projects Funds and Debt Service Funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34. The following major funds are used by the City:

### **Governmental Funds**

The following is a description of the Governmental Funds of the City:

General Fund accounts for several of the City's primary services (Public Safety, Public Works, Public Health, Public Welfare, Parks and Recreation, etc.) and is the primary operating unit of the City. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. Street capital project fund accounts for the financing and acquisition of right of way and construction of streets and related facilities. Funds are provided primarily through bond sales, and interest earnings. Other Governmental Funds is a summarization of all of the nonmajor governmental funds.

### **Proprietary Fund**

The following is a description of the City's Proprietary Fund:

Water and Sewer Fund accounts for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Water and Sewer Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Water and Sewer Fund.

### **Other Fund Types**

The City additionally reports for the following Fund types:

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, generally on a cost reimbursement basis. Agency Funds are used to account for assets held by the City in an agency capacity for individuals, local law enforcement agencies or developers. Pension Trust Fund is used to account for the accumulation of resources to be used for the retirement benefit payments to employees of the City.

### **Component Units**

Component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Component Units discretely presented include the Arlington Sports

Facilities Development Authority, Inc., the Arlington Housing Authority, the Arlington Housing Finance Corporation, the Arlington Convention & Visitors Bureau, Inc., and the Arlington Industrial Development Corporation. The following component units have been blended with those of the City because (i) their governing bodies are substantially the same as the governing body of the City or (ii) the component unit provides services entirely to the City. These are the Arlington Property Finance Authority, Inc., Thrift Savings Plan, Disability Income Plan and Part-Time Deferred Income Trust.

## GENERAL FUND REVENUES AND EXPENDITURES

The General Fund is the primary operating Fund maintained by the City to account for revenue derived from City-wide ad valorem taxes, other local taxes, licenses, fees, permits, and certain other miscellaneous revenues. General Fund expenditures are the cost of general City government. The following is a discussion of the General Fund revenue structure and major classifications of General Fund expenditures.

## CERTAIN OPERATIONS OF THE GENERAL FUND

The General Fund of the City is that accounting entity which is used to account for all transactions which are not accounted for in another fund and which, specifically, receives all revenues and records all expenditures relating to the ordinary operations of general government. Other major funds of the City are the Special Revenue Funds, the Capital Project Funds, the Enterprise Funds, and the Debt Service Funds.

Summaries for fiscal years 2003 to 2007 have been compiled from the Comprehensive Annual Financial Reports of the City, which were examined by the City's independent auditors. These summaries should be read in conjunction with their related financial statements and notes.

### Consolidated Financial Statements-General Fund Fiscal Year Ended September 30 (amounts in thousands)

|                                 | <u>2007</u>      | <u>2006</u>      | <u>2005</u>      | <u>2004</u>      | <u>2003</u>      |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|
| Beginning Fund Balance Revenues | \$ 66,114        | \$ 52,057        | \$ 25,317        | \$ 20,806        | \$ 20,707        |
| Ad Valorem Taxes                | 75,090           | 68,166           | 62,701           | 58,972           | 51,958           |
| Sales Tax                       | 46,245           | 43,228           | 40,072           | 39,664           | 38,695           |
| Other Taxes (1)                 | 895              | 1,452            | 1,435            | 4,021            | 3,718            |
| Franchise Fees                  | 29,145           | 31,140           | 28,928           | 29,371           | 29,163           |
| Service Charges                 | 5,668            | 5,198            | 5,781            | 4,696            | 5,388            |
| Interest                        | 4,549            | 3,365            | 1,501            | 380              | 499              |
| All Other                       | <u>19,008</u>    | <u>26,856</u>    | <u>16,742</u>    | <u>15,004</u>    | <u>14,716</u>    |
| Total Revenues                  | <u>180,600</u>   | <u>179,405</u>   | <u>157,160</u>   | <u>152,108</u>   | <u>144,137</u>   |
| <br>                            |                  |                  |                  |                  |                  |
| Total Expenditures              | <u>179,882</u>   | <u>168,327</u>   | <u>164,724</u>   | <u>152,923</u>   | <u>146,946</u>   |
| Net Revenues Over (Under)       |                  |                  |                  |                  |                  |
| Expenditures                    | 718              | 11,078           | (7,564)          | (815)            | (2,809)          |
| Other Financing Sources         |                  |                  |                  |                  |                  |
| Issuance of Capital Leases      |                  |                  | 1,626            |                  |                  |
| Operating Transfers (1)(2)      | <u>(6,486)</u>   | <u>2,979</u>     | <u>32,678</u>    | <u>5,326</u>     | <u>2,908</u>     |
| Ending Fund Balance             | <u>\$ 60,346</u> | <u>\$ 66,114</u> | <u>\$ 52,057</u> | <u>\$ 25,317</u> | <u>\$ 20,806</u> |

(1) Prior to FY2005 Payment in Lieu of Taxes was included in Other Taxes. Beginning in FY2005 it is included in Operating Transfers.

(2) Effective May 1, 2005 the City entered into an agreement with Republic Waste Services of Texas, LTD. to lease and operate the City's Landfill. At that time the City's interest in the remaining net assets – amounting to \$33.99 million – was transferred to the General Fund. In addition, prior to FY 2005 Payment in Lieu of Taxes was included in Other Taxes. Beginning in FY 2005 it is included in Operating Transfers.

For the fiscal year ended September 30, 2007, the General Fund had revenues, lease issuances and transfers greater than expenditures by \$5,768,000, or 3.19 percent of General Fund revenues, leaving a General Fund balance at September 30, 2007, of \$66,346,000. The following table presents a comparison of the City's General Fund balance for fiscal years 2003 to 2007.



**General Fund Balance**  
**Fiscal Year Ended September 30**  
**(amounts in thousands)**

| General Fund Balance:  | <u>2007</u>     | <u>2006</u>     | <u>2005</u>     | <u>2004</u>     | <u>2003</u>     |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Reserved for   |                 |                 |                 |                 |                 |
| Encumbrances   | \$ 6,351        | \$ 4,463        | \$ 3,230        | \$ 1,786        | \$ 656          |
| Inventory  | 574             | 240             | 254             | 113             | 112             |
| Prepays  | 35              | 5               | 46              | 46              | 67              |
| Infrastructure Maintenance                                     | -               | -               | -               | -               | -               |
| Park Acquisition   | -               | -               | -               | -               | -               |
| Utility Rate Case  | 500             | 500             | 500             | 500             | 500             |
| Special Transportation   | -               | -               | -               | -               | -               |
| Net Increase in Fair Value                                     | -               | -               | -               | -               | -               |
| Unreserved – Designated for                                    |                 |                 |                 |                 |                 |
| Telecommunications   | -               | -               | 274             | 329             | 102             |
| Working Capital  | 16,232          | 15,964          | 14,373          | 13,585          | 12,981          |
| Subsequent Years' Expenditures                                 | 5,843           | 5,747           | 5,174           | 5,018           | 4,821           |
| Arbitrage  | 184             | 33              | 12              | 38              | 320             |
| Compensated absences   | 1,261           | 1,280           | 1,125           | 1,411           | 1,247           |
| Other Post Employment Balances                                 | 1,718           | 1,718           | 1,718           | 1,718           | -               |
| Designated for landfill lease proceeds                         | 21,030          | 20,573          | 19,887          | -               | -               |
| Gas lease proceeds   | 1,000           | 5,020           | -               | -               | -               |
| Undesignated   | <u>5,618</u>    | <u>10,571</u>   | <u>5,464</u>    | <u>773</u>      | <u>-</u>        |
| Total General Fund Balance                                     | <u>\$60,346</u> | <u>\$66,114</u> | <u>\$52,057</u> | <u>\$25,317</u> | <u>\$20,806</u> |
| General Fund Balance as a Percent of General Fund Expenditures | 33.55%          | 39.28%          | 31.60%          | 16.56%          | 14.16%          |

Source: Fiscal Year 2003 to 2007 Comprehensive Annual Financial Reports.

**DEBT SERVICE FUND BUDGET**  
**Fiscal Year 2008**  
**(amounts in thousands)**

|                                   |                 |
|-----------------------------------|-----------------|
| Beginning Fund Balance            | \$ 3,079        |
| Property Tax and Interest Revenue | 34,804          |
| Transfers In (1)                  | 2,246           |
| Debt Service Expenditures         | <u>(37,725)</u> |
| Estimated Ending Fund Balance     | <u>\$ 2,404</u> |

(1) Includes transfers to the Debt Service Fund from the Convention and Event Services Fund, Park Performance Fund, and Water and Wastewater Fund.

Source: Fiscal Year 2008 Budget and Fiscal Year 2007 CAFR.

**CURRENT OPERATING BUDGET**

On September 18, 2007, the City Council adopted a total Budget for fiscal year 2008 with expenditures of \$349,482,000. The adopted General Fund Budget reflects a property tax rate of \$0.6480/\$100.

The adopted Budget for fiscal year 2008 maintains core services levels and programs within tight financial constraints. Employee pay increases, based on merit, were between 1% and 2% and were included in the adopted budget. The overall value of taxable property in the City increased by 4.9 percent, from \$16,793 billion in fiscal year 2007 to \$17,612 billion in fiscal year 2008. The adopted Budget authorizes City government personnel of 2,481 full-time positions, an increase of 117 positions from the fiscal year 2007 budget.

The following table shows the City's estimated revenues and budgeted expenditures for fiscal year 2008, as reported in the adopted Budget.

**Estimated Revenues and Budgeted Expenditures  
Fiscal Year 2008 Budget (1)  
(amounts in thousands)**

|                                     | <u>Budget</u> | <u>Percent</u> |
|-------------------------------------|---------------|----------------|
| <b>REVENUES</b>                     |               |                |
| Property Taxes                      | \$112,828     | 32%            |
| Sales Tax                           | 46,368        | 13%            |
| Other Taxes                         | 1,429         | 0%             |
| Licenses and Permits                | 4,768         | 1%             |
| Utility Franchise Fees              | 31,354        | 9%             |
| Fines and Forfeitures               | 9,992         | 3%             |
| Leases and Rents                    | 4,732         | 1%             |
| Services Charges                    | 12,077        | 3%             |
| Miscellaneous Revenues              | 4,334         | 1%             |
| Water and Sewer Fund Revenues       | 102,559       | 29%            |
| Convention & Event Services Fund    | 7,591         | 2%             |
| Revenues                            |               |                |
| Street Maintenance Fund             | 11,829        | 3%             |
| Park Performance Fund               | <u>8,805</u>  | <u>3%</u>      |
| Total Revenues                      | \$358,666     | 100%           |
| <b>EXPENDITURES</b>                 |               |                |
| General Government                  | \$ 9,545      | 2%             |
| Police                              | 70,095        | 20%            |
| Fire                                | 42,078        | 12%            |
| Community Services                  | 6,249         | 1%             |
| Community Development & Planning    | 6,330         | 2%             |
| Parks and Recreation                | 13,346        | 4%             |
| Public Works & Transportation       | 16,912        | 5%             |
| Library                             | 6,601         | 2%             |
| Administrative and Support Services | 23,626        | 7%             |
| Water and Sewer Fund                | 86,169        | 25%            |
| Convention & Event Services Fund    | 5,964         | 2%             |
| Park Performance Fund               | 11,010        | 3%             |
| Street Maintenance Fund             | 13,833        | 4%             |
| Debt Service                        | <u>37,724</u> | <u>11%</u>     |
| Total Expenditures                  | \$349,482     | 100%           |

(1) All funds combined, excludes interfund transfers.

Source: Fiscal Year 2008 Budget.

**TAX DATA**

**General**

A major source of operational revenue and funds for tax-supported debt service payments is the receipts from ad valorem taxation. The following is a recapitulation of (1) the authority for taxation, including methodology, limitations, remedies and procedures; (2) historical analysis of collection and trends of tax receipts and provisions for delinquencies; and (3) an analysis of (a) the base, (b) the principal taxpayers, and (c) other ad valorem taxation that may compete with the City's tax collections. Additionally, sales tax, hotel occupancy tax and short term motor vehicle rental tax authority and collections are described.

## **Authority for Ad Valorem Taxation**

Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 in population, limits the ad valorem tax rate to \$2.50 per \$100 assessed valuation for all city purposes and makes no allocation of such tax rate between debt service requirements and expenses of general city government. The City operates under a Home Rule Charter that adopts these provisions of the Constitution. For fiscal year 2008, the Council levied a tax rate equal to \$0.6480 per \$100 assessed valuation of which \$0.2013 was allocated to pay debt service on outstanding tax-supported Bonds and notes. See "Tax Rate Distribution."

## **Effective Tax Rate and Rollback Tax Rate**

Before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City, the City Council must adopt a tax rate per \$100 taxable value for the current year. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's total maintenance and operations tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional sales tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

## **Property Subject to Taxation**

All real property and tangible personal property in the City is subject to taxation except for certain mandated and discretionary exemptions granted pursuant to State law and Title I of the Texas Tax Code (the "Property Tax Code"). The Property Tax Code mandates exemption of public property, property exempt by federal law from ad valorem taxes, household goods, personal effects of an individual, and certain property of religious and charitable organizations, schools, and disabled veterans. The Property Tax Code authorizes cities to exempt the residential homestead of those over 65 years of age and the disabled. The Council currently exempts up to \$60,000 of the appraised value of such residential homesteads. The FY 2008 tax rolls reflect the Council granting persons 65 years of age and older, disabled persons and disabled veterans exemptions totaling \$798,555,685.

Article VIII, Section 1-b of the Texas Constitution provides the City with the authority to exempt a percentage of the market value of residential homesteads. The percentage may not exceed 20 percent in FY 2008 and each subsequent year. Where an ad valorem tax has previously been pledged for the payment of debt, the Council may continue to levy and collect the tax against the value of the exempt homesteads until the debt is discharged if the cessation of the levy

would impair the obligation. The Council granted 20 percent residential homestead exemptions on the FY 2008 tax roll, which totaled \$1,849,185,776 or 10.4 percent of the FY 2008 taxable assessed valuation. In addition, \$71,433,552 of value was reduced from the FY 2008 tax rolls in accordance with State law to reflect value of agricultural land based upon production rather than market value.

Section 23.83 of the Property Tax Code allows taxes to be deferred on property that is restricted to scenic use. Deferrals were first claimed under this section in 1990. The FY 2008 tax roll reveals a value loss increase from \$2,662,906 to \$9,674,534 due to scenic deferrals.

Chapter 312 of the Texas Tax Code allows the Council to designate reinvestment zones and to enter into tax abatement agreements with property owners within these zones. The abatement value loss on the FY 2008 tax roll is \$330,647,067. A schedule of abated values for the FY 2008 by property owners is as follows:

| <u>Property Owner</u>   | <u>FY 2008 Abatement Value</u> |
|-------------------------|--------------------------------|
| General Motors          | \$198,804,266                  |
| Americredit             | 35,802,503                     |
| Siemens Dematic         | 23,716,264                     |
| National Semiconductor  | 11,994,149                     |
| Petula/Aetna            | 10,798,791                     |
| JPMorgan Chase Bank     | 8,969,857                      |
| Rooms To Go             | 8,942,127                      |
| Prologis                | 8,003,144                      |
| Primera                 | 5,891,729                      |
| Mackie Automotive       | 5,128,875                      |
| For 1031 Arlington, LLC | 4,795,700                      |
| Lear Corporation        | 4,312,151                      |
| Robinson Steel          | 606,872                        |
| Primeco                 | <u>201,713</u>                 |
|                         | <u>\$330,647,067</u>           |

With the passage of Proposition 5 on November 7, 1989, the State Constitution was amended to allow for the taxation of temporarily located inventory on a local option basis. To continue taxation of this so called “freeport” property, the governing body of a taxing entity, such as the Council, was required to take action prior to January 1, 1990. The Council adopted an ordinance, which allowed for the continued taxation of “freeport” property for 1990 and subsequent years. On January 13, 1998, the Council repealed the aforementioned ordinance, which has the effect of exempting “freeport” property from taxation effective January 1, 1999. This exemption is irrevocable under current State law. The amount of “freeport” assessed value subject to exemption for the FY 2008 tax roll was \$283,889,556.

In addition, under Section 11.253 of the Texas Tax Code, “Goods-in-transit” are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer’s motor vehicle inventory, dealer’s vessel and outboard motor inventory, dealer’s heavy equipment inventory, or retail manufactured housing inventory.

### **Tax Increment Financing Districts**

The City Council adopted an ordinance on November 3, 1998, establishing a tax increment financing district (the “TIF District #1”) encompassing approximately 533 acres in the City’s downtown area. TIF District #1 took effect on January 1, 1999 and will terminate on December 31, 2018. The City Council can terminate the TIF District at an earlier date by subsequent ordinance.

The City Council adopted an ordinance on September 27, 2005, establishing a tax increment financing district (the “TIF District #2”) encompassing approximately 2,000 acres in the northeast quadrant of the City. TIF District #2 took effect on January 1, 2006 and was dissolved by the City Council on March 27, 2007. TIF District #2 was replaced by FID District #6.

The City Council adopted an ordinance on October 11, 2005, establishing a tax increment financing district (the “TIF District #3”) encompassing approximately 210 acres on the eastern side of the City. TIF District #3 took effect on January 1, 2006 and will terminate on December 31, 2020.

The City Council adopted an ordinance on November 8, 2005, establishing a tax increment financing district (the “TIF District #4”) encompassing approximately 320 acres in the City’s south central area. TIF District #4 took effect on January 1, 2005 and will terminate on December 31, 2025.

The City Council adopted an ordinance on December 19, 2006, establishing a tax increment financing district (the TIF District #5 Entertainment District”) encompassing 2,187 acres generally defined by Lamar Boulevard to the north, the Union Pacific Railroad to the south, State Highway 360 to the east and Collins Street to the west. TIF District #5 Entertainment District took effect on January 1, 2007 and will terminate on December 31, 2036.

The City Council adopted an ordinance on December 18, 2007, establishing a tax increment financing district (the “TIF District #6”) encompassing approximately 2,000 acres in the northeast quadrant of the City. The TIF District took effect on January 1, 2007 and will terminate on December 31, 2036.

### **Appraisal of Taxable Property**

The Property Tax Code established a county-wide appraisal district in each county of the State. Each appraisal district assumes the responsibility of appraising all taxable property and preparing and certifying the tax rolls for each unit of government that levies ad valorem tax in that county. The appraisal of property within the City is the responsibility of the Tarrant Appraisal District. Under the 1981 amendment to the Property Tax Code, the City is now entitled to vote, in the proportion to its taxes levied in Tarrant County, in selecting the governing board of appraisal district. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed either the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property’s appraised value in the preceding tax year, plus (b) the property’s appraised value in the preceding tax year, plus (c) the market value of all new improvements to the property. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. A city, or other taxing unit, may challenge the appraisals assigned to property within its jurisdiction under certain limited circumstances. These entities can also sue the appraisal district to compel it to comply with the Property Tax Code.

The City’s FY 2008 appraisal roll was prepared and certified by the Tarrant Appraisal District’s Chief Appraiser and Appraisal Review Board. Such appraisal rolls are used by the City in establishing its tax rate. The City Council is responsible for setting the rate, levying and collecting the taxes. All taxable property in the City is presently valued on the City’s tax roll at 100 percent of its estimated market value as of January 1, 2007. The rate of taxation was determined and set by the Council based upon the January 1, 2007 valuation. Taxes are due October 1 of the subject year and become delinquent after January 31 of the following year, except for a split payment option. Under the split payment option, adopted by the City beginning with fiscal year 2003, taxpayers can make one-half payment prior to December 1, and the final one-half payment prior to July 1 of the following year without penalty or interest. Since October 1, 2002 ad valorem taxes for the City have been collected by the Tarrant County Tax Assessor-Collector.

### **City’s Rights in the Event of Tax Delinquencies**

In general, property subject to the City’s lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured

creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**Tax Limitation Election**

A City election was approved on February 5, 2005, which adopted a homestead property tax limitation for disabled individuals and individuals 65 years of age or older. This limitation on the residential homesteads of qualifying property owners is defined under the Texas Property Tax Code, section 11.261. The limitation cannot be repealed by any action of the City or through an election of the City under current state law. The homestead property tax ceiling limits the amount of taxes paid to the City based on the taxes paid in the first year that the property qualifies for the disabled exemption or the 65 years of age or older exemption. The limitation is a dollar amount and does not increase unless improvements (other than repairs or improvements required to comply with governmental requirements) are made to the residential homestead. For those property owners who qualified in 2005 for either exemption, the tax ceiling was set based on the taxes levied in September 2005 by the City. The tax ceiling carries forward to a surviving spouse age 55 or older of an individual who is 65 years of age or older.

The City has 66,809 residential homestead properties in FY 2007 and 13,184 (19.7%) of these properties received an exemption for a disabled individual or individual 65 years of age or older.

**Tax Revenue**

The following table shows the City’s principal tax revenues by source for each of the last five fiscal years. Growth in total tax revenues has averaged 4.5 percent per year over the last five years.

**Principal Tax Revenue by Source**

**Fiscal Years 2003 to 2007  
(amounts in thousands)**

| <u>Fiscal Year</u> | General Fund      | <u>General Fund</u> | <u>Franchise Fees</u> | Hotel                | <u>Other Taxes</u> (1) | <u>Total</u> |
|--------------------|-------------------|---------------------|-----------------------|----------------------|------------------------|--------------|
|                    | <u>Ad Valorem</u> |                     |                       | <u>Occupancy Tax</u> |                        |              |
| 2003               | \$51,958          | \$38,695            | \$29,163              | \$3,910              | \$3,718                | \$127,444    |
| 2004               | 58,972            | 39,664              | 29,371                | 3,981                | 4,021                  | 136,009      |
| 2005               | 62,701            | 40,072              | 28,928                | 4,530                | 1,435                  | 137,666      |
| 2006               | 68,166            | 43,228              | 31,140                | 4,774                | 1,452                  | 148,760      |
| 2007               | 74,589            | 45,923              | 29,145                | 5,400                | 823                    | 155,880      |

(1) Prior to FY 2005 Payment in Lieu of Taxes was included in Other Taxes. Beginning in FY 2005 it is included in Operating Transfers.

Source: City Financial Services Department.

The following table sets forth the assessed value of all taxable property less exemptions in the City for each of its five most recent fiscal years. Tax-exempt properties owned by Federal and State governments, churches, and schools, totaling \$1,850,607,701 for fiscal year 2008, are not included in the table. The Tarrant Appraisal District certified appraisal of taxable property less exemptions for fiscal year 2008 is \$17,591,230,061. This value is obtained from the certified taxable value as of September of each year including minimum estimated value of property under protest.

*[Remainder of page intentionally left blank]*

**Net Historical Taxable Value (1)  
Fiscal Years 2004 to 2008**

| Fiscal Year | Real Property Taxable Value | Percentage             | Personal Property Taxable Value | Percentage             | Net Total Taxable Value | Percentage             |
|-------------|-----------------------------|------------------------|---------------------------------|------------------------|-------------------------|------------------------|
|             |                             | Change from Prior Year |                                 | Change from Prior Year |                         | Change from Prior Year |
| 2004        | \$12,899,757,009            | 6.61%                  | \$2,118,967,590                 | (5.58%)                | \$15,018,724,599        | 4.70%                  |
| 2005        | 13,349,818,463              | 3.49%                  | 2,249,501,932                   | 6.16%                  | 15,599,320,395          | 3.87%                  |
| 2006        | 13,930,395,955              | 4.35%                  | 2,213,185,217                   | (1.61%)                | 16,143,581,172          | 3.49%                  |
| 2007        | 14,561,490,051              | 4.53%                  | 2,231,934,712                   | 0.85%                  | 16,793,424,763          | 4.03%                  |
| 2008        | 15,304,029,995              | 5.10%                  | 2,287,200,066                   | 2.48%                  | 17,591,230,061          | 4.75%                  |

(1) Real and personal property is assessed at 100 percent of fair market value. Total taxable value excludes abated value. Net Taxable Valuation is the certified roll as of September of each year including minimum estimated value of property under protest.

Source: City Financial Services Department.

**Tax Rate Distribution  
Fiscal Years 2004 to 2008**

|                   | 2008            | 2007            | 2006            | 2005            | 2004            |
|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| General Fund      | \$0.4467        | \$0.4468        | \$0.4244        | \$0.4023        | \$0.3879        |
| Debt Service Fund | <u>0.2013</u>   | <u>0.2012</u>   | <u>0.2236</u>   | <u>0.2457</u>   | <u>0.2601</u>   |
| Total             | <u>\$0.6480</u> | <u>\$0.6480</u> | <u>\$0.6480</u> | <u>\$0.6480</u> | <u>\$0.6480</u> |

Source: City Financial Services Department.

**Collection Ratios  
Fiscal Years 2003 to 2008**

| Fiscal Year | Net Taxable Valuation (1) | Tax Rate | Tax Levy      | % of Collections (2) |             |             |
|-------------|---------------------------|----------|---------------|----------------------|-------------|-------------|
|             |                           |          |               | Current Year         | Prior Years | Year Ending |
| 2003        | \$14,344,001,305          | \$0.6480 | \$ 90,940,968 | 98.15%               | 99.89%      | 9-30-03     |
| 2004        | 15,018,724,599            | 0.6480   | 97,321,335    | 99.60%               | 101.26%     | 9-30-04     |
| 2005        | 15,599,320,395            | 0.6480   | 101,083,596   | 97.85%               | 100.22%     | 9-30-05     |
| 2006        | 16,143,581,172            | 0.6480   | 104,610,406   | 97.88%               | 99.65%      | 9-30-06     |
| 2007        | 16,793,424,763            | 0.6480   | 108,821,392   | 97.10%               | 99.82%      | 9-30-07     |
| 2008        | 17,591,230,061            | 0.6480   | 113,991,171   | 92.47%(3)            | 93.47%(3)   | 9-30-08     |

(1) Net Taxable Valuation is the certified roll as of September of each year including minimum estimated value of property under protest.

(2) Prior year's collections include current year collections, prior year delinquent collections and all penalty and interest collections.

(3) Collections for 2008 are through March 31, 2008.

Source: City Financial Services Department.

*[Remainder of page intentionally left blank]*

**Analysis of Delinquent Taxes  
as of September 30, 2007**

| <u>Fiscal Year</u> | <u>Tax Levy</u> | <u>Uncollected</u> | <u>Percentage of Levy</u> |
|--------------------|-----------------|--------------------|---------------------------|
| 2007               | \$108,821,392   | \$1,503,568        | 1.38%                     |
| 2006               | 104,610,406     | 519,389            | 0.50%                     |
| 2005               | 101,083,596     | 391,653            | 0.39%                     |
| 2004               | 97,321,335      | 329,056            | 0.34%                     |
| 2003               | 90,940,968      | 263,406            | 0.29%                     |
| 2002               | 85,674,820      | 254,232            | 0.30%                     |
| 2001               | 78,838,868      | 168,381            | 0.21%                     |
| 2000               | 72,828,633      | 187,180            | 0.26%                     |
| 1999               | 69,341,578      | 158,633            | 0.23%                     |
| 1998               | 64,954,721      | 154,124            | 0.24%                     |
| 1997               | 62,105,100      | 99,351             | 0.16%                     |
| 1996               | 58,374,990      | 58,857             | 0.10%                     |
| 1995               | 54,305,297      | 74,941             | 0.14%                     |
| 1994               | 53,777,666      | 94,877             | 0.18%                     |
| Prior to 1994      | N/A             | <u>1,175,227</u>   | N/A                       |
|                    |                 | \$5,432,872        |                           |

Source: City Financial Services Department.

**Tax Base Distribution  
Fiscal Years 2004 to 2008**

|                                | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Residential                    | 62.4%       | 62.3%       | 62.1%       | 62.2%       | 61.8%       |
| Commercial, Industrial, Retail | 35.7%       | 35.7%       | 35.9%       | 35.7%       | 35.9%       |
| Undeveloped                    | 1.9%        | 2.0%        | 2.0%        | 2.1%        | 2.3%        |

Source: City Financial Services Department.

**Top Ten Taxpayers**

| <u>Name</u>                     | <u>Type of Business</u>     | <u>Fiscal Year 2008</u> |
|---------------------------------|-----------------------------|-------------------------|
| General Motors Corporation (1)  | Auto Assembly               | \$182,901,104           |
| TXU Electric Delivery           | Public Utility              | 147,804,519             |
| Parks at Arlington LP           | Real Estate Holdings        | 144,693,332             |
| Southwestern Bell Telephone Co. | Public Utility              | 82,000,414              |
| Lincoln Square, Ltd             | Real Estate Holding         | 60,015,624              |
| Texas Flags/Six Flags of Texas  | Amusement Park              | 59,790,771              |
| National Semiconductor (1)      | Computer Chip Manufacturing | 58,966,392              |
| USMD Surgical Hospital          | Healthcare                  | 51,443,186              |
| Arlington Highland Ltd          | Retail                      | 49,023,518              |
| HCA – Arlington Inc.            | Healthcare                  | <u>40,000,000</u>       |
| Total                           |                             | <u>\$876,638,860</u>    |

Above Ten Taxpayers as % of Total Tax Rolls 4.98%

Total Tax Roll \$17,591,230,061

(1) See Tax Data: Property Subject to Taxation and Assessed Value of Tax Abatement Agreement for 2008 abatement values.

Source: Tarrant County Tax Office.



## Tax Abatements

### Assessed Value of Tax Abatement Agreements

| <u>Fiscal Year</u> | <u>Total Assessed Valuation Abated</u> |
|--------------------|--|
| 1998               | \$257,260,096                          |
| 1999               | 369,707,519                            |
| 2000               | 377,017,981                            |
| 2001               | 359,001,468                            |
| 2002               | 561,859,024                            |
| 2003               | 509,488,606                            |
| 2004               | 381,607,734                            |
| 2005               | 331,596,017                            |
| 2006               | 312,216,195                            |
| 2007               | 329,173,313                            |
| 2008               | 330,647,067                            |

Source: City Financial Services Department.

## Municipal Sales Tax

The City has adopted the provisions of Sections 321.101 and 321.103 of the Texas Tax Code, which grants the City the power to impose and levy a one percent sales tax for general purposes of the City. On September 14, 2002, an election to adopt an additional one-quarter cent city sales and use tax for municipal street maintenance as permitted under Chapter 327 of the Texas Tax Code was held and the additional one-quarter cent sales and use tax was approved. The additional one-quarter cent sales and use tax became effective on January 1, 2003. On November 2, 2004, an election to adopt an additional one-half cent sales and use tax for the Dallas Cowboys Complex Development Project (the "Cowboys Project") as permitted by Chapter 334 of the Texas Local Government Code was held and the additional one-half cent sales and use tax was approved. The additional one-half cent sales and use tax became effective on April 1, 2005. The Comptroller of Public Accounts of the State of Texas, after the deduction of a two percent service fee, currently remits monthly the City's portion of sales tax collections to the City. The statute provides the Comptroller must remit at least twice annually. Revenue from sales tax levied for general purposes of the City may not be pledged, under the applicable statutes, to the payment of debt service of the City's debt obligations.

| <u>Fiscal Year</u> | <u>Sales Tax Receipts</u> | <u>Ad Valorem Tax Levy</u> | <u>Sales Tax as a % of Ad Valorem Tax Levy</u> | <u>Population Estimate</u> | <u>Per Capita Sales Tax Collection</u> |
|--------------------|---------------------------|----------------------------|--|----------------------------|--|
| 2000               | \$43,383,927              | \$ 72,828,633              | 60%  | 332,969 (1)                | \$130.29                               |
| 2001               | 44,436,164                | 78,838,868                 | 56%  | 339,215                    | 131.00                                 |
| 2002               | 41,172,479                | 85,674,820                 | 48%  | 346,197                    | 118.93                                 |
| 2003               | 38,695,033                | 90,940,968                 | 43%  | 351,719                    | 110.02                                 |
| 2004               | 39,663,609                | 97,321,335                 | 41%  | 355,634                    | 111.53                                 |
| 2005               | 40,072,031                | 101,083,596                | 40%  | 361,300                    | 110.91                                 |
| 2006               | 43,228,000                | 104,610,406                | 41%  | 362,393                    | 119.28                                 |
| 2007               | 46,368,418                | 108,821,392                | 43%  | 364,300                    | 127.28                                 |
| 2008               | 18,637,379 (2)            | 113,991,171                | 16%(2)   | N/A                        | N/A                                    |

(1) Actual 2000 Census population.

(2) Collections through April 30, 2008, but only represents five months collections due to two month lag time of receipts from the State.

Source: City Financial Services Department.

## Hotel Occupancy Tax Receipts

Under the provisions of Section 351.002 and 351.003 of the Texas Tax Code, the City is authorized to levy and collect a hotel occupancy tax not to exceed seven percent of the price paid for a room in a hotel in the City which costs \$2 or more per day and is ordinarily used for sleeping (the "Hotel Occupancy Tax") to pay for or finance a variety of public improvements, including, specifically, convention center facilities. Section 351.103(c) of the Texas Tax Code states that

the Hotel Occupancy Tax revenue allocated by the municipality cannot exceed 15 percent for the encouragement, promotion and application of the arts and cannot exceed 15 percent for historical preservation projects or activities. The City has levied a Hotel Occupancy Tax of seven percent since 1983. On November 2, 2004 an election was approved under Chapter 334 of the Texas Local Government Code to increase the Hotel Occupancy Tax by two percent for the Cowboys Project. The additional two percent can only be used for this purpose and became effective on April 1, 2005. **The additional two percent is not reflected in the table below.**

The Series 2005 Refunding Bonds and the Combination Tax and Revenue Certificates of Obligation, Series 1998 are payable in part from the Hotel Occupancy Tax. Set forth below are the revenues received by the City from the seven percent Hotel Occupancy Tax for the last five years.

| <u>Fiscal Year</u> | <u>Hotel Occupancy Tax Receipts</u> |
|--------------------|-------------------------------------|
| 2003               | \$3,909,501                         |
| 2004               | 3,980,814                           |
| 2005               | 4,530,102                           |
| 2006               | 4,773,828                           |
| 2007               | 5,400,772                           |
| 2008 (1)           | 2,001,151                           |

(1) Represents collections through April 30, 2008.  
Source: City Financial Services Department.

### **Dallas Cowboys Complex Development Project**

On November 2, 2004, a majority of the voters of the City voted in favor of a proposition authorizing the City to provide for the planning, acquisition, establishment, development, construction and financing of the Cowboys Project within the City and (i) to impose a sales and use tax within the City at a rate of one-half of one percent (0.5%), (ii) to impose a tax at a maximum rate of five percent (5%) on the gross rental receipts from the short-term rental in the City of a motor vehicle, (iii) to impose a tax on the occupancy of a room in a hotel located within the city, at a maximum rate of two percent (2%) of the price paid for such room, (iv) to impose an admissions tax on each ticket sold as admission to an event held at the Project at a maximum rate not to exceed ten percent (10%) of the price of the ticket, and (v) to impose a tax on each parked motor vehicle parking in a parking facility of the Cowboys Project at a maximum rate not to exceed three dollars (\$3.00) per vehicle. On February 8, 2005, the City Council approved the Cowboys Complex Funding and Closing Agreement.

On September 1, 2005, the City issued \$297,990,000 Dallas Cowboys Complex Special Obligations (the "Obligations") in three series (Series 2005A, Series 2005B and Series 2005C) for this project. The remainder of the City's \$325,000,000 share of project costs, if necessary, will come from excess sales, hotel and short term motor vehicle rental tax as well as interest earned on bond proceeds. The Obligations are limited obligations of the City, secured by a lien on and pledge of certain Pledged Special Taxes. Such pledged Special Taxes consist of amounts received from the levy and collection of (i) a local sales and use tax of one-half of one percent (0.5%) (the "Sales Tax"); (ii) a five percent (5%) tax on the short-term rental in the City of a motor vehicle (the "Motor Vehicle Rental Tax"); and (iii) a two percent (2%) tax on hotel rooms located within the City (the "Hotel Tax"). The Series 2005C Bonds are additionally secured by and payable from the Pledged Rent which consists of annual rental payments of \$2,000,000 received under the Lease and five percent (5%) of certain naming rights proceeds, not to exceed \$500,000 annually, derived, if at all, from the sale by the Tenant of naming rights for the Cowboys Complex

The Obligations are *not* secured by any mortgage or security interest in the Cowboys Complex or any of the revenues thereof or by any property of the Dallas Cowboys, the National Football League, or any of their affiliates, owners or partners, or, except as expressly provided herein, by the City, the State or any agency, political corporation or subdivision thereof and neither the faith and credit of any of them has been pledged to the payment of the Obligations.

The table below displays the revenues from the collection of the 0.5% Sales Tax, 5.0% Motor Vehicle Rental Tax, and the 2.0% Hotel Tax. The taxes were collected for six months during fiscal year 2005 beginning on April 1, 2005.

## Dallas Cowboys Complex Project Tax Revenues

| <u>Fiscal Year</u> | <u>Sales Tax</u> | <u>Motor Vehicle Rental Tax</u> | <u>Hotel Tax</u> | <u>Total Taxes</u> |
|--------------------|------------------|---------------------------------|------------------|--------------------|
| 2005               | \$10,199,454     | \$366,959                       | \$ 730,787       | \$11,297,200       |
| 2006               | 22,070,968       | 793,711                         | 1,360,672        | 24,225,351         |
| 2007               | 22,653,714       | 781,397                         | 1,459,619        | 29,894,730         |
| 2008 (a)           | 9,395,978        | 425,089                         | 907,263          | 10,731,330         |

(a.) Collections beginning October 1, through April 30, but only represent five months collections due to two month lag time of receipts from the State.

## PENSION FUND

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 821 currently administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas, 78714.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100 percent, 150 percent, or 200 percent) of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Plan provisions for the City were as follows (as of 4/1/08):

|                                    |         |
|------------------------------------|---------|
| Deposit Rate:                      | 7%      |
| Matching Ratio: (City to Employee) | 2 to 1  |
| A member is vested after:          | 5 years |

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year open amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period, which began in January 1997. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

For 2007, the City's annual pension cost of \$15,164,348 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included a 7 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) a 3.5% inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for short-term securities and stocks, which is the same as book value. The City's unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

The following table discloses three-year historical trend information relating to the TMRS plan.

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contribution</u> | <u>Net Pension Obligation</u> |
|---------------------------|----------------------------------|---------------------------------------|-------------------------------|
| 9/30/05                   | \$14,671,901                     | 100.00%                               | -                             |
| 9/30/06                   | 14,512,396                       | 100.00%                               | -                             |
| 9/30/07                   | 15,164,348                       | 100.00%                               | -                             |

Future Funding Requirements – In early December 2007, the TMRS board of Trustees met and adopted actuarial changes that include a change from the Unit Credit actuarial cost method to the Projected Unit Credit actuarial cost method for all TMRS city plans as well as a closed amortization period of 30 years. The effect of these changes will result in an increase in city contribution rates for most Texas cities. Cities will have the option to increase their contributions over an eight-year phase-in period. All cities will receive their 2009 contribution rate letter in May 2008 that will specify exactly how these changes will affect the future annual required contribution rate upon completion of an actuarial valuation to be performed as of December 31, 2007. These changes are intended to help the TMRS system remain well funded, to preserve member's benefits, and to give cities a more complete picture of the cost of benefits currently adopted. While the impact of TMRS changes is not presently known, the City's contribution rate is expected to increase significantly. Tentative estimates of the City's 2009 contribution rate project a full contribution rate of 20.71%. If the City elects the phase-in option, the estimated rate for 2009 is 15.42%. These estimates are based on the City's 12/31/06 data. The actual rates will be based on 12/31/07 data and will likely be different than these estimates.

For a detailed description of the other employee benefit plans offered by the City (Thrift Savings Plan, Part-Time Deferred Income Trust and IRC 457 Deferred Compensation Plans), see Note IV.5. of the City's Audited Financial Statements for Fiscal Year Ended September 30, 2007 attached hereto as Appendix B.

### **OTHER POST-EMPLOYMENT BENEFITS**

#### Retiree Health Insurance

The City currently provides postretirement health care benefits to eligible employees who retire from the City with at least 10 years of service with the City, as described in Notes to the Financial Statements, Section IV: Detailed Notes on All Funds – 5., Pension and Employee Benefits Plans, set forth in Appendix B. During Fiscal Year 2007, 508 retirees met the eligibility requirements. Benefits and expenditures of \$1,887,352 were recognized for postretirement health care in FY 2007. The City had an actuarial valuation report prepared for its post-retirement medical plans as of January 1, 2007. This report determined that the City's annual required contribution for fiscal year 2008 is \$7.4 million. The City intends to comply with the requirements of GASB No. 45, and will make full financial statement disclosure for the fiscal year ended September 30, 2008.

#### Disability Income Plan

Effective October 1, 1992, the City began providing active employees with disability insurance through a policy obtained from a commercial carrier. Previously, all City employees had participated in a Disability Income Plan (DIP), a single-employer other postemployment benefit disability plan, which had been funded by actuarially determined contributions. This plan had been accounted for in the DIP fund. Benefits to employees who were disabled while participating under the previous plan will continue to be paid from the remaining assets of the DIP fund.

The following table discloses three-year historical trend information relating to the Disability Income Plan.

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contribution</u> | <u>Net Pension Obligation</u> |
|---------------------------|----------------------------------|---------------------------------------|-------------------------------|
| 9/30/05                   | \$288,000                        | 100.00%                               | -                             |
| 9/30/06                   | 348,000                          | 100.00%                               | -                             |
| 9/30/07                   | 323,000                          | 100.00%                               | -                             |

Plan Description and Contribution Information:

Membership of the plan consisted of the following at July 1, 2006, the date of the latest actuarial valuation:

|   |              |
|---|--------------|
| Retirees and beneficiaries receiving benefits | 33           |
| Active plan members                           | <u>1,999</u> |
| Total   | 2,032        |

Number of participating employers 1

*Plan Description.* DIP is a single-employer defined benefit disability income plan that covers the employees of the City. The plan originally provided in-service death benefits and long term disability benefits commencing upon disablement. The plan was amended to eliminate the in-service death benefit and to start disability payments at age 65. The plan contemplates that long term disability benefits will be provided through a separate LTD insurance contract prior to age 65. The retired life liability for current disabled employees (many of whom are under age 65) is retained under the plan.

*Contributions.* The retirement committee of the City has the authority to establish and amend contribution requirements of the plan. The City's contribution is determined through an actuarial valuation. Per the most recent valuation, the City is contributing at a rate equivalent to 0.30 percent of covered payroll. For the year ended September 30, 2007, the City contributed \$323,000 to the plan. Administrative costs of DIP are financed through investment earnings.

### SELF INSURANCE

As of November 1, 1986, the City of Arlington became fully self-insured for General, Auto, Public Officials, and Law Enforcement Liability coverages. The self-insurance plan provides for \$1 million per occurrence coverage with a \$3 million annual aggregate loss limit. In the absence of commercial liability insurance at reasonable cost, alternative measures for funding liability claims expense had to be developed. Arlington officials created a fully funded self-insurance program by issuing taxable municipal obligations. An actuarial study performed by the Wyatt Company, Dallas, Texas, determined that the City of Arlington would need \$9.9 million to cover statistically predictable liability losses incurred between November 1, 1986, and November 1, 1996. Obligations were issued in the principal amount of \$9,000,000 and the City contributed \$1,000,000 from its General Fund. On January 12, 1999, the City issued \$7,000,000 Combination Tax and Revenue Certificates of Obligation, Taxable Series 1999. The proceeds of this issue have been used to recapitalize the City's self-insurance program. The annual actuarial study in May 1999 estimated that the \$7,000,000 of proceeds would adequately fund the self-insurance program through September 30, 2004. Subsequent actuarial studies and actual fund performance allowed continuation through September 30, 2007. As of September 30, 2007, total current assets less both current and non-current claims payable, was \$2,426,980. Beginning in fiscal year 2007, funding for the self-insurance plan is provided by annual transfers from budgeted operating funds.

### CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City made the following agreement for the benefit of the owners and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

#### Annual Reports

The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the headings "THE CITY OF ARLINGTON", "DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM", "DEBT INFORMATION", "DEBT SERVICE REQUIREMENTS", "CERTAIN OPERATIONS OF THE GENERAL FUND", and "TAX DATA". The City will update and provide this information within six months after the end of each fiscal year ending in or after 2008. The City will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The City may provide updated information in full text or may incorporate by reference certain other publicly available

documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide notice that audited financial statements are not available and will provide unaudited financial statements for the applicable fiscal year to each NRMISR and any SID, and audited financial statements when they become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulations.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify each NRMSIR and any SID of the change.

The Municipal Advisory Council of Texas (the "MAC") has been designated by the State of Texas and approved by the SEC staff as a qualified SID. The address of the Municipal Advisory Council is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78798-2177, and its telephone number is 512/476-6947. The MAC has also received SEC approval to operate, and has begun to operate, a "central post office" for information filings made by municipal issuers, such as the City. A municipal issuer may submit its information filings with the central post office, which then transmits such information to the NRMSIRs and the appropriate SID for filing. This central post office can be accessed and utilized at [www.DisclosureUSA.com](http://www.DisclosureUSA.com) ("DisclosureUSA"). The City may utilize DisclosureUSA for the filing of information related to the Obligations.

### **Material Event Notices**

The City will also provide timely notices of certain events to certain information vendors. The City will provide notice of any of the following events with respect to the Obligations, if such event is material to a decision to purchase or sell Obligations: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Obligations; (7) modifications to rights of owners of the Obligations; (8) Obligation calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations; and (11) rating changes. (Neither the Obligations nor the Ordinance make any provision for debt service reserves, credit enhancement, or liquidity enhancement.) In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The City will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

### **Availability of Information from NRMSIRs and SID**

The City has agreed to provide the foregoing information only to NRMSIRs or the MSRB and any SID. The information will be available to owners of Obligations only if the owners comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

### **Limitations and Amendments**

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Obligations at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although owners of Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell the Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the

Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the owners of a majority in aggregate principal amount of the outstanding Obligations consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the owners and Beneficial Owners of the Obligations. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

### **Compliance with Prior Undertakings**

The City has previously made continuing disclosure agreements in connection with the issuance of its bonds and obligations. The City is in compliance with its prior undertakings for the last five years.

## **ADDITIONAL INFORMATION**

For additional information regarding this document please contact Ms. Anna Mosqueda, Director, Financial Services, City of Arlington, Texas, at (817) 459-6315.

## **TAX MATTERS**

### **Tax Exemption**

In the opinion of Vinson & Elkins L.L.P., Bond Counsel, (i) interest on the Obligations is excludable from gross income for federal income tax purposes under existing law and (ii) the Obligations are not “private activity bonds” under the Code, and interest on the Obligations will not be subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Internal Revenue Code of 1986, as amended (the “Code”), imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Obligations, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of the proceeds of the Obligations and source of repayment thereof, limitations on the investment of proceeds of the Obligations prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds of the Obligations be paid periodically to the United States and a requirement that the City file an information report with the Internal Revenue Service. The City has covenanted in the Ordinances authorizing the issuance of the Obligations that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants in the Ordinances pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Obligations for federal income tax purposes and, in addition, will rely on representations by the City and the respective initial purchasers with respect to matters solely within the knowledge of the City and the respective initial purchasers, which Bond Counsel has not independently verified. If the City should fail to comply with the covenants contained in the Ordinances or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the respective Obligations could become taxable from the date of initial delivery thereof, regardless of the date on which the event causing such taxability occurs.

The Code also imposes a 20% alternative minimum tax on the “alternative minimum taxable income” of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation’s regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), includes 75% of the amount by which its “adjusted current earnings” exceeds its other “alternative minimum taxable income.” Because interest on tax-exempt obligations, such as the Obligations, is included in a corporation’s “adjusted current earnings,” ownership of the Obligations could subject a corporation to alternative minimum tax consequences.

Except as stated above, and as stated below in “Tax Accounting Treatment of Original Issue Discount Obligations,” Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Obligations.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on

Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather such opinions represent Bond Counsel's legal judgment based on its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Obligations. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Obligations could adversely affect the value and liquidity of the Obligations during the pendency of the audit regardless of the outcome of the audit.

## **ADDITIONAL FEDERAL INCOME TAX CONSEQUENCES**

### **Collateral Tax Consequences**

Prospective purchasers of the Obligations should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax exempt interest such as interest on the Obligations. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Obligations should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Obligations, received or accrued during the year.

### **Tax Accounting Treatment of Original Issue Premium**

The issue price of all or a portion of the Obligations may exceed the stated redemption price payable at maturity of such Obligations. Such Obligations (the "Premium Obligations") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Obligation in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Obligation in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Obligation by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Obligation that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Obligation) is determined using the yield to maturity on the Premium Obligation based on the initial offering price of such Obligation.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Obligations that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Obligations should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Obligation and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Obligations.

### **Tax Accounting Treatment of Original Issue Discount Obligations**

The issue price of all or a portion of the Obligations may be less than the stated redemption price payable at maturity of such Obligations (the "Original Issue Discount Obligations"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Obligation, and (ii) the initial offering price to the public of such Original Issue Discount Obligation constitutes original issue discount with respect to such Original Issue Discount Obligation in the hands of any owner who has purchased such Original Issue Discount Obligation in the initial public



offering of the Certificates. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Obligation equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Obligation continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Obligations under the caption “Collateral Tax Consequences “ generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount obligation prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Obligation in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Obligation was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (a) the Purchaser has purchased the Obligations for contemporaneous sale to the public and (b) all of the Original Issue Discount Obligations have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the Issuer nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Obligations will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Obligation is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Obligations and ratably within each such six-month period) and the accrued amount is added to an initial owner’s basis for such Original Issue Discount Obligation for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Obligation.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Obligations which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Obligations should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Obligations and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Obligations.

## **OTHER RELEVANT INFORMATION**

### **Ratings**

The presently outstanding tax supported debt of the City is rated “AA” by Fitch Ratings, Inc. (“Fitch”), One State Street Plaza, New York, New York 10004, “Aa2” by Moody’s Investors Service, Inc. (“Moody’s”), 99 Church Street, New York, New York 10007, and “AA+” by Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. (“S&P”), 55 Water Street, New York, New York 10041. The 2008A Certificates will also be rated “AAA”, Aaa” and “AAA” by Fitch, Moody’s and S&P as result of the financial guaranty municipal insurance policy to be delivered by FSA. The City also has issues outstanding that are rated “AAA” by Fitch, “Aaa” by Moody’s and “AAA” by S&P through insurance from various commercial insurance companies. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies, and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by either or both of such rating agencies if, in the judgment of either or both, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of either of such ratings may have an adverse effect on the market price of the Obligations.

## **Litigation**

The City is currently involved in an employment lawsuit, *Lubke v. City of Arlington*, in which the plaintiff alleges that his termination violated the Family Medical Leave Act. He was terminated from his employment as a Battalion Chief with the City of Arlington Fire Department when he did not show up for work during the “Y2K” weekend in December 1999. The City contends that the plaintiff had inadequate substantiation for his absence. Such substantiation was required under the policies of the Fire Department. The case was tried to a jury in April 2004. Judgment in the amount of \$1.1 million was rendered against the City. The case was appealed and remanded by the 5th Circuit. The case is currently before the trial court on issues of damages and the effect of the plaintiff’s failure to disclose the judgment in a bankruptcy he filed during the appeal. Settlement negotiations with the bankruptcy trustee, who now owns the Judgment, were unsuccessful. The case is now styled *Reed v. City of Arlington*. The trial court ruled that the original plaintiff Lubke is estopped from receiving any benefit from his judgment against the City of Arlington. However, the trial court held that the bankruptcy estate should not be estopped from collecting on the judgment for the benefit of Lubke’s creditors. At the present time, the estimated value of the bankruptcy estate including debts and costs is about \$624,770.00. The trial court will also recalculate the damage award based on offsets for retirement benefits paid that were not permitted at the trial court level. The City believes that the recalculated damage award will be approximately \$431,123.

The City still strongly believes that judicial estoppel should apply to the bankruptcy trustee and will eventually appeal this case to the 5th circuit. The probability of an unfavorable outcome cannot be made at this time, but the range of exposure in the event of an unfavorable outcome is now \$400,000 to \$650,000. Accordingly, no accrual has been made.

The City is currently involved in an American with Disabilities Act discrimination lawsuit (*Frame, et al. v. City of Arlington*), in which the plaintiffs allege that they are discriminated against because of the condition of curb ramps and sidewalks in the public rights of way in the City of Arlington. The City contends that the City is in compliance with the ADA. The City is vigorously contesting this case which is still in the early pleading stages of litigation. A motion to dismiss is pending. The range of exposure to the City in the event of a jury verdict is inestimable. The probability of an unfavorable outcome cannot be determined at this time.

The Americans with Disability Act claim against the City of Arlington was dismissed by the trial court on March 31, 2008. It is anticipated that the plaintiffs’ will appeal. If the case were allowed to continue, under the ADA, plaintiffs are limited to the recovery of attorney’s fees, there is no compensatory damage provision. However, the plaintiffs are seeking to have the City of Arlington rebuild almost its entire sidewalk system. The range of exposure to the City in the event of an unfavorable outcome cannot be determined at this time.

Various other claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of APFA limitations (see “Self Insurance”) or insurance coverage, if any, on all such claims will not have a materially adverse effect on the City’s financial position, as a whole.

## **Registration and Qualification**

The sale of the Obligations has not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon exemptions provided therein; the Obligations have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been registered or qualified under the securities act of any jurisdiction. The City assumes no responsibility for registration or qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be offered, sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Obligations shall not be construed as an interpretation of any kind with regard to the availability of any exemptions from securities registration or qualification provisions.

## **No Litigation Certificate**

The City will furnish to the respective initial purchaser of the Obligations a certificate, dated as of the date of delivery of the Obligations, to the effect that no litigation of any nature has been filed or is pending, as of such date, to restrain or enjoin the issuance and delivery of the Obligations, or which affects the provisions made for their payment or security, or in any manner questions the validity of the Obligations.

## **Financial Advisor**

The PFM Group (“PFM”), Austin, Texas is employed as Financial Advisor to the City in connection with the issuance of the Obligations. PFM’s fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. PFM, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in this Official Statement.

## **Initial Purchaser of the Bonds**

After requesting competitive bids for the Bonds, the City accepted the bid of R. W. Baird (the “Initial Purchaser”) to purchase the Bonds at the interest rates shown on the respective cover page of the Official Statement at a price of 100.12% of par. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The City has no control over the price at which the bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser of the Bonds.

## **Initial Purchaser of the 2008A Certificates**

After requesting competitive bids for the Bonds, the City accepted the bid of Citi (the “Initial Purchaser”) to purchase the 2008A Certificates at the interest rates shown on the respective cover page of the Official Statement at a price of 100% of par. The Initial Purchaser can give no assurance that any trading market will be developed for the 2008A Certificates after their sale by the City to the Initial Purchaser. The City has no control over the price at which the 2008A Certificates are subsequently sold and the initial yield at which the 2008A Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser of the 2008A Certificates.

## **Forward - Looking Statements**

The statements contained in this Official Statement and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligations to update any such forward-looking statements. It is important to note that the City’s actual results could differ materially from those in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

## **Certification of Official Statement**

Concurrent with the delivery of the Bonds and the 2008A Certificates, the City will furnish a certificate dated the date of delivery of the Obligations, signed by the appropriate City officials and stating that the descriptions and statements in this Official Statement on the date of this Official Statement and on the date of delivery were and are true and correct in all material respects, did not and do not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such descriptions and statements, in light of the circumstances under which they were made, not misleading, and that no material adverse change has occurred in the financial condition of the City between the date of this Official Statement and the date of delivery of the Bonds and the 2008A Certificates other than as contemplated in the Official Statement. Such certificate will also state, however, that such City officials did not independently verify the information indicated in this Official Statement as having been obtained or derived from sources other than the City and its officers but that they have no reason to believe that such information is not accurate.

None of the information contained in this Official Statement (with the exception of Appendix B) has been reported on by the City's independent auditors.

**Miscellaneous**

The financial data and other information contained herein have been obtained from the City's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in the Official Statement are made subject to all of the provisions of such statutes, documents and resolution. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Ordinances authorizing the issuance of the Obligations will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Obligations by the Initial Purchasers.

/s/ Robert N. Cluck  
Mayor  
City of Arlington, Texas

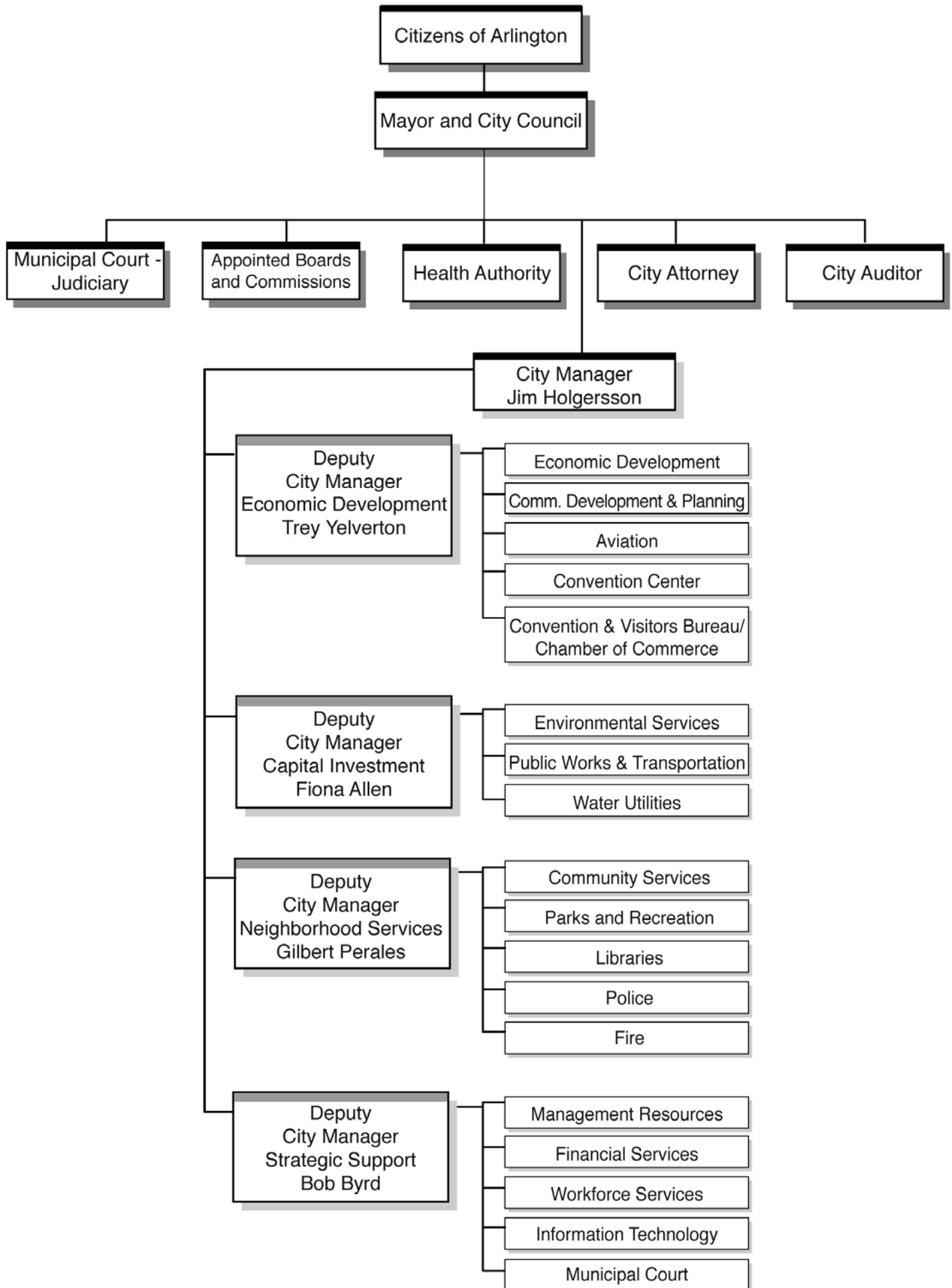
ATTEST:  
/s/ Karen Barlar  
Acting City Secretary  
City of Arlington, Texas

**APPENDIX A**

**CITY OF ARLINGTON ORGANIZATIONAL CHART**

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# City of Arlington Organization Chart



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**APPENDIX B**

**AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS OF THE CITY OF ARLINGTON  
FISCAL YEAR 2007**

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## **INDEPENDENT AUDITORS' REPORT**

The Honorable Mayor and Members of City Council  
City of Arlington, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington, Texas (the "City") as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City of Arlington's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Arlington Housing Authority or the Arlington Convention and Visitors Bureau, Inc., which statements reflect total assets constituting 20.35% and 0.59%, respectively, of total component unit assets as of September 30, 2007 and total program revenues constituting 79.75% and 11.30%, respectively, of total component unit program revenues for the year then ended. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Arlington Housing Authority and Arlington Convention and Visitors Bureau, Inc. is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison statement for the

General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Schedule of Funding Progress – TMRS, the Schedule of Funding Progress – Part Time Deferred Income Trust, and the Schedule of Funding Progress – Disability Income Plan are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City of Arlington's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Deloitte & Touche LLP*

February 29, 2008

**CITY OF ARLINGTON, TEXAS  
 BASIC FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007  
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## **INDEPENDENT AUDITORS' REPORT**

The Honorable Mayor and Members of City Council  
City of Arlington, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington, Texas (the "City") as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements. These financial statements are the responsibility of the City of Arlington's management. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the financial statements of the Arlington Housing Authority or the Arlington Convention and Visitors Bureau, Inc., which statements reflect total assets constituting 20.35% and 0.59%, respectively, of total component unit assets as of September 30, 2007 and total program revenues constituting 79.75% and 11.30%, respectively, of total component unit program revenues for the year then ended. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Arlington Housing Authority and Arlington Convention and Visitors Bureau, Inc. is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Arlington as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison statement for the

General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Schedule of Funding Progress – TMRS, the Schedule of Funding Progress – Part Time Deferred Income Trust, and the Schedule of Funding Progress – Disability Income Plan are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the City of Arlington's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Deloitte & Touche LLP*

February 29, 2008

## CITY OF ARLINGTON, TEXAS

### MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

SEPTEMBER 30, 2007

This discussion and analysis of the City of Arlington's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2007. It should be read in conjunction with the accompanying letter of transmittal and the accompanying basic financial statements.

#### FINANCIAL HIGHLIGHTS

- The City of Arlington's net assets of governmental activities increased by \$172.2 million or 28.5 percent this year, primarily because of an increase in funding construction in progress of approximately \$229.4 million. The increase in construction in progress is attributable to the ongoing construction of the Dallas Cowboys Complex Development Project (Complex Project). This year, the city recorded an increase in construction costs of \$230.7 million which includes \$113.4 million in contributions from the Cowboys Stadium, L.P.
- The City's increase in total net assets of \$187.1 million for the year ended September 30, 2007 was \$38.3 million higher than the increase of \$148.8 million for the year ended September 30, 2006. This \$38.3 million increase is primarily attributable to the \$113.4 million in construction contributions for the Complex Project from the Cowboys Stadium, L.P compared to \$70.2 million in 2006.
- As of September 30, 2007, the City of Arlington's governmental funds reported combined ending fund balances of \$316.6 million, a decrease of \$95.0 million in comparison with the prior fiscal year. The majority of this change is due to an increase in the Stadium Venue Fund's capital outlay (net of the Cowboys Stadium, L.P. contribution) of \$73.9 million and an increase in the Streets Capital Projects net outlay of \$20.7 million.
- At the end of the current fiscal year, unreserved General Fund balance was \$52.9 million compared to \$60.9 million last year. Last year, \$24.7 million of unreserved fund balance was designated for future needs such as working capital requirements and subsequent years' expenditures. Additionally, \$20.6 million of fund balance was designated for future initiatives, leaving \$10.6 million as unreserved, undesignated fund balance. This year, \$25.2 of unreserved fund balance was designated for future needs and \$21.0 million of landfill proceeds was designated for one-time special projects. A new designation for future infrastructure needs of \$1.0 million was approved, leaving \$5.6 million as undesignated and unreserved.
- The City entered into several gas leases for various City-owned properties this year. Gas lease revenue for the year ended September 30, 2007 amounted to \$25.5 million compared to \$5.0 million last year. A substantial portion of the gas lease revenue will be used for the creation of an endowment fund to be used for the benefit of the Arlington community.



**CITY OF ARLINGTON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007**

- The City's total debt of \$648.0 million has increased \$1.7 million during the fiscal year. This year, the City issued \$12 million of short-term commercial paper, and \$24 million of Water and Wastewater System Revenue, while paying down \$34.3 million on existing obligations. Of the total debt, \$549.4 million relates to the operation of the general government and \$98.6 million relates to water and wastewater activities.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis serves as an introduction to the City of Arlington's basic financial statements. The City of Arlington's basic financial statements are comprised of four components: government-wide financial statements, fund financial statements, notes to the financial statements and required supplementary information. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the City of Arlington's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the City of Arlington's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Arlington is improving or deteriorating. The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations. Other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial condition of the City. The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave). Both the Statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis.

In the Statement of Net Assets and the Statement of Activities, the City is divided into three kinds of activities:

- **Governmental Activities** – Most of the City's basic services are reported here, including police, fire, libraries, planning and development, public works and transportation, parks and recreation, and general administration. Property taxes, sales taxes and franchise fees finance most of these activities.
- **Business-type Activities** – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system is reported here.
- **Component Units** – The City includes one blended component unit in its report – Arlington Property Finance Authority, Inc. The City includes five discretely presented component units in its report – Arlington Sports Facilities Development Authority, Inc., Arlington Housing Authority, Arlington Convention and Visitors

Bureau, Arlington Housing Finance Corporation and Arlington Industrial Corporation. Although legally separate, these component units are important because the City is financially accountable for them.

## **Reporting the City's Most Significant Funds**

### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds - governmental and proprietary – utilize different accounting approaches.

- Governmental funds – The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

The City of Arlington maintains twenty-four individual governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund, Gas Lease Fund, Streets Capital Projects Fund and the Stadium Venue Fund, all of which are considered to be major funds. Data from the other nineteen governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

- Proprietary funds – The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information such as cash flows. The internal service funds (the other component of proprietary funds) are utilized to report activities that provide supplies and services for the City's other programs and activities, such as the City's general

services, the City's self-insurance funds and fleet maintenance functions. Because these services benefit both governmental as well as business-type functions, they have been included in both the governmental and business-type activities in the government-wide financial statements.

Currently, the City maintains one individual enterprise fund. The City uses this enterprise fund to account for its water and sewer operations. The fund provides the same type of information as the government-wide financial statements, only in more detail and includes some of the internal service fund type activity. The proprietary fund financial statements provide separate information for the water and sewer, which is considered to be a major fund of the City.

### **The City as Trustee**

#### **Reporting the City's Fiduciary Responsibilities**

The City is the trustee, or fiduciary, for its Part-Time Deferred Income Trust, Thrift Savings Plan and Disability Income Plan, as well as certain amounts held on behalf of developers, property owners and others. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The activities of these funds are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

#### **Other Information**

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to the employees.

### **THE CITY AS A WHOLE – Government-wide Financial Analysis**

The City's combined net assets were \$1.2 billion as of September 30, 2007. Analyzing the net assets and net expenses of governmental and business-type activities separately, the business-type activities net assets are \$455.1 million. This analysis focuses on the net assets (Table 1) and changes in general revenues (Table 2) and significant expenses of the City's governmental and business-type activities.

By far the largest portion of the City's net assets (87.3 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF ARLINGTON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007**

**Table 1  
Summary of Net Assets  
(Amounts Expressed in Millions)**

|  | <b>Governmental<br/>Activities</b> |                    | <b>Business-type<br/>Activities</b> |                    | <b>Total Primary<br/>Government</b> |                    |
|--|------------------------------------|--------------------|-------------------------------------|--------------------|-------------------------------------|--------------------|
|  | <b><u>2007</u></b>                 | <b><u>2006</u></b> | <b><u>2007</u></b>                  | <b><u>2006</u></b> | <b><u>2007</u></b>                  | <b><u>2006</u></b> |
| Current and other assets                           | \$ 415                             | \$ 481             | \$ 101                              | \$ 86              | \$ 516                              | \$ 567             |
| Capital assets                                     | 994                                | 755                | 469                                 | 451                | 1,463                               | 1,206              |
| Total assets                                       | 1,409                              | 1,236              | 570                                 | 537                | 1,979                               | 1,773              |
| Long-term liabilities                              | 547                                | 570                | 92                                  | 76                 | 639                                 | 646                |
| Other liabilities                                  | 86                                 | 63                 | 23                                  | 21                 | 109                                 | 84                 |
| Total liabilities                                  | 633                                | 633                | 115                                 | 97                 | 748                                 | 730                |
| Net assets:  |                                    |                    |                                     |                    |                                     |                    |
| Invested in capital assets, net<br>of related debt | 646                                | 510                | 429                                 | 409                | 1,075                               | 919                |
| Restricted   | 40                                 | 26                 | 9                                   | 10                 | 49                                  | 36                 |
| Unrestricted                                       | 90                                 | 67                 | 17                                  | 21                 | 107                                 | 88                 |
| Total net assets                                   | <u>\$ 776</u>                      | <u>\$ 603</u>      | <u>\$ 455</u>                       | <u>\$ 440</u>      | <u>\$ 1,231</u>                     | <u>\$ 1,043</u>    |

**Governmental Activities**

The City's general revenues increased when compared to the prior year by 14.1 percent or \$34.7 million. The primary reason for this increase is attributable to a \$20.5 million increase in revenues from natural gas leases. The City entered into several gas leases during the year resulting in additional up-front gas lease bonuses. Sales tax revenue increased \$3.3 million as a result of a mildly improving local economy. Property tax revenue increased \$3.9 million due to increased property valuations and the addition of new property throughout the City. The assessed value of the property in the City increased by \$649.8 million or 4.0 percent while the property tax rate of \$0.6480 per \$100 assessed valuation remained the same as in 2006. Interest income increased \$2.3 million primarily due to higher interest rates. Other revenue increased by \$6.2 million due to an increase in the market value of the City's investment portfolio over last year.

**Table 2  
General Revenues  
(Amounts Expressed In Thousands)**

|                        | <b><u>2007</u></b> | <b><u>2006</u></b> | <b>Increase<br/>(Decrease)</b> |
|------------------------|--------------------|--------------------|--------------------------------|
| Property Taxes         | \$ 108,301         | \$ 104,425         | \$ 3,876                       |
| Sales Taxes            | 79,781             | 76,483             | 3,298                          |
| Other Taxes            | 9,249              | 8,319              | 930                            |
| Utility franchise fees | 29,145             | 31,140             | (1,995)                        |
| Gas Lease income       | 25,471             | 5,020              | 20,451                         |
| Interest income        | 21,849             | 19,513             | 2,336                          |
| Other revenue          | 7,348              | 1,176              | 6,172                          |
| Total general revenues | <u>\$ 281,144</u>  | <u>\$ 246,076</u>  | <u>\$ 35,068</u>               |

**CITY OF ARLINGTON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007**

Governmental and Business-type activities increased the City's net assets by \$187.1 million for the year ended September 30, 2007 and \$148.8 million for the year ended September 30, 2006. The key elements of these increases are as follows:

**Table 3  
Changes in Net Assets  
(Amounts Expressed in Thousands)**

|  | Governmental Activities |                   | Business-type Activities |                   | Total               |                     |
|--|-------------------------|-------------------|--------------------------|-------------------|---------------------|---------------------|
|  | <u>2007</u>             | <u>2006</u>       | <u>2007</u>              | <u>2006</u>       | <u>2007</u>         | <u>2006</u>         |
| <b>Revenues:</b>                               |                         |                   |                          |                   |                     |                     |
| Program Revenues:                              |                         |                   |                          |                   |                     |                     |
| Charges for services                           | \$39,320                | \$44,184          | \$ 88,786                | \$ 102,745        | \$ 128,106          | \$ 146,929          |
| Operating grants and contributions             | 14,102                  | 13,846            | -                        | -                 | 14,102              | 13,846              |
| Capital grants and contributions               | 121,720                 | 77,683            | 3,600                    | 5,529             | 125,320             | 83,212              |
| General Revenues:                              |                         |                   |                          |                   |                     |                     |
| Taxes  | 197,331                 | 189,227           | -                        | -                 | 197,331             | 189,227             |
| Utility franchise fees                         | 29,145                  | 31,140            | -                        | -                 | 29,145              | 31,140              |
| Gas Lease Income                               | 25,471                  | 5,020             | -                        | -                 | 25,471              | 5,020               |
| Interest Income                                | 21,849                  | 19,513            | 1,685                    | -                 | 23,534              | 19,513              |
| Other  | 7,348                   | 1,176             | 257                      | 2,301             | 7,605               | 3,477               |
| <b>Total revenues</b>                          | <b>456,286</b>          | <b>381,789</b>    | <b>94,328</b>            | <b>110,575</b>    | <b>550,614</b>      | <b>492,364</b>      |
| <b>Expenses:</b>                               |                         |                   |                          |                   |                     |                     |
| General government                             | 34,120                  | 31,812            | -                        | -                 | 34,120              | 31,812              |
| Public safety                                  | 113,343                 | 102,363           | -                        | -                 | 113,343             | 102,363             |
| Public works                                   | 73,161                  | 66,019            | -                        | -                 | 73,161              | 66,019              |
| Public health                                  | 1,735                   | 1,697             | -                        | -                 | 1,735               | 1,697               |
| Parks and recreation                           | 26,826                  | 27,761            | -                        | -                 | 26,826              | 27,761              |
| Public welfare                                 | 11,136                  | 9,408             | -                        | -                 | 11,136              | 9,408               |
| Convention and event services                  | 5,628                   | 5,094             | -                        | -                 | 5,628               | 5,094               |
| Interest and fiscal charges                    | 24,581                  | 24,923            | -                        | -                 | 24,581              | 24,923              |
| Water and sewer                                | -                       | -                 | 72,945                   | 74,516            | 72,945              | 74,516              |
| <b>Total expenses</b>                          | <b>290,530</b>          | <b>269,077</b>    | <b>72,945</b>            | <b>74,516</b>     | <b>363,475</b>      | <b>343,593</b>      |
| <b>Increase in net assets before transfers</b> | <b>165,756</b>          | <b>112,712</b>    | <b>21,383</b>            | <b>36,059</b>     | <b>187,139</b>      | <b>148,771</b>      |
| Transfers                                      | 6,520                   | 6,432             | (6,520)                  | (6,432)           | -                   | -                   |
| <b>Increase in net assets</b>                  | <b>172,276</b>          | <b>119,144</b>    | <b>14,863</b>            | <b>29,627</b>     | <b>187,139</b>      | <b>148,771</b>      |
| <b>Net Assets, October 1,</b>                  | <b>603,422</b>          | <b>484,278</b>    | <b>440,244</b>           | <b>410,617</b>    | <b>1,043,666</b>    | <b>894,895</b>      |
| <b>Net Assets, September 30</b>                | <b>\$ 775,698</b>       | <b>\$ 603,422</b> | <b>\$ 455,107</b>        | <b>\$ 440,244</b> | <b>\$ 1,230,805</b> | <b>\$ 1,043,666</b> |

The most significant governmental expense for the City was in the area of public safety, which incurred expenses of \$113.3 million, representing a \$10.9 million increase when compared to the prior fiscal year. The major components of public safety are police and fire. Police accounted for \$71.7 million in public safety expenses this year compared to \$68.1 million last year, a 5.3 percent increase. Salary and benefits of \$59.3 million comprised 82.7 percent of Police expenses for the year ended September 30, 2007 as compared to salary and benefit expenses of \$56.0 million equaling 82.2 percent of last year's expenses. The increase in salary and benefit expenses is the result of general pay

**CITY OF ARLINGTON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007**

increases. These expenses were offset by revenues collected from a variety of sources, with the largest amount coming from fines and forfeitures, which were \$7.5 million for the fiscal year ending September 30, 2007, a slight decrease of \$0.2 million over last year. Fire accounted for \$38.4 million in public safety expenses this year, compared to \$33.5 million last year, a 14.6% increase. A large portion of the increase is attributable to salary and benefits expenses. Salary and benefits of \$29.4 million made up 76.6 percent of Fire expenses for the year ended September 30, 2007 compared to salary and benefit expenses of \$28.1 million comprising 83.9 percent of last year's expenses. The balance of the increase is due to higher expenses for vehicle purchases and maintenance items, this year over last year.

**Business-type Activities**

Revenues of the City's business-type activities were \$94.3 million for the fiscal year ending September 30, 2007. Revenues decreased by approximately \$16.2 million or 14.7 percent. Expenses for the City's business-type activities were \$79.5 million for the year, substantially unchanged when compared to last year's expenses of \$80.1 million. The decrease in net revenues is due to a decrease in water sales as a result of a cooler, rainy summer this year.

The City's water and sewer system recorded charges for services of \$88.8 million, a decrease of \$13.9 million over last year, and a non-cash revenue source of \$3.6 million of capital contributions that represent developer contributions. Developer contributions represent subdivision infrastructure, which upon completion, is contributed to the resources of the City. Excluding developer contributions, the water and sewer system charges for services of \$88.8 million exceeded expenses of \$71.9 million by \$16.9 million. The most significant expenses of the water and sewer fund were \$12.5 million to purchase water, \$19.4 million for the purchase of sewage treatment and \$12.9 million in salaries and benefits. Overall the City's water and sewer system's net revenues of \$14.9 million (including developer contributions) for this year were 49.5 percent lower than last year's net revenue of \$29.5 million.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the fiscal year 2007, the City had \$1.5 billion invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See Table 4 below.) This amount represents a net increase (including additions and deductions) of \$257.9 million or 21.4 percent over the prior fiscal year. The \$257.9 million increase combines a \$240.1 million increase in Governmental Activities with a \$17.8 million increase in Business-type Activities. The increase in Governmental Activities is mostly due to \$230.7 in capital outlay related to the Cowboys Stadium Complex Project. The increase in Business-type Activities is due to increased capital outlays for the water and sewer system. Footnote 4 in the notes to the financial statements provides more detailed information regarding the City's capital asset activity.

**Table 4  
Capital Assets, net of Accumulated Depreciation  
(In Thousands)**

|                            | <b>Governmental</b> |                   | <b>Business-type</b> |                   | <b>Total</b>        |                     |
|----------------------------|---------------------|-------------------|----------------------|-------------------|---------------------|---------------------|
|                            | <b>Activities</b>   |                   | <b>Activities</b>    |                   |                     |                     |
|                            | <b>2007</b>         | <b>2006</b>       | <b>2007</b>          | <b>2006</b>       | <b>2007</b>         | <b>2006</b>         |
| Land                       | \$ 81,760           | \$ 80,600         | \$ 4,941             | \$ 4,828          | \$ 86,701           | \$ 85,428           |
| Buildings and improvements | 131,205             | 121,901           | 1,816                | 1,869             | 133,021             | 123,770             |
| Equipment                  | 23,607              | 17,645            | 165                  | 287               | 23,772              | 17,932              |
| Construction in progress   | 474,351             | 244,903           | 73,780               | 76,987            | 548,131             | 321,890             |
| Infrastructure             | 283,625             | 289,373           | -                    | -                 | 283,625             | 289,373             |
| Water and sewer system     | -                   | -                 | 388,133              | 367,059           | 388,133             | 367,059             |
| <b>Totals</b>              | <b>\$ 994,548</b>   | <b>\$ 754,422</b> | <b>\$ 468,835</b>    | <b>\$ 451,030</b> | <b>\$ 1,463,383</b> | <b>\$ 1,205,452</b> |

Major capital asset additions during the fiscal year include the following:

- Private developer capital contributions of \$3.6 million to the City's water, sewer, and drainage infrastructure in connection with various residential and commercial developments
- Capital outlay of \$230.7 million for the Complex Project, funded in part by a \$113.4 million contribution from the Cowboys Stadium, L.P.
- Water and sewer system capital improvements and expansion totaling \$28.0 million
- A variety of storm drainage and street construction projects with capital outlay totaling \$31.6 million
- Various capital outlays totaling \$2.7 million for improvement of the City's parks and recreation facilities
- Various capital outlays of \$5.2 million for police and fire public safety improvements

**CITY OF ARLINGTON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007**

**Debt**

At year-end, the City had \$634.0 million in General Obligation Bonds, Special Obligation Bonds, Revenue Bonds and Combination Tax and Revenue Certificates of Obligations outstanding, a decrease from last years' \$644.3 million as shown in Table 5.

**Table 5  
Outstanding Debt  
(Amounts Expressed In Thousands)**

|   | Governmental<br>Activities |                   | Business-type<br>Activities |                  | Total             |                   |
|---|----------------------------|-------------------|-----------------------------|------------------|-------------------|-------------------|
|   | 2007                       | 2006              | 2007                        | 2006             | 2007              | 2006              |
| General obligation bonds<br>(backed by the City)                                  | \$ 208,536                 | \$ 229,538        | \$ -                        | \$ -             | \$ 208,536        | \$ 229,538        |
| Combination tax and revenue<br>certificates of obligation<br>(backed by the City) | 22,405                     | 25,935            | -                           | -                | 22,405            | 25,935            |
| Commercial Paper  | 14,000                     | 2,000             |                             |                  | 14,000            | 2,000             |
| Special tax revenue bonds   | 304,478                    | 304,855           |                             |                  | 304,478           | 304,855           |
| Revenue bonds<br>(backed by fee revenues)   | -                          | -                 | 98,562                      | 84,014           | 98,562            | 84,014            |
| <b>Totals</b>   | <b>\$ 549,419</b>          | <b>\$ 562,328</b> | <b>\$ 98,562</b>            | <b>\$ 84,014</b> | <b>\$ 647,981</b> | <b>\$ 646,342</b> |

During the current fiscal, the City issued \$24.0 million in Water and Wastewater System revenue bonds for the purpose of improving and extending the water and wastewater system. Additionally, the City issued \$12.0 million in short term commercial paper for interim funding of the general obligation debt. Footnote 7 in the notes to the financial statements provides more detailed information regarding the City's long-term debt activity.

The City has maintained its AA rating from Standard and Poor's Corporation, its AA rating from Fitch, Inc. and its Aa2 rating from Moodys Investor Services on its tax supported debt. The City also has an AA rating from Standard and Poor's Corporation, an Aa3 rating from Moodys Investor Service and an AA+ from Fitch, Inc. on its outstanding water and wastewater revenue bonds. The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The current ratio of net bonded debt to assessed value of all taxable property is 1.7 percent.

The City maintains a self-insurance program for bodily injury, property damage, personal injury, advertising injury, regulatory injury and worker's compensation. Claims for worker's compensation over \$300,000 per occurrence are covered by a private insurance company. Claim liabilities are actuarially determined and take into consideration claim experience, adjustment expenses, economic, and other factors. Claim liability was \$9.6 million at September 30, 2007 compared to \$10.4 million at September 30, 2006.



## **DALLAS COWBOYS COMPLEX DEVELOPMENT PROJECT**

In February of 2005, the City, as landlord, and the Cowboys Stadium, L.P., as tenant, entered into a funding and closing agreement for the Dallas Cowboys Complex Development Project (Complex). Pursuant to the agreement, the City will pay half the cost, up to \$325 million, to build the Complex. In July of 2005, the City issued \$298.0 million Dallas Cowboy Complex Special Obligations, pledging ½ cent sales tax, two percent hotel occupancy tax and five percent car rental tax. The proceeds of the bond sale, along with interest earnings and excess revenues from the pledged taxes, will provide the City's funding for the Complex.

As part of the closing agreement, the City entered into a lease agreement with the Cowboys Stadium, L.P. (tenant) for lease of the Complex. The lease calls for an initial term of 30 years, after the new stadium opens, at a rental rate of \$2,000,000 per year and contains several renewal options. The lease also provides the tenant with an option to purchase the Complex from the City at the end of the initial lease term and each renewal option thereafter. Under the lease, the tenant pays for all costs of operation and maintenance of the Complex. The tenant will also make separate annual payments to the City, beginning during the construction period, equal to five percent of the net naming rights revenue, if any, received by the tenant capped at \$500,000 per year.

In July of 2006, \$147,865,000 of Dallas Cowboy Complex Admissions and Parking Tax Revenue Bonds, Taxable Series 2006 were issued with a pledge of a 10% admissions tax and a \$3 parking tax for events held at the Cowboys Complex, with additional security provided by a Guaranty Agreement from The Cowboys Stadium L.P. The proceeds of the bond sale, along with interest earnings, will provide a portion of the Cowboy's funding for the project. The bonds are not payable from or secured by any money raised or to be raised from property taxes or any other of the City's revenue sources. The bonds do not constitute a debt or pledge of the faith and credit of the City and are not reported as a liability in the City's financial statements but are disclosed as conduit debt.

The City and the Dallas Cowboys Football Club, LTD. entered into a franchise agreement that requires the Dallas Cowboys NFL football franchise to remain in Arlington and to play all of the team's home games in the Complex for a minimum of 30 years after the stadium opens. If the lease renewal options are exercised, the Cowboys' obligation to stay in Arlington is extended for the renewal term.

## **THE CITY'S FUNDS**

At the close of the City's fiscal year on September 30, 2007, the governmental funds of the City reported a combined fund balance of \$316.6 million. This ending balance includes a decrease in fund balance of \$5.8 million in the City's General Fund. This decrease is primarily attributable to the transfer of \$5.0 million of prior year gas lease revenue to the newly created gas lease fund. In addition, these other changes in fund balances should be noted:

- The City's Debt Service fund balance of \$34.2 million is \$13.5 million higher from last year's fund balance of \$20.6 million attributable to tax revenue exceeding debt service payments.

**CITY OF ARLINGTON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007**

- The City recorded contribution in aid of construction for \$113.4 million from the Cowboys Stadium, L.P. and expended \$230.7 million for the Cowboys Stadium Complex Project, contributing to a net decrease in fund balance of \$104.3 million in the Stadium Venue Fund. This fund was created to account for the construction for the Cowboys Stadium Complex Project and has an ending fund balance of \$143.6 million.
- The City spent \$28.5 million in capital outlay in the Street Capital Projects fund, up \$10.5 million as compared to the same period in the prior year. The increase is due to a rise in the number of street projects undertaken during the year.
- The City created a new special revenue fund to account for gas lease proceeds. These proceeds will be used for improvements around the city, for a neighborhood matching grant program, and for the creation of an endowment fund to benefit the Arlington community. The fund balance is \$29.6 million for the year ended September 30, 2007.
- The City's water and sewer fund net assets of \$454.6 million increased by \$14.9 million over the prior year net asset balance. The increase in net assets is primarily due to operating revenues exceeding operating expenses by \$16.9 million.

**General Fund Budgetary Highlights**

During FY 2006-07, there were budget amendments for the General Fund. These amendments were in the amount of \$466,000. The additional budgeted expenditures were to fund thirteen additional positions in Municipal Court and to install parking meters in downtown.

For FY 2006-07, actual expenditures on a budgetary basis were \$190.5 million compared to the budget amount of \$192.0 million. The \$1.6 million positive variance was due to savings achieved through budgeted but vacant positions throughout various departments.

For FY 2006-07, actual revenues on a budgetary basis were \$186.7 million, equal to the year's budgeted amount.

The City of Arlington has an actual on a budgetary basis General Fund balance of \$65.7 million as of the fiscal year-end, compared to the budgeted fund balance of \$63.9 million. The variance in fund balance is primarily due to various natural gas lease revenues.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for the business-type activities. The City is starting to see an improving revenue picture, yet continues an ongoing diligent examination of expenditures. This combination supports an environment of cautious optimism for fiscal 2008. The City is experiencing some positive economic growth and the tax base is growing at a steady rate. Sales tax revenues have stabilized and are expected to increase 4 percent for fiscal 2008. Assessed property tax values continue to grow, but at a slower rate than previous years.

**CITY OF ARLINGTON, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2007**

For the 2008 fiscal year, the City continues to face short-term budgetary challenges and has made an effort to identify areas where resources can be reallocated, not added. As a result, the City's total General Fund revenues for 2007-2008 are budgeted at \$193.1 million, up 3.4% over the 2006-2007 period, while total General Fund expenditures are \$194.9 million, up 1.7% for the same time period.

The General Fund's largest single revenue source for the General Fund is property taxes. This revenue represents 40.4 percent of the General Fund's budget. The property tax rate for FY 2008 is \$0.6480 per \$100 valuation, unchanged since 2004. Of this tax rate, 68.9 percent or \$0.4467 is utilized for General Fund activities. The remaining 31.1 percent or \$0.2013 is used for debt service. The General Fund's portion of property tax revenue for FY 2008 is estimated to be \$78.0 million up \$4.1 million or 5.3 percent compared to last year. The City's portion of the sales tax rate is one and three-quarter cents. The General Fund receives one cent, one-quarter cent is received by the Street Maintenance Fund, and one-half cent provides for the debt service for the Complex Project debt. Sales tax revenue for the General Fund for fiscal year 2008 is estimated at \$46.4 million, up \$1.9 million or 4.3 percent over last year's budgeted figure.

The largest revenue sources for the Water and Sewer Fund is water sales at \$52 million. This is the charge for potable water used by customers. The City maintains a rate structure designed to ensure that each category of service is self supporting. The rate structure incorporates conservation rates designed to encourage consumers to reduce the amount of water they use. Residential conservation rates for fiscal year 2008 range from \$1.28 per 1,000 gallons for the first 2,000 gallons of consumption to \$3.50 per 1,000 gallons for consumption greater than or equal to 16,000 gallons. The rate for fiscal year 2007 ranged from \$1.32 per 1,000 gallons for the first 2,000 gallons of consumption to \$3.00 per 1,000 gallons for consumption greater than or equal to 16,000 gallons. These rates incorporate the cost of raw water, treatment, distribution and maintenance costs. The second largest revenue source for the Water and Sewer Fund is wastewater treatment charges. The total revenue expected is \$42.7 million based on a fiscal year 2008 rate of \$2.65 per 1,000 gallons, \$0.07 higher than last year's rate of \$2.58 per 1,000 gallons. The total revenue for the Water and Sewer Fund is budgeted at \$102.6 million for fiscal year 2008.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Services Department, at the City of Arlington, 101 S. Mesquite St., Suite 800, Arlington, TX 76010.

**CITY OF ARLINGTON, TEXAS  
STATEMENT OF NET ASSETS  
AS OF SEPTEMBER 30, 2007  
(AMOUNTS EXPRESSED IN THOUSANDS)**

|  | Primary Government         |                             |                     | Component<br>Units |
|--|----------------------------|-----------------------------|---------------------|--------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total               |                    |
| <b>ASSETS</b>                                      |                            |                             |                     |                    |
| Cash and cash equivalents                          | \$ 249,773                 | \$ 12,231                   | \$ 262,004          | \$ 11,193          |
| Investments  | 2,790                      | -                           | 2,790               | 14,770             |
| Receivables (net of allowance for uncollectibles): |                            |                             |                     |                    |
| Taxes  | 5,211                      | -                           | 5,211               | -                  |
| Sales taxes  | 14,393                     | -                           | 14,393              | -                  |
| Grants   | -                          | -                           | -                   | 468                |
| Leases   | -                          | -                           | -                   | 18,391             |
| Trade accounts                                     | 203                        | 6,605                       | 6,808               | -                  |
| Franchise fees                                     | 6,028                      | -                           | 6,028               | -                  |
| Unbilled trade accounts                            | -                          | 6,278                       | 6,278               | -                  |
| Special assessments                                | 224                        | -                           | 224                 | -                  |
| Accrued interest                                   | 3,671                      | -                           | 3,671               | 26                 |
| Settlement agreement                               | -                          | -                           | -                   | 10,999             |
| Other  | 3,738                      | 26                          | 3,764               | 196                |
| Internal balances                                  | (523)                      | 523                         | -                   | -                  |
| Due from component units                           | 22                         | -                           | 22                  | -                  |
| Due from other governments                         | 3,501                      | -                           | 3,501               | -                  |
| Deferred charge - issuance costs                   | 4,033                      | -                           | 4,033               | -                  |
| Inventory of supplies                              | 890                        | 444                         | 1,334               | 5                  |
| Prepaid expenses                                   | 36                         | -                           | 36                  | 25                 |
| Restricted assets-                                 |                            |                             |                     |                    |
| Bond contingency-                                  |                            |                             |                     |                    |
| Investments  | 5,278                      | 10,625                      | 15,903              | -                  |
| Accrued interest receivable                        | -                          | 88                          | 88                  | -                  |
| Capital construction-                              |                            |                             |                     |                    |
| Investments  | 110,286                    | 60,200                      | 170,486             | -                  |
| Assessments receivable                             | -                          | 4                           | 4                   | -                  |
| Meter deposits-                                    |                            |                             |                     |                    |
| Investments  | -                          | 4,725                       | 4,725               | -                  |
| Investment in                                      |                            |                             |                     |                    |
| Closure/Post-closure trust fund                    | 4,511                      | -                           | 4,511               | -                  |
| Capital Assets-                                    |                            |                             |                     |                    |
| Land   | 81,760                     | 4,941                       | 86,701              | -                  |
| Buildings and improvements                         | 204,689                    | 2,833                       | 207,522             | 2,739              |
| Water and sewer system                             | -                          | 560,022                     | 560,022             | -                  |
| Machinery and equipment                            | 61,981                     | 9,896                       | 71,877              | 1,304              |
| Infrastructure                                     | 783,871                    | -                           | 783,871             | -                  |
| Construction in progress                           | 474,351                    | 73,780                      | 548,131             | -                  |
| Accumulated depreciation                           | (612,104)                  | (182,637)                   | (794,741)           | (2,097)            |
| <b>Total Assets</b>                                | <b>\$ 1,408,613</b>        | <b>\$ 570,584</b>           | <b>\$ 1,979,197</b> | <b>\$ 58,019</b>   |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS  
STATEMENT OF NET ASSETS  
AS OF SEPTEMBER 30, 2007  
(CONTINUED)  
(AMOUNTS EXPRESSED IN THOUSANDS)**

|   | <b>Primary Government</b>          |                                     |                     | <b>Component<br/>Units</b> |
|---|------------------------------------|-------------------------------------|---------------------|----------------------------|
|   | <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>        |                            |
| <b>LIABILITIES</b>                              |                                    |                                     |                     |                            |
| Accounts payable and accrued liabilities        | \$ 15,755                          | \$ 4,837                            | \$ 20,592           | \$ 1,662                   |
| Retainage payable                               | 1,498                              | -                                   | 1,498               | -                          |
| Due to primary government                       | -                                  | -                                   | -                   | 22                         |
| Unearned revenue                                | 21,621                             | -                                   | 21,621              | 648                        |
| Commercial Paper                                | 14,000                             | -                                   | 14,000              | -                          |
| Payable from restricted assets-                 |                                    |                                     |                     |                            |
| Accounts payable and accrued liabilities        | -                                  | 2,785                               | 2,785               | -                          |
| Retainage payable                               | -                                  | 1,152                               | 1,152               | -                          |
| Accrued interest                                | 1,446                              | 1,528                               | 2,974               | -                          |
| Revenue bonds payable, current                  | -                                  | 2,743                               | 2,743               | -                          |
| Meter deposits                                  | -                                  | 4,725                               | 4,725               | -                          |
| Non-current liabilities                         |                                    |                                     |                     |                            |
| Due within one year:                            |                                    |                                     |                     |                            |
| Estimated claims payable                        | 6,413                              | -                                   | 6,413               | -                          |
| Sales tax payable                               | 149                                | -                                   | 149                 | 74                         |
| General obligation debt                         | 23,400                             | -                                   | 23,400              | -                          |
| Accrued compensated absences                    | 1,276                              | 113                                 | 1,389               | -                          |
| Capital lease obligation                        | 560                                | -                                   | 560                 | -                          |
| Revenue bonds                                   | -                                  | 5,487                               | 5,487               | -                          |
| Due in more than one year:                      |                                    |                                     |                     |                            |
| Arbitrage rebate                                | 970                                | -                                   | 970                 | -                          |
| Estimated claims payable                        | 3,179                              | -                                   | 3,179               | -                          |
| Sales tax payable                               | 634                                | -                                   | 634                 | 313                        |
| Bonds payable                                   | -                                  | -                                   | -                   | 17,180                     |
| General obligation debt                         | 214,029                            | -                                   | 214,029             | -                          |
| Special tax revenue debt                        | 297,990                            | -                                   | 297,990             | -                          |
| Landfill closure accrued liabilities            | 4,511                              | -                                   | 4,511               | -                          |
| Accrued compensated absences                    | 24,317                             | 1,775                               | 26,092              | -                          |
| Capital lease obligation                        | 1,167                              | -                                   | 1,167               | -                          |
| Revenue bonds                                   | -                                  | 90,332                              | 90,332              | -                          |
| <b>Total Liabilities</b>                        | <b>632,915</b>                     | <b>115,477</b>                      | <b>748,392</b>      | <b>19,899</b>              |
| <b>NET ASSETS</b>                               |                                    |                                     |                     |                            |
| Invested in capital assets, net of related debt | 646,693                            | 428,961                             | 1,075,654           | 1,913                      |
| Restricted for debt service                     | 34,173                             | 9,097                               | 43,270              | 13,893                     |
| Restricted for use of impact fees               | 5,594                              | -                                   | 5,594               | -                          |
| Unrestricted                                    | 89,238                             | 17,049                              | 106,287             | 22,314                     |
| <b>Total Net Assets</b>                         | <b>\$ 775,698</b>                  | <b>\$ 455,107</b>                   | <b>\$ 1,230,805</b> | <b>\$ 38,120</b>           |

The notes to the financial statements are an integral part of this statement.

CITY OF ARLINGTON, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(AMOUNTS EXPRESSED IN THOUSANDS)

| Functions/Programs                       | Expenses          | Program Revenues     |                                    |                                  |
|--|-------------------|----------------------|------------------------------------|----------------------------------|
|  |                   | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Primary Government:</b>               |                   |                      |                                    |                                  |
| <b>Governmental Activities:</b>          |                   |                      |                                    |                                  |
| General government                       | \$ 34,120         | \$ 17,264            | \$ 2,851                           | \$ 1,208                         |
| Public safety                            | 113,343           | 8,052                | 3,439                              | -                                |
| Public works                             | 73,161            | 3,052                | 853                                | 4,358                            |
| Public health                            | 1,735             | 78                   | 88                                 | -                                |
| Parks and recreation                     | 26,826            | 8,456                | -                                  | 116,154                          |
| Public welfare                           | 11,136            | -                    | 6,871                              | -                                |
| Convention and event services            | 5,628             | 2,418                | -                                  | -                                |
| Interest and fiscal charges              | 24,581            | -                    | -                                  | -                                |
| <b>Total Governmental Activities</b>     | <b>290,530</b>    | <b>39,320</b>        | <b>14,102</b>                      | <b>121,720</b>                   |
| <b>Business-Type Activities:</b>         |                   |                      |                                    |                                  |
| Water and sewer                          | 72,945            | 88,786               | -                                  | 3,600                            |
| <b>Total Business-Type Activities</b>    | <b>72,945</b>     | <b>88,786</b>        | <b>-</b>                           | <b>3,600</b>                     |
| <b>Total Primary Government</b>          | <b>\$ 363,475</b> | <b>\$ 128,106</b>    | <b>\$ 14,102</b>                   | <b>\$ 125,320</b>                |
| <b>Component Units:</b>                  |                   |                      |                                    |                                  |
| Arlington Sports Facilities              |                   |                      |                                    |                                  |
| Development Authority, Inc.              | \$ 3,557          | \$ 2,571             | \$ -                               | \$ -                             |
| Arlington Housing Authority              | 22,895            | -                    | 23,050                             | -                                |
| Arlington Convention and Visitors Bureau | 3,268             | 2,849                | 417                                | -                                |
| Arlington Housing Finance Authority      | 50                | -                    | 15                                 | -                                |
| <b>Total Component Units</b>             | <b>\$ 29,770</b>  | <b>\$ 5,420</b>      | <b>\$ 23,482</b>                   | <b>\$ -</b>                      |

|  |
|--|
| General Revenues:                                    |
| Property taxes                                       |
| Sales taxes  |
| Criminal justice tax                                 |
| State liquor tax                                     |
| Bingo tax  |
| Downtown TIF tax                                     |
| Occupancy tax  |
| Utility franchise fees                               |
| Gas lease  |
| Interest   |
| Net increase (decrease) in fair value of investments |
| Other  |
| Transfers  |
| Total general revenues and transfers                 |
| Change in net assets                                 |
| Net assets - beginning                               |
| Net assets - ending                                  |

The notes to the financial statements are an integral part of this statement.

**Net (Expense) Revenue and Changes in Net Assets**

| <b>Primary Government</b>          |                                     |                     |                            |
|------------------------------------|-------------------------------------|---------------------|----------------------------|
| <b>Governmental<br/>Activities</b> | <b>Business-type<br/>Activities</b> | <b>Total</b>        | <b>Component<br/>Units</b> |
| \$ (12,797)                        | \$ -                                | \$ (12,797)         | \$ -                       |
| (101,852)                          | -                                   | (101,852)           | -                          |
| (64,898)                           | -                                   | (64,898)            | -                          |
| (1,569)                            | -                                   | (1,569)             | -                          |
| 97,784                             | -                                   | 97,784              | -                          |
| (4,265)                            | -                                   | (4,265)             | -                          |
| (3,210)                            | -                                   | (3,210)             | -                          |
| (24,581)                           | -                                   | (24,581)            | -                          |
| <u>(115,388)</u>                   | <u>-</u>                            | <u>(115,388)</u>    | <u>-</u>                   |
| -                                  | 19,441                              | 19,441              | -                          |
| -                                  | 19,441                              | 19,441              | -                          |
| <u>\$ (115,388)</u>                | <u>\$ 19,441</u>                    | <u>\$ (95,947)</u>  | <u>\$ -</u>                |
| \$ -                               | \$ -                                | \$ -                | \$ (986)                   |
| -                                  | -                                   | -                   | 155                        |
| -                                  | -                                   | -                   | (2)                        |
| -                                  | -                                   | -                   | (35)                       |
| <u>\$ -</u>                        | <u>\$ -</u>                         | <u>\$ -</u>         | <u>\$ (868)</u>            |
| 108,301                            | -                                   | 108,301             | -                          |
| 79,781                             | -                                   | 79,781              | -                          |
| 313                                | -                                   | 313                 | -                          |
| 1,040                              | -                                   | 1,040               | -                          |
| 96                                 | -                                   | 96                  | -                          |
| 940                                | -                                   | 940                 | -                          |
| 6,860                              | -                                   | 6,860               | -                          |
| 29,145                             | -                                   | 29,145              | -                          |
| 25,471                             | -                                   | 25,471              | -                          |
| 21,849                             | 1,685                               | 23,534              | 2,100                      |
| 2,109                              | 257                                 | 2,366               | 162                        |
| 5,239                              | -                                   | 5,239               | 238                        |
| 6,520                              | (6,520)                             | -                   | -                          |
| <u>287,664</u>                     | <u>(4,578)</u>                      | <u>283,086</u>      | <u>2,500</u>               |
| 172,276                            | 14,863                              | 187,139             | 1,632                      |
| 603,422                            | 440,244                             | 1,043,666           | 36,488                     |
| <u>\$ 775,698</u>                  | <u>\$ 455,107</u>                   | <u>\$ 1,230,805</u> | <u>\$ 38,120</u>           |

**CITY OF ARLINGTON, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF SEPTEMBER 30, 2007  
(AMOUNTS EXPRESSED IN THOUSANDS)**

|   | <u>General</u>   | <u>Debt<br/>Service</u> | <u>Stadium<br/>Venue</u> | <u>Gas<br/>Lease</u> | <u>Street<br/>Capital<br/>Projects</u> |
|---|------------------|-------------------------|--------------------------|----------------------|--|
| <b>ASSETS</b>                                     |                  |                         |                          |                      |  |
| Cash and cash equivalents                         | \$ 52,918        | \$ 24,274               | \$ 33,891                | \$ 41,585            | \$ 16,131                              |
| Closure/Post-closure restricted cash              | 4,511            | -                       | -                        | -                    | -                                      |
| Investments                                       | -                | 5,278                   | 110,286                  | -                    | -                                      |
| Receivables (net of allowance for uncollectibles) |                  |                         |                          |                      |  |
| Taxes   | 3,156            | 420                     | -                        | -                    | -                                      |
| Sales taxes                                       | 8,209            | 4,123                   | -                        | -                    | -                                      |
| Franchise fees                                    | 6,028            | -                       | -                        | -                    | -                                      |
| Special assessments                               | -                | -                       | -                        | -                    | 224                                    |
| Accrued interest                                  | 2,674            | 83                      | 878                      | -                    | -                                      |
| Other   | 2,468            | -                       | -                        | -                    | 2                                      |
| Due from other funds                              | 3,277            | -                       | -                        | -                    | -                                      |
| Due from component units                          | 22               | -                       | -                        | -                    | -                                      |
| Due from other governments                        | -                | -                       | -                        | -                    | -                                      |
| Inventory of supplies, at cost                    | 574              | -                       | -                        | -                    | -                                      |
| Prepaid expenditures                              | 35               | -                       | -                        | -                    | -                                      |
| <b>Total Assets</b>                               | <u>\$ 83,872</u> | <u>\$ 34,178</u>        | <u>\$ 145,055</u>        | <u>\$ 41,585</u>     | <u>\$ 16,357</u>                       |
| <b>LIABILITIES AND FUND BALANCES</b>              |                  |                         |                          |                      |  |
| <b>Liabilities:</b>                               |                  |                         |                          |                      |  |
| Accounts payable and accrued liabilities          | \$ 6,608         | \$ 5                    | \$ 1,473                 | \$ 31                | \$ 1,736                               |
| Retainage payable                                 | 43               | -                       | -                        | -                    | 814                                    |
| Due to other funds                                | -                | -                       | -                        | -                    | -                                      |
| Due to other governments                          | -                | -                       | -                        | -                    | -                                      |
| Deferred revenue-                                 |                  |                         |                          |                      |  |
| Taxes   | 3,065            | -                       | -                        | -                    | -                                      |
| Closure/Post-closure trust fund                   | 4,511            | -                       | -                        | -                    | -                                      |
| Landfill  | 8,002            | -                       | -                        | -                    | -                                      |
| Gas lease   | -                | -                       | -                        | 11,994               | -                                      |
| Other   | 1,297            | -                       | -                        | -                    | 224                                    |
| Commercial paper                                  | -                | -                       | -                        | -                    | 10,000                                 |
| <b>Total Liabilities</b>                          | <u>23,526</u>    | <u>5</u>                | <u>1,473</u>             | <u>12,025</u>        | <u>12,774</u>                          |
| <b>Fund Balances:</b>                             |                  |                         |                          |                      |  |
| Reserved for encumbrances                         | 6,351            | -                       | 4,266                    | 305                  | 3,583                                  |
| Reserved for debt service                         | -                | 34,173                  | -                        | -                    | -                                      |
| Reserved for inventory                            | 574              | -                       | -                        | -                    | -                                      |
| Reserved for prepaids                             | 35               | -                       | -                        | -                    | -                                      |
| Reserved for capital projects                     | -                | -                       | 139,316                  | -                    | -                                      |
| Reserved for street maintenance                   | -                | -                       | -                        | -                    | -                                      |
| Reserved for utility rate case                    | 500              | -                       | -                        | -                    | -                                      |
| Reserved for court technology                     | -                | -                       | -                        | -                    | -                                      |
| Reserved for juvenile case manager                | -                | -                       | -                        | -                    | -                                      |
| Unreserved-                                       |                  |                         |                          |                      |  |
| General fund                                      |                  |                         |                          |                      |  |
| Designated for working capital                    | 16,232           | -                       | -                        | -                    | -                                      |
| Designated for subsequent years' expenditures     | 5,843            | -                       | -                        | -                    | -                                      |
| Designated for arbitrage                          | 184              | -                       | -                        | -                    | -                                      |
| Designated for compensated absences               | 1,261            | -                       | -                        | -                    | -                                      |
| Designated for other post employment benefits     | 1,718            | -                       | -                        | -                    | -                                      |
| Designated for future initiatives                 | 21,030           | -                       | -                        | -                    | -                                      |
| Designated for infrastructure                     | 1,000            | -                       | -                        | -                    | -                                      |
| Undesignated                                      | 5,618            | -                       | -                        | -                    | -                                      |
| Special revenue funds                             |                  |                         |                          |                      |  |
| Designated for working capital                    | -                | -                       | -                        | -                    | -                                      |
| Designated for Central Plaza                      | -                | -                       | -                        | -                    | -                                      |
| Designated for capital maintenance                | -                | -                       | -                        | -                    | -                                      |
| Undesignated                                      | -                | -                       | -                        | 29,255               | -                                      |
| <b>Total Fund Balances</b>                        | <u>60,346</u>    | <u>34,173</u>           | <u>143,582</u>           | <u>29,560</u>        | <u>3,583</u>                           |
| <b>Total Liabilities and Fund Balances</b>        | <u>\$ 83,872</u> | <u>\$ 34,178</u>        | <u>\$ 145,055</u>        | <u>\$ 41,585</u>     | <u>\$ 16,357</u>                       |

The notes to the financial statements are an integral part of this statement.



| <u>Other<br/>Nonmajor<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|-------------------------------------|---|
| \$ 52,213                           | \$ 221,012                              |
| -                                   | 4,511                                   |
| -                                   | 115,564                                 |
| 1,635                               | 5,211                                   |
| 2,061                               | 14,393                                  |
| -                                   | 6,028                                   |
| -                                   | 224                                     |
| -                                   | 3,635                                   |
| 1,268                               | 3,738                                   |
| -                                   | 3,277                                   |
| -                                   | 22                                      |
| 3,501                               | 3,501                                   |
| 197                                 | 771                                     |
| 1                                   | 36                                      |
| <u>\$ 60,876</u>                    | <u>\$ 381,923</u>                       |

|               |               |
|---------------|---------------|
| \$ 4,995      | \$ 14,848     |
| 641           | 1,498         |
| 3,277         | 3,277         |
| -             | -             |
| -             | 3,065         |
| -             | 4,511         |
| -             | 8,002         |
| -             | 11,994        |
| 2,572         | 4,093         |
| <u>4,000</u>  | <u>14,000</u> |
| <u>15,485</u> | <u>65,288</u> |

|                  |                   |
|------------------|-------------------|
| 17,511           | 32,016            |
| -                | 34,173            |
| 197              | 771               |
| 1                | 36                |
| 16,748           | 156,064           |
| 3,568            | 3,568             |
| -                | 500               |
| 188              | 188               |
| 83               | 83                |
| -                | 16,232            |
| -                | 5,843             |
| -                | 184               |
| -                | 1,261             |
| -                | 1,718             |
| -                | 21,030            |
| -                | 1,000             |
| -                | 5,618             |
| 2,045            | 2,045             |
| 150              | 150               |
| 311              | 311               |
| 4,589            | 33,844            |
| <u>45,391</u>    | <u>316,635</u>    |
| <u>\$ 60,876</u> | <u>\$ 381,923</u> |

**CITY OF ARLINGTON, TEXAS  
RECONCILIATION OF THE STATEMENT OF NET ASSETS  
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET  
AS OF SEPTEMBER 30, 2007  
(AMOUNTS EXPRESSED IN THOUSANDS)**

**Total fund balance per balance sheet** **\$ 316,635**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (excluding \$12,587 recorded in the internal service funds.) 981,961

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 10,044

Internal service funds are used by management to charge the cost of fleet services, general services, APFA, technology services, workers' compensation and group health to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 32,409

Long-term liabilities, including bonds payable, arbitrage and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds (excluding \$10,657 recorded in the internal service funds). (565,351)

**Net assets of governmental activities** \$ 775,698

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

|  | <u>General</u>   | <u>Debt<br/>Service</u> | <u>Stadium<br/>Venue</u> | <u>Gas<br/>Lease</u> | <u>Streets<br/>Capital<br/>Projects</u> |
|--|------------------|-------------------------|--------------------------|----------------------|---|
| <b>REVENUES</b>  |                  |                         |                          |                      |   |
| Taxes  | \$ 121,335       | \$ 58,676               | \$ -                     | \$ -                 | \$ -                                    |
| Licenses and permits   | 4,399            | -                       | -                        | -                    | -                                       |
| Utility franchise fees                                       | 29,145           | -                       | -                        | -                    | -                                       |
| Fines and forfeitures  | 7,528            | -                       | -                        | -                    | -                                       |
| Leases, rents and concessions                                | 7,081            | -                       | -                        | -                    | -                                       |
| Service charges  | 5,668            | -                       | -                        | -                    | -                                       |
| Interest revenue   | 4,193            | 2,038                   | 8,810                    | 1,770                | 1,090                                   |
| Net increase (decrease) in fair value of investments         | 356              | 94                      | 1,288                    | 95                   | 62                                      |
| Contributions  | -                | -                       | 113,398                  | -                    | 4,113                                   |
| Intergovernmental revenues                                   | -                | -                       | 2,822                    | -                    | -                                       |
| Gas lease  | -                | -                       | -                        | 25,471               | -                                       |
| Other  | 895              | 113                     | 4                        | -                    | 77                                      |
| <b>Total Revenues</b>  | <u>180,600</u>   | <u>60,921</u>           | <u>126,322</u>           | <u>27,336</u>        | <u>5,342</u>                            |
| <b>EXPENDITURES</b>  |                  |                         |                          |                      |   |
| Current-   |                  |                         |                          |                      |   |
| General government   | 29,877           | -                       | -                        | -                    | -                                       |
| Public safety  | 108,156          | -                       | -                        | -                    | -                                       |
| Public works   | 24,034           | -                       | -                        | -                    | -                                       |
| Public health  | 1,387            | -                       | -                        | -                    | -                                       |
| Public welfare   | -                | -                       | -                        | 2,796                | -                                       |
| Parks and recreation   | 16,093           | -                       | -                        | -                    | -                                       |
| Convention and event services                                | -                | -                       | -                        | -                    | -                                       |
| Capital Outlay   | 335              | -                       | 230,741                  | -                    | 28,508                                  |
| Debt service-  |                  |                         |                          |                      |   |
| Principal retirement   | -                | 24,415                  | -                        | -                    | -                                       |
| Interest and fiscal charges                                  | -                | 25,019                  | -                        | -                    | -                                       |
| <b>Total Expenditures</b>                                    | <u>179,882</u>   | <u>49,434</u>           | <u>230,741</u>           | <u>2,796</u>         | <u>28,508</u>                           |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>718</u>       | <u>11,487</u>           | <u>(104,419)</u>         | <u>24,540</u>        | <u>(23,166)</u>                         |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |                  |                         |                          |                      |   |
| Transfers in   | 6,673            | 2,131                   | 84                       | 5,020                | 1,244                                   |
| Transfers out  | (13,159)         | (84)                    | -                        | -                    | (124)                                   |
| <b>Total Other Financing Sources and Uses</b>                | <u>(6,486)</u>   | <u>2,047</u>            | <u>84</u>                | <u>5,020</u>         | <u>1,120</u>                            |
| <b>Net Change in Fund Balances</b>                           | <u>(5,768)</u>   | <u>13,534</u>           | <u>(104,335)</u>         | <u>29,560</u>        | <u>(22,046)</u>                         |
| <b>Fund Balances, October 1,</b>                             | <u>66,114</u>    | <u>20,639</u>           | <u>247,917</u>           | <u>-</u>             | <u>25,629</u>                           |
| <b>Fund Balances, September 30</b>                           | <u>\$ 60,346</u> | <u>\$ 34,173</u>        | <u>\$ 143,582</u>        | <u>\$ 29,560</u>     | <u>\$ 3,583</u>                         |

The notes to the financial statements are an integral part of this statement.

| Other<br>Nonmajor<br>Funds | Total<br>Governmental<br>Funds |
|----------------------------|--------------------------------|
| \$ 17,866                  | \$ 197,877                     |
| -                          | 4,399                          |
| -                          | 29,145                         |
| -                          | 7,528                          |
| -                          | 7,081                          |
| 14,528                     | 20,196                         |
| 2,764                      | 20,665                         |
| 146                        | 2,041                          |
| 4,209                      | 121,720                        |
| 12,764                     | 15,586                         |
| -                          | 25,471                         |
| 2,927                      | 4,016                          |
| <u>55,204</u>              | <u>455,725</u>                 |
| 915                        | 30,792                         |
| 4,548                      | 112,704                        |
| 13,482                     | 37,516                         |
| 308                        | 1,695                          |
| 8,370                      | 11,166                         |
| 7,532                      | 23,625                         |
| 5,628                      | 5,628                          |
| 19,274                     | 278,858                        |
| 2,000                      | 26,415                         |
| -                          | 25,019                         |
| <u>62,057</u>              | <u>553,418</u>                 |
| <u>(6,853)</u>             | <u>(97,693)</u>                |
| 4,214                      | 19,366                         |
| <u>(3,292)</u>             | <u>(16,659)</u>                |
| 922                        | 2,707                          |
| <u>(5,931)</u>             | <u>(94,986)</u>                |
| 51,322                     | 411,621                        |
| <u>\$ 45,391</u>           | <u>\$ 316,635</u>              |

**CITY OF ARLINGTON, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(AMOUNTS EXPRESSED IN THOUSANDS)**

**Net change in fund balance - total governmental funds** \$ (94,986)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period. 244,539

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (7,008)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 27,291

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (2,963)

Internal service funds are used by management to charge the costs of fleet management and management information systems, property liability loss, health claims and offices services to individual funds. The net expenses of certain activities of internal service funds is reported within governmental activities. 5,403

**Change in net assets of governmental activities** \$ 172,276

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS  
BUDGETARY COMPARISON STATEMENT  
GENERAL FUND (BUDGETARY BASIS)  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(AMOUNTS EXPRESSED IN THOUSANDS)**

|  | <u>Budgeted Amounts</u> |                  | <u>Actual Amounts</u> |   |  | <u>Variance with<br/>Final Budget-<br/>Positive<br/>(Negative)</u> |
|--|-------------------------|------------------|-----------------------|---|--|--|
|  | <u>Original</u>         | <u>Final</u>     | <u>Actual</u>         | <u>Adjustments<br/>to Budgetary<br/>Basis</u> | <u>Actual on<br/>Budgetary<br/>Basis</u> |  |
| <b>REVENUES</b>  |                         |                  |                       |   |  |  |
| Taxes  | \$ 122,890              | \$ 122,890       | \$ 121,335            | \$ 2,827                                      | \$ 124,162                               | \$ 1,272   |
| Licenses and permits   | 4,878                   | 4,878            | 4,399                 | -   | 4,399                                    | (479)  |
| Utility franchise fees   | 29,332                  | 29,332           | 29,145                | -   | 29,145                                   | (187)  |
| Fines and forfeitures  | 9,713                   | 9,713            | 7,528                 | -   | 7,528                                    | (2,185)  |
| Leases, rents and concessions  | 7,530                   | 7,530            | 7,081                 | 800   | 7,881                                    | 351  |
| Service charges  | 9,589                   | 9,589            | 5,668                 | 3,649   | 9,317                                    | (272)  |
| Interest revenue   | 2,777                   | 2,777            | 4,193                 | -   | 4,193                                    | 1,416  |
| Other revenue  | 19                      | 19               | 895                   | (800)   | 95                                       | 76   |
| Net increase (decrease) in the fair value<br>of investments          | -                       | -                | 356                   | (356)   | -  | -  |
| <b>Total Revenues</b>  | <u>186,728</u>          | <u>186,728</u>   | <u>180,600</u>        | <u>6,120</u>                                  | <u>186,720</u>                           | <u>(8)</u>   |
| <b>EXPENDITURES</b>  |                         |                  |                       |   |  |  |
| Current-   |                         |                  |                       |   |  |  |
| General government   | 35,441                  | 35,907           | 29,877                | 3,350   | 33,227                                   | 2,680  |
| Public safety  | 109,064                 | 109,064          | 108,491               | 1,934   | 110,425                                  | (1,361)  |
| Public works   | 29,403                  | 29,403           | 24,034                | 4,606   | 28,640                                   | 763  |
| Public health  | 1,360                   | 1,360            | 1,387                 | (1)   | 1,386                                    | (26)   |
| Parks and recreation   | 16,298                  | 16,298           | 16,093                | 706   | 16,799                                   | (501)  |
| <b>Total Expenditures</b>  | <u>191,566</u>          | <u>192,032</u>   | <u>179,882</u>        | <u>10,595</u>                                 | <u>190,477</u>                           | <u>1,555</u>   |
| <b>Excess (Deficiency) Of Revenues<br/>Over (Under) Expenditures</b> | <u>(4,838)</u>          | <u>(5,304)</u>   | <u>718</u>            | <u>(4,475)</u>                                | <u>(3,757)</u>                           | <u>1,547</u>   |
| <b>OTHER FINANCING SOURCES (USES)</b>                                |                         |                  |                       |   |  |  |
| Transfers in   | 8,827                   | 8,827            | 6,673                 | 2,154   | 8,827                                    | -  |
| Transfers out  | (3,963)                 | (5,713)          | (13,159)              | 7,649   | (5,510)                                  | 203  |
| <b>Total Other Financing Sources (Uses)</b>                          | <u>4,864</u>            | <u>3,114</u>     | <u>(6,486)</u>        | <u>9,803</u>                                  | <u>3,317</u>                             | <u>203</u>   |
| <b>Net Change In Fund Balances</b>                                   | 26                      | (2,190)          | (5,768)               | 5,328   | (440)                                    | 1,750  |
| <b>Fund Balances, October 1</b>                                      | 66,114                  | 66,114           | 66,114                | -   | 66,114                                   | -  |
| <b>Fund Balances, September 30</b>                                   | <u>\$ 66,140</u>        | <u>\$ 63,924</u> | <u>\$ 60,346</u>      | <u>\$ 5,328</u>                               | <u>\$ 65,674</u>                         | <u>\$ 1,750</u>  |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2007  
(AMOUNTS EXPRESSED IN THOUSANDS)**

|   | <b>Business-type<br/>Activities<br/>Enterprise Funds</b> | <b>Governmental<br/>Activities-<br/>Internal<br/>Service<br/>Funds</b> |
|---|--|--|
|   | <b>Water and<br/>Sewer</b>                               |  |
| <b>ASSETS</b>   |  |  |
| <b>Current Assets:</b>                                  |  |  |
| Cash and cash equivalents                               | \$ 12,231  | \$ 28,761  |
| Investments   | -  | 2,790  |
| Receivables (net of allowances for uncollectibles):     |  |  |
| Trade accounts  | 6,605  | 203  |
| Unbilled trade accounts                                 | 6,278  | -  |
| Accrued interest  | -  | 36   |
| Other   | 26   | -  |
| Inventory of supplies, at cost                          | 444  | 119  |
| Subtotal  | <u>25,584</u>  | <u>31,909</u>  |
| Restricted Assets:                                      |  |  |
| Bond contingency-investments                            | 8,775  | -  |
| Capital construction-investments                        | 30,576   | -  |
| <b>Total Current Assets</b>                             | <u>64,935</u>  | <u>31,909</u>  |
| <b>Non-Current Assets:</b>                              |  |  |
| Restricted Assets:                                      |  |  |
| Bond contingency-<br>Investments                        | 1,850  | -  |
| Accrued interest  | 88   | -  |
| Capital construction-<br>Investments                    | 29,624   | -  |
| Assessments receivable                                  | 4  | -  |
| Meter deposit investments                               | 4,725  | -  |
| Capital Assets:   |  |  |
| Land  | 4,941  | -  |
| Buildings and improvements                              | 2,833  | 467  |
| Water and sewer system                                  | 560,022  | -  |
| Machinery and equipment                                 | 9,896  | 36,739   |
| Construction-in-progress                                | 73,780   | -  |
| Accumulated depreciation                                | (182,637)  | (24,619)   |
| Total Capital Assets Net of Accumulated<br>Depreciation | <u>468,835</u>   | <u>12,587</u>  |
| <b>Total Noncurrent Assets</b>                          | <u>505,126</u>   | <u>12,587</u>  |
| <b>Total Assets</b>                                     | <u>\$ 570,061</u>  | <u>\$ 44,496</u>   |

The notes to the financial statements are an integral part of this statement.

(continued)

**CITY OF ARLINGTON, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2007  
(CONTINUED)  
(AMOUNTS EXPRESSED IN THOUSANDS)**

|   | <b>Business-type<br/>Activities<br/>Enterprise Funds</b> | <b>Governmental<br/>Activities-<br/>Internal<br/>Service<br/>Funds</b> |
|---|--|--|
|   | <b>Water and<br/>Sewer</b>                               |  |
| <b>LIABILITIES</b>  |  |  |
| <b>Current Liabilities:</b>   |  |  |
| Accounts payable and accrued liabilities  | \$ 4,837   | \$ 907   |
| Accrued compensated absences  | 113  | 17   |
| Revenue bonds payable from unrestricted assets  | 5,487  | -  |
| Capital lease obligation  | -  | 252  |
| <b>Current Liabilities Payable From</b>   |  |  |
| <b>Restricted Assets:</b>   |  |  |
| Accounts payable and accrued liabilities  | 2,785  | -  |
| Retainage   | 1,152  | -  |
| Accrued interest  | 1,528  | -  |
| Estimated claims payable  | -  | 6,413  |
| Revenue bonds payable   | 2,743  | -  |
| Meter deposits  | 4,725  | -  |
| <b>Total Current Liabilities</b>  | <b>23,370</b>  | <b>7,589</b>   |
| <b>Noncurrent Liabilities:</b>  |  |  |
| Estimated claims payable  | -  | 3,179  |
| Compensated absences  | 1,775  | 211  |
| Revenue bonds payable from unrestricted assets  | 90,332   | -  |
| Capital lease obligation  | -  | 585  |
| <b>Total Noncurrent Liabilities</b>   | <b>92,107</b>  | <b>3,975</b>   |
| <b>Total Liabilities</b>  | <b>115,477</b>   | <b>11,564</b>  |
| <b>NET ASSETS</b>   |  |  |
| Invested in capital assets, net of related debt   | 428,961  | 11,750   |
| Restricted for debt service   | 9,097  | -  |
| Unrestricted  | 16,526   | 21,182   |
| <b>Total Net Assets</b>   | <b>\$ 454,584</b>  | <b>\$ 32,932</b>   |
| Reconciliation to government-wide statements of net assets:   |  |  |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | 523  |  |
| Net assets of business-type activities  | <b>\$ 455,107</b>  |  |

The notes to the financial statements are an integral part of this statement.



**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

|   | <u>Business-type Activities</u><br><u>Enterprise Funds</u> |  |  |
|---|--|--|--|
|   | <u>Water and</u><br><u>Sewer</u>                           |  | <u>Governmental</u><br><u>Activities-</u><br><u>Internal</u><br><u>Service Funds</u> |
| <b>Operating Revenues:</b>  |  |  |  |
| Water sales   | \$ 43,693  |  | \$ -   |
| Sewer service   | 40,246   |  | -  |
| Service charges   | -  |  | 35,301   |
| Sundry  | 4,847  |  | 47   |
| <b>Total Operating Revenues</b>   | <u>88,786</u>  |  | <u>35,348</u>  |
| <b>Operating Expenses:</b>  |  |  |  |
| Purchase of water   | 12,549   |  | -  |
| Purchase of sewage treatment  | 19,364   |  | -  |
| Salaries and wages  | 11,397   |  | 1,782  |
| Employees' retirement   | 1,520  |  | 233  |
| Supplies  | 2,356  |  | 3,838  |
| Maintenance and repairs   | 2,493  |  | 2,499  |
| Utilities   | 3,155  |  | 619  |
| Claims  | -  |  | 19,942   |
| Legal and professional  | -  |  | 2,579  |
| Franchise fees  | 4,413  |  | -  |
| Depreciation  | 10,853   |  | 3,280  |
| Miscellaneous services  | 3,797  |  | 1,215  |
| <b>Total Operating Expenses</b>   | <u>71,897</u>  |  | <u>35,987</u>  |
| <b>Operating Income (Loss)</b>  | <u>16,889</u>  |  | <u>(639)</u>   |
| <b>Nonoperating Revenues (Expenses):</b>  |  |  |  |
| Interest revenue  | 1,685  |  | 1,426  |
| Net increase in the fair value of investments   | 257  |  | 68   |
| Actuarial adjustment  | -  |  | 760  |
| Gain (Loss) on sale of assets   | -  |  | 19   |
| Interest expense and fiscal charges   | (1,036)  |  | (56)   |
| <b>Total Nonoperating Revenues</b>  |  |  |  |
| <b>(Expenses)</b>   | <u>906</u>   |  | <u>2,217</u>   |
| Income before transfers and contributions   | 17,795   |  | 1,578  |
| Contributions in aid of construction  | 3,600  |  | -  |
| Transfers in  | -  |  | 3,813  |
| Transfers out   | (6,520)  |  | -  |
| <b>Change in Net Assets</b>   | <u>14,875</u>  |  | <u>5,391</u>   |
| <b>Total Net Assets, October 1</b>  | <u>439,709</u>   |  | <u>27,541</u>  |
| <b>Total Net Assets, September 30</b>   | <u>\$ 454,584</u>  |  | <u>\$ 32,932</u>   |
| Net change in net assets - total proprietary funds  | \$ 14,875  |  |  |
| Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds | (12)   |  |  |
| Change in net assets of business-type activities  | <u>\$ 14,863</u>   |  |  |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(AMOUNTS EXPRESSED IN THOUSANDS)**

|   | <b>Business-type Activities-<br/>Enterprise Funds</b> | <b>Governmental<br/>Activities-<br/>Internal<br/>Service Funds</b> |
|---|---|--|
|   | <b>Water and<br/>Sewer</b>                            |  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |   |  |
| Cash received from customers  | \$ 90,298   | \$ 35,370  |
| Cash payments to suppliers  | (43,201)  | (31,749)   |
| Cash payments to employees  | (12,689)  | (1,975)  |
| <b>Net Cash Provided By Operating Activities</b>  | <b>34,408</b>   | <b>1,646</b>   |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>   |   |  |
| Transfers in  | -   | 3,813  |
| Transfers out   | (6,520)   | -  |
| <b>Net Cash Provided By (Used For) Noncapital Financing Activities</b>                                  | <b>(6,520)</b>  | <b>3,813</b>   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>   |   |  |
| Acquisition and construction of capital assets  | (25,058)  | (4,345)  |
| Principal payments on capital lease   | -   | (229)  |
| Interest payments on capital lease  | -   | (56)   |
| Proceeds from sales of capital assets   | -   | 186  |
| Proceeds from issuance of long-term debt  | 24,000  | -  |
| Repayment of long-term debt   | (9,510)   | -  |
| Interest payment long-term debt   | (3,557)   | -  |
| <b>Net Cash Used For Capital And Related Financing Activities</b>                                       | <b>(14,125)</b>                                       | <b>(4,444)</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |   |  |
| Proceeds from interest earnings   | 2,761   | 1,426  |
| Net increase (decrease) in the fair value of investments  | 257   | 68   |
| Actuarial Adjustment  | -   | 760  |
| Purchase of investments   | (56,209)  | (4,490)  |
| Maturities/sales of investments   | 38,476  | 1,700  |
| <b>Net Cash Used In Investing Activities</b>  | <b>(14,715)</b>                                       | <b>(536)</b>   |
| <b>Net Increase (Decrease) In Cash And Cash Equivalents</b>   | <b>(952)</b>  | <b>479</b>   |
| <b>Cash And Cash Equivalents, October 1</b>   | <b>13,183</b>   | <b>28,282</b>  |
| <b>Cash And Cash Equivalents, September 30</b>  | <b>\$ 12,231</b>                                      | <b>\$ 28,761</b>   |
| <b>Reconciliation of operating income to net cash provided<br/>by (used for ) operating activities:</b> |   |  |
| Operating income (Loss)   | \$ 16,889   | \$ (639)   |
| Adjustments to reconcile operating income<br>to net cash provided by operating activities:              |   |  |
| Depreciation  | 10,853  | 3,280  |
| Interest earnings capitalized   | (1,059)   | -  |
| Interest expense capitalized  | 2,954   | -  |
| Amortization of deferred loss on bond refunding   | (57)  | -  |
| Provision for bad debts   | (30)  | -  |
| (Increase) decrease in-   |   |  |
| Receivables   | 1,512   | 22   |
| Inventory of supplies   | (40)  | (34)   |
| Increase (decrease) in-   |   |  |
| Accounts payable and accrued liabilities  | 2,182   | (171)  |
| Estimated claims payable  | -   | (852)  |
| Retainage payable   | 383   | -  |
| Meter deposits  | 593   | -  |
| Accrued compensated absences  | 228   | 40   |
| Total adjustments   | 17,519  | 2,285  |
| <b>Net Cash Provided By Operating Activities</b>  | <b>\$ 34,408</b>                                      | <b>\$ 1,646</b>  |
| <b>Noncash investing, capital, and financing activities:</b>  |   |  |
| Contributions of capital assets from developers   | 3,600   | -  |
| Capital Leases  | -   | 78   |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**SEPTEMBER 30, 2007**  
**(AMOUNTS EXPRESSED IN THOUSANDS)**

|  | <u>Pension Trust<br/>Funds</u> | <u>Agency<br/>Funds</u> |
|--|--------------------------------|-------------------------|
| <b>ASSETS</b>                            |                                |                         |
| Cash and cash equivalents                | \$ -                           | \$ 16,555               |
| Investments                              |                                |                         |
| Money market fund                        | 17,809                         | -                       |
| U. S. Government bonds                   | -                              | -                       |
| Corporate bonds                          | 716                            | -                       |
| Fixed income mutual bond funds           | 7,659                          | -                       |
| Common stock mutual bond funds           | 56,433                         | 347                     |
| Balanced mutual funds                    | 13,407                         | -                       |
| Self directed brokerage accounts         | 4,652                          | -                       |
| Total Investments                        | <u>100,676</u>                 | <u>347</u>              |
| <b>Total Assets</b>                      | <u>100,676</u>                 | <u>\$ 16,902</u>        |
| <br><b>LIABILITIES</b>                   |                                |                         |
| Accounts payable and accrued liabilities | -                              | \$ 16,555               |
| IRC 401 deferred compensation plans      | -                              | <u>347</u>              |
| <b>Total Liabilities</b>                 | <u>-</u>                       | <u>\$ 16,902</u>        |
| <br><b>NET ASSETS</b>                    |                                |                         |
| Held in trust for pension benefits       | <u>\$ 100,676</u>              |                         |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(AMOUNTS EXPRESSED IN THOUSANDS)**

|   | <b>Pension<br/>Trust<br/>Funds</b> |
|---|------------------------------------|
| <b>ADDITIONS</b>                              |                                    |
| Employer contributions                        | \$ 2,480                           |
| Employee contributions                        | 5,055                              |
| Net appreciation in fair value of investments | 11,800                             |
| <b>Total Additions</b>                        | <u>19,335</u>                      |
| <b>DEDUCTIONS</b>                             |                                    |
| Benefits                                      | 9,135                              |
| Plan administration                           | 41                                 |
| <b>Total Deductions</b>                       | <u>9,176</u>                       |
| <b>Increase in Net Assets</b>                 | 10,159                             |
| <b>Net Assets, October 1</b>                  | 90,517                             |
| <b>Net Assets, September 30</b>               | <u>\$ 100,676</u>                  |

The notes to the financial statements are an integral part of this statement.

**CITY OF ARLINGTON, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2007**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The City of Arlington, Texas (the "City") was incorporated April 19, 1884 and the city charter was adopted January 17, 1920, under the provisions of the Home Rule Amendment to the State Constitution. The City operates under a Council Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and sewer utilities, and general administrative services.

The accompanying financial statements of the City include all funds and component units. The financial statements of the City have been prepared to conform to generally accepted accounting principles (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the City are described below.

A. Financial Statement Presentation

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both non-current assets and non-current liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. Accordingly, the accounting and financial reporting of the City's governmental funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34. The accrual basis of accounting and the economic resources measurement focus is utilized by proprietary fund types and the pension trust fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

GAAP also requires supplementary information presented as Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the originally adopted and final General Fund budget with actual results.

B. Reporting Entity

The City is governed by an elected mayor and nine-member council. As required by GAAP, these financial statements present the City (the primary government) and its component units, entities for which the government is considered to be financially accountable.

Component units are organizations for which the City is financially accountable and all other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. The City may be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The financial

statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government.

Arlington Property Finance Authority, Inc.

The financial statements of the Arlington Property Finance Authority, Inc. (the "APFA"), a component unit, have been "blended" with those of the City because its board of directors is appointed by the City Council, and the City management maintains significant continuing management oversight with respect to APFA's policies. Additionally, the APFA provides services entirely to the City and its employees.

The financial statements of the following component units have been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely or almost entirely to the citizenry and not the City.

Arlington Sports Facilities Development Authority, Inc.

The Arlington Sports Facilities Development Authority, Inc.'s (the "ASFDA") board of directors is appointed by the City Council. The ASFDA's management is designated by the City, and City employees are responsible for the ASFDA's daily operations. The City is financially accountable for the ASFDA's activities. Separate ASFDA component unit financial statements are not prepared.

Arlington Housing Authority

The Arlington Housing Authority's (the "AHA") board of commissioners is appointed by the Mayor. The AHA's management is designated by the City. The employees who are responsible for daily operations of the AHA are City employees. The City has financial accountability over the AHA's activities. The audited financial statements of the AHA are prepared in accordance with accounting principles generally accepted in the United States (GAAP). Separate AHA component unit financial statements can be obtained from the AHA at 501 W. Sanford Street, Suite 20, Arlington, Texas 76010.

Arlington Convention and Visitors Bureau, Inc.

The Arlington Convention and Visitors Bureau, Inc.'s (the "ACVB") board of directors is appointed by the City Council. The primary source of revenue for the ACVB is a professional services support contract with the City; therefore, the City has financial accountability over the ACVB's activities. Separate ACVB component unit financial statements can be obtained from the ACVB at 1905 E. Randol Mill Road, Arlington, Texas 76011.

Arlington Housing Finance Corporation

The Arlington Housing Finance Corporation's (the "AHFC") board of directors is appointed by the City Council. The AHFC's management is designated by the City, and City employees are responsible for the daily activities of the AHFC; accordingly, the City has financial accountability over AHFC's activities. Separate AHFC component unit financial statements are not prepared.

Arlington Industrial Development Corporation

The Arlington Industrial Development Corporation's (the "AIDC") board of directors is appointed by the City Council. The AIDC's management is designated by the City, and City employees are responsible for the daily activities of the AIDC; accordingly, the City has financial accountability over AIDC's activities. Separate AIDC component unit financial statements are not prepared.

### C. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. All franchise fees are based on gross receipts and are included in general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales and franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund-based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The major governmental funds are the General Fund, Debt Service Fund, Stadium Venue Fund, Gas Lease Fund, and Street Capital Projects Fund. GAAP sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the Comprehensive Annual Financial Report.

Internal Service Funds, which traditionally provide services primarily to other funds of the government, are presented in summary form as part of the proprietary fund financial statements. Because the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level. To the extent possible, the costs of these services are reflected in the appropriate functional activity (Public Safety, Public Works, etc.).

The City's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

### D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund statements. Agency funds, however, report only assets and liabilities and therefore have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting, except debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, which are recorded only when the liability has matured and payment is due.

Ad valorem, franchise and sales tax revenues in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met. Additionally, funds received in advance for which all eligibility requirements have not been met are considered deferred revenue.

Business-type activities and all proprietary funds, and the pension trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer fund are charges to customers for sales and services. Operating expenses for the enterprise fund and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide business-type activities and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The following major funds are used by the City:

1. Governmental Funds:

The focus of Governmental fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

- a. General Fund accounts for several of the City's primary services (Public Safety, Public Works, Public Health, Public Welfare, Parks and Recreation, etc.) and is the primary operating unit of the City.
- b. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- c. Stadium Venue Fund accounts for the planning, acquisition, establishment, development, and construction of the Dallas Cowboys Complex Development Project. Funds are provided primarily through bond sales, interest earnings, sales tax, hotel occupancy tax, and car rental tax.



- d. Gas Lease Fund accounts for funds received from gas lease bonuses and royalties which will be used to fund renovations and improvements at various locations and for Matching Neighborhood Grants.
- e. Street Capital Projects Fund accounts for the purchase of rights of way and land, construction of streets and related facilities, and to account for various other projects related to street construction. Funds are provided primarily through bond sales, interest earnings, and impact fees.
- f. Other Governmental Funds is a summarization of all of the nonmajor governmental funds.

2. Enterprise Funds:

The focus of Enterprise Fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to businesses. The City's only Enterprise Fund is the Water and Sewer Fund. This fund accounts for the operation of the City's water and sewer utility. Activities of the fund include administration, operation and maintenance of the water and sewer system and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the Fund.

3. Other Fund Types:

The City additionally reports for the following Fund types:

- a. Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, generally on a cost reimbursement basis. These services include printing, mailing and duplicating; fleet services; self insurance; technology services; workers' compensation insurance; and group health insurance.
- b. Agency Funds are used to account for assets held by the City in an agency capacity for payroll related benefits, escheat property for the state, and other assets held for individuals, local law enforcement agencies and developers.
- c. Pension Trust Funds are used to account for the accumulation of resources to be used for the retirement and disability benefit payments to qualified City employees and for thrift savings plans for City employees.

E. Cash, Cash Equivalents and Investments

To facilitate cash management, the operating cash of certain funds and component units is pooled into a cash management pool for the purpose of increasing income through combined investment activities. This cash and investment pool is available for use by all funds and component units except the ASFDA, the Trust Funds, and the AHA, all of which maintain separate investments. Each fund's portion of this pool is allocated through its cash and cash equivalent account on the balance sheet. In addition, certain investments are separately held by several of the City's funds. Interest is allocated on a monthly basis to all funds in the investment pool based on their average balance at the end of each month. Interest earned by separate investments is credited to the respective funds.

For purposes of the statement of cash flows, the City considers all unrestricted investments included in its cash management pool to be cash equivalents as these balances are used essentially as demand deposit accounts by the individual funds. Investments included in the cash management pool which are restricted for use are reported as investments. Additionally, certificates of deposit and temporary investments held separately from the City's cash management pool and which are purchased with original maturities at the time of purchase of three months or less are reported as cash equivalents.

The City elects to exclude investments with an original maturity of one year or less from date of purchase from fair value reporting. These investments are reported at amortized cost.

Texas statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, fully collateralized certificates of deposit, repurchase agreements, commercial paper, and direct obligations of cities within the state of Texas. The City is also authorized to invest in direct obligations of the state of Texas or its agencies, obligations of states, agencies, counties, and other political subdivisions, money market mutual funds, prime bankers' acceptances, and reverse repurchase agreement.

In accordance with GASB Statement No. 31, investments with maturities greater than one year at time of purchase are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a transaction between willing parties.

F. Inventories and Prepaid Items

Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used.

G. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed capital assets are recorded at estimated fair market value at the time received. Public domain (infrastructure) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net revenue bond interest cost incurred during construction periods is capitalized.

Capital assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u>                     | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings                         | 50           |
| Improvements other than buildings | 20 - 40      |
| Equipment                         | 4 - 10       |
| Drainage improvements             | 35 - 50      |
| Meters                            | 10           |
| Streets                           | 20 - 25      |
| Storm/sanitary sewer              | 50           |
| System infrastructure             | 20 - 50      |

H. Capitalization of Interest

The City capitalizes interest costs for business-type activities only, net of related interest earned, from the date of the borrowing until the projects acquired with those funds are ready for their intended use. During 2007, approximately \$1,895,000 of interest costs, net of \$1,059,000 of interest earned, were capitalized as capital assets in the Water and Sewer Fund as part of the costs of constructing various projects. Interest expensed (net of capitalized interest) and interest earned in fiscal 2007 for the Water and Sewer Fund amounted to approximately \$1,036,000 and \$1,685,000, respectively.

#### I. Arbitrage Liability

The City accrues a liability for an amount of rebatable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. Such investment activities can result in interest revenue exceeding interest cost. The arbitrage liability is payable to the federal government every five years; however, the City calculates and records its arbitrage liability annually. The arbitrage liability is recorded as a liability in the government-wide and proprietary fund types, as applicable, on the accrual basis and as a reduction of interest income on the invested debt proceeds.

#### J. Compensated Absences

The City's employees earn vacation leave for each month of work performed. The accrual rate increases with years of service up to a maximum of 20 days per year for 15 years of service and over. On specified anniversary dates, additional days are credited, up to certain amounts, according to length of service. Accrued vacation is paid to the employees upon termination of employment for employees who have completed at least six months of continuous service.

The City's employees accumulate 1.25 days of sick leave per month with a maximum accrual of 150 days (180 for fire fighters). For employees with more than five years of service, one-fourth of the total amount of accumulated sick pay up to a maximum of 120 days is paid at termination. The full amount accumulated up to 120 days maximum is paid if termination is through retirement or death.

Accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General Fund is typically used to liquidate the liability for governmental activities' compensated absences.

#### K. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums/ discounts and issuance costs, are deferred and amortized over the life of the bonds using the effective interest method and straight line method, respectively. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, as other financing sources or uses or expenditures at the time of the debt issuance. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

#### M. New Accounting Pronouncements

During fiscal year 2007, the City adopted the following Governmental Accounting Standards Board ("GASB") Statement:

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement established financial reporting standards for the City's disability income plan and post-retirement health care benefits. The City added the required footnote disclosures for fiscal year 2007. See Note 6.

The GASB has issued the following statements which will be effective in future years as described below:

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective in fiscal year 2008, which establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures, related liabilities and note disclosures in the financial statements.

Statement No. 47, *Accounting for Termination Benefits*. This is effective for the City in two parts: (1) for those benefits that relate to other post-employment benefits, the City is to implement at the same time as GASB 45 and (2) for other termination benefits, the effective date was fiscal 2006. This statement defines the accounting for voluntary and involuntary termination benefits (i.e. early retirement incentives). For voluntary termination benefits, an accrual of these costs is warranted when the termination terms have been accepted by the employee and the costs can be estimated. For involuntary termination occurrences, the liability should be recorded when the termination costs, such as severance, can be estimated and a plan for involuntary termination has been approved by the City. The plan for involuntary termination should include the number and classes of employees affected, employee location, date of proposed termination, and types of benefits that are expected to be paid to terminated employees.

Statement No. 48, *Sales and Pledges of Receivables and Future Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement is effective for the City beginning in fiscal year 2008. This Statement establishes criteria that governments will use to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. The Statement also requires enhanced disclosures pertaining to future revenues that have been pledged or sold, provides guidance on sales of receivables and future revenues within the same financial reporting entity, and provides guidance on recognizing other assets and liabilities arising from the sale of specific receivables or future revenues.

Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This is effective for the City beginning in fiscal year 2009. This statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation and be required to report a liability related to pollution remediation and be required to estimate its expected outlays for pollution remediation if it knows a site is polluted.

Statement No. 50 ("GASB 50"), *Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27*, in May 2007. The statement will be effective for the City in the fiscal year ending September 30, 2009. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB), and in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Statement No. 51 ("GASB 51"), *Accounting and Financial Reporting for Intangible Assets*, which is effective for the City beginning in fiscal year 2010. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets.

Statement No. 52 ("GASB 52"), *Land and Other Real Estate Held as Investments by Endowments*, which is effective for the City beginning in fiscal year 2009. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value.

The City has not yet determined the impact of implementing the above new pronouncements.

**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains the "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$565,351,000 difference are as follows (amounts in thousands):

|   |                          |
|---|--------------------------|
| Bonds payable   | \$526,270                |
| Less: Deferred charge for issuance costs<br>(to be amortized as interest expense)   | (4,033)                  |
| Premium general obligation debt   | 11,623                   |
| Deferred loss refunding   | (2,474)                  |
| Accrued interest payable  | 1,446                    |
| Arbitrage rebate  | 970                      |
| Sales tax payable   | 783                      |
| Landfill closure  | 4,511                    |
| Compensated absences  | 25,365                   |
| Capital leases  | <u>890</u>               |
| <br>Net adjustment to reduce fund balance - total governmental funds<br>To arrive at net assets - governmental activities | <br><br><u>\$565,351</u> |

Another element of that reconciliation explains the "other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds". The details of this \$10,044,000 difference are as follows (amounts in thousands):

|                      | <u>Deferred &amp; Unearned</u> | <u>Unearned</u>  |
|----------------------|--------------------------------|------------------|
| Taxes                | \$ 3,065                       | \$ -             |
| Closure/Post-closure | 4,511                          | -                |
| Landfill             | 8,002                          | 8,002            |
| Gas lease            | 11,994                         | 11,994           |
| Grant revenue        | 1,821                          | 1,625            |
| Other                | <u>2,272</u>                   | <u>-</u>         |
|                      | <u>\$31,665</u>                | <u>\$ 21,621</u> |

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances include a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful

lives and reported as depreciation expense." The details of the \$244,539,000 difference are as follows (amounts in thousands):

|  |                  |
|--|------------------|
| Capital outlay   | \$282,010        |
| Depreciation expense   | <u>(37,471)</u>  |
| Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities | <u>\$244,539</u> |

Another element of that reconciliation states "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$27,291,000 difference are as follows (amounts in thousands):

|  |                    |
|--|--------------------|
| Debt issued or incurred:   |                    |
| Amortization of deferred loss on bond refunding  | (\$544)            |
| Principal repayments:  |                    |
| General obligation debt  | 24,415             |
| Commercial paper   | 2,000              |
| Capital lease  | 382                |
| Amortization of bond premium   | <u>1,038</u>       |
| Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities | <u>(\$ 27,291)</u> |

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$2,963,000 difference are as follows (amounts in thousands):

|  |                   |
|--|-------------------|
| Compensated absences   | (\$ 2,126)        |
| Arbitrage  | (925)             |
| Accrued interest expense   | 102               |
| Amortization of issuance cost  | (163)             |
| Sales tax  | <u>149</u>        |
| Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities | <u>(\$ 2,963)</u> |

**III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Data**

The City Council adopts an annual legal budget, which covers the General Fund, the Debt Service Fund, the Enterprise Funds, and certain Special Revenue Funds (Park Performance, Convention and Event Services and Street Maintenance). All unencumbered appropriations lapse at fiscal year-end, except certain of those of the Special Revenue Funds. The budgets for the General Fund, the Debt Service Fund, and certain Special Revenue Funds are prepared on the modified accrual basis except for encumbrances which are treated as budgeted expenditures. The budgets for the Enterprise Funds are prepared on the modified accrual basis and include encumbrances, debt principal retirements and capital outlays as expenses. Additionally, the Enterprise Funds do not include depreciation as a budgetary expense. The statements comparing budget and actual amounts for these governmental funds include adjustments to those budgetary bases for the differences noted above and for certain other items which are reported in the City's budget differently than they are reported for accounting principles generally accepted in the United States. Budgetary level of control is exercised at the fund level. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that

alter total expenditures of the General Fund, Debt Service Fund, and certain Special Revenue funds must be approved by the City Council. During fiscal year 2007, the City Council approved budgetary expenditure amendments for the General Fund in the amount of \$466,000. These additional expenditures were to fund thirteen new positions hired in May to assist with the backlog of tickets at the Municipal Court and for parking meters in downtown, which will be reimbursed from revenues associated with the parking meters. The Convention and Events Services fund appropriations were increased by \$150,000 for the costs associated with the design of Central Plaza.

The Budgetary Comparison Statement presents a comparison of budgetary data to actual results of operations for the General Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results, with the following exceptions:

The portion of ad valorem tax revenues in the General Fund from "rolled back" tax payments (taxes, up to five years back, on properties previously taxed at special use exemption values and currently changed to full values) are excluded from the budgetary basis tax revenues and from the general governmental expenditures.

Certain interdepartmental revenues and expenses are included in budgetary basis revenues and expenditures, but are eliminated from actual revenues and expenditures.

General Fund encumbrances are added to the actual expenditures for budgetary comparison. Budgetary data for the project-length Special Revenue Funds and Capital Projects Funds have not been presented. Receipts of revenues are not estimable for all Special Revenue Funds and are not budgeted. Expenditures are limited to total revenues over the life of the funds. Capital Projects Funds are budgeted over the life of the respective project and are reviewed and approved by the City Council in an annual Capital Improvements Program plan.

## **B. Deficit fund equity**

Special Revenue Funds, funded by State and Federal Grants, submit their expenses to associated governmental agencies for reimbursement. Reimbursements not received within sixty days must be deferred, creating a deficit fund balance. For the fiscal year ending September 30, 2007, the Community Development Block Grant fund deficit of \$181,000, the Texas Department of Transportation fund deficit of \$342,000, the Home Investment Partnership fund deficit of \$356,000, and the FEMA fund deficit of \$146,000 will be funded by Federal and State Grants, reimbursements from which will replenish the fund balance in the following fiscal year. Included in Other Special Revenue are the following with fund deficits: the Drug Enforcement fund deficit of \$33,000, and the Auto Theft fund deficit of \$13,000. These fund balances will also be replenished in the following fiscal year from reimbursements funded by Federal and State Grants. The Park Performance fund deficit of \$147,000 will be funded from the General Fund and the Police Capital Projects fund deficit of \$3,190,000 will be funded from the issuance of certificates of obligation.

## **IV. DETAILED NOTES ON ALL FUNDS**

### **1. CASH, CASH EQUIVALENTS AND INVESTMENTS**

State statutes, the City's Investment Policy and the City's Depository Agreement govern the investments of the City. The City is authorized to invest in U. S. Government obligations and its agencies or instrumentalities, obligations of Texas and its agencies, fully insured or collateralized certificates of deposit, fully collateralized repurchase agreements, commercial paper rated A-1+, P-1 with an underlying long-term rating of AA or better, prime domestic bankers acceptances, government pools and money market funds consisting of any of these securities listed, and obligations of states, cities and other political subdivisions with a rating of AAA and a maximum maturity of 18 months. Major provisions of the City's investment policy include the following: depositories must be FDIC-insured institutions, depositories must fully insure or collateralize all deposits, and investments must be purchased in the name of the City and be delivered to the City's agent for safekeeping.

Deposits - At September 30, 2007, the carrying amount of the City's demand deposits was a \$4,429,000 deficit (bank balance, \$1,205,318). The \$4,429,000 consisted of a deficit \$22,660,000 balance in City

Funds, a positive \$17,002,000 balance in Fiduciary Funds and a positive \$1,229,000 balance in Component Unit Funds. The balance in cash on hand was \$131,000 at year end.

Investments – The City is the beneficiary of a Closure/Post Closure Trust in the amount of \$4,511,000. This amount is recorded as an investment in trust and as a landfill closure accrued liability. Under the landfill lease agreement, the lessee must maintain a trust equal to the amount of the City's closure/post closure liability. The funds in this trust are to be used solely by the City to pay for closure and post closure expenses as they are incurred.

The City elects to exclude investments with an original maturity of one year or less from date of purchase from fair value reporting. These investments are reported at amortized cost.

As of September 30, 2007, the City had the following cash, cash equivalents and investments (amounts in thousands):

| <b>City Funds</b>  | <b>Fair Value</b> | <b>Weighted average Maturity (in days)</b> |
|--|-------------------|--|
| Demand Deposits  | \$(22,660)        | n/a  |
| Cash on Hand   | 131               | n/a  |
| General Operating/Internal Pool                              | 297,559           | 291  |
| Cowboy Stadium Complex Project                               | 144,254           | 57   |
| Debt Service and Working Capital Reserve                     | 6,916             | 411  |
| Cowboy Stadium Complex Debt Service Reserve                  | 25,125            | 30   |
| Self-Insurance   | 4,583             | 194  |
| <b>Total City</b>  | <b>\$455,908</b>  |  |
|  |                   |  |
| <b>Fiduciary Funds</b>                                       | <b>Fair Value</b> | <b>Weighted average Maturity (in days)</b> |
| Agency Funds-Demand Deposits                                 | \$17,002          | n/a  |
| Agency Funds- Cash in Bank                                   | (447)             | n/a  |
| Agency Funds- Mutual Funds                                   | 347               | n/a  |
| Pension Trust Funds – Money Market Fund                      | 17,809            | n/a  |
| Pension Trust Funds – Corporate Bonds                        | 716               | n/a  |
| Pension Trust Funds- Mutual Funds                            | 82,151            | n/a  |
| <b>Total Fiduciary Funds</b>                                 | <b>\$117,578</b>  |  |
|  |                   |  |
| <b>Component Units</b>                                       |                   |  |
| Demand Deposits  | \$1,229           | n/a  |
| Cash in Bank   | 7,729             | n/a  |
| ASFDA – Money Market   | 2,235             | n/a  |
| ASFDA – U.S. Treasury  | 11,626            | 345  |
| AHA – U.S. Government Bond                                   | 3,144             | 529  |
| <b>Total Component Units</b>                                 | <b>\$25,963</b>   |  |
|  |                   |  |
| <b>Total Entity – Cash, Cash Equivalents and Investments</b> | <b>\$599,449</b>  |  |



*Interest Rate Risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maximum maturity of any single investment and the weighted average maturity of combined investments by fund groups. The following table lists the fund groups authorized in the City's investment policy and the maximum maturity and maximum weighted average maturity ("WAM"):

| <b>Fund</b>                                 | <b>Maximum Maturity</b> | <b>Maximum WAM</b> |
|---|-------------------------|--------------------|
| General Operating                           | 2 Years                 | 1 Year             |
| Capital Project                             | 2 Years                 | 18 Months          |
| Cowboy Stadium Complex Project              | 4 Years                 | 3 Years            |
| Debt Service and Working Capital Reserve    | 5 Years                 | 4 Years            |
| Cowboy Stadium Complex Debt Service Reserve | 7 Years                 | 7 Years            |
| Debt Service Sinking                        | 7 Years                 | 7 Years            |
| Self-Insurance                              | 7 Years                 | 5 Years            |

*Credit Risk.* The City's investments in the bonds of U.S. agencies were rated Aaa by Moody's investors Service and AAA by Standard and Poor's. The Arlington Housing Authority's investments in the Federal Home Loan Bank bond was rated AAA by Moody's. The Arlington Sports Facility Development's investments were in U.S. Treasury funds or U.S. Treasury money market mutual funds.

*Concentration of Credit Risk.* The City's investment policy places no limit on the amount the City may invest in any one issuer, but the City's Investment Committee is assigned the strategy of portfolio diversification. All securities are AAA rated.

As of September 30, 2007, the City's overall portfolio consisted of:

| <b>City Funds</b>                       | <b>Fair Value</b> |
|---|-------------------|
| Demand Deposits                         | \$(22,660)        |
| Cash on Hand                            | 131               |
| Federal Home Loan Bank                  | 70,193            |
| Federal Home Loan Mortgage Corp.        | 90,213            |
| Federal National Mortgage Association   | 52,263            |
| Private Export Funding                  | 5,048             |
| Wells Fargo Money Market                | 86,728            |
| TexPool                                 | 54,719            |
| U.S. Treasury                           | 119,273           |
| <b>Total City</b>                       | <b>\$455,908</b>  |
|   |                   |
| <b>Fiduciary Funds</b>                  | <b>Fair Value</b> |
| Agency Funds-Demand Deposits            | \$17,002          |
| Agency Funds- Cash in Bank              | (447)             |
| Agency Funds- Mutual Funds              | 347               |
| Pension Trust Funds – Money Market Fund | 17,809            |
| Pension Trust Funds – Corporate Bonds   | 716               |
| Pension Trust Funds- Mutual Funds       | 82,151            |
| <b>Total Fiduciary Funds</b>            | <b>\$117,578</b>  |

| <b>Component Units</b>                                       |                  |
|--|------------------|
| Demand Deposits  | \$1,229          |
| Cash in Bank   | 7,729            |
| ASFDA – Wells Fargo Money Market                             | 2,235            |
| ASFDA – U.S. Treasury  | 11,626           |
| AHA – U.S. Government Bond                                   | 3,144            |
| <b>Total Component Units</b>                                 | <b>\$25,963</b>  |
|  |                  |
| <b>Total Entity – Cash, Cash Equivalents and Investments</b> | <b>\$599,449</b> |

*Custodial Credit Risk.* State statutes require that all City deposits in financial institutions be fully collateralized by U. S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by State statutes at September 30, 2007. The City's bank balance (excluding Component Units) was covered by collateral with a fair value of \$11,233,953. The bank balance was fully collateralized by securities held in the City's name by the Federal Home Loan Bank of Dallas through a tri-party (City, depository bank and Federal Home Loan Bank) collateral agreement.

The City's investments in public funds investment pools include investments in TexPool. TexPool is a public funds investment pool operating as a 2a-7 like pool in full compliance with the Public Funds Investment Act. TexPool is rated as an AAA money market fund by Standard & Poor's. As of September 30, 2007, the City's investment in TexPool was \$54,719,000 with a market value of \$54,719,000.

## **2. PROPERTY TAXES**

Property Taxes are levied on October 1 on the assessed value listed as of the prior January 1 and are due and payable at that time. All unpaid taxes attach as a lien on property as of January 1 and become enforceable February 1. Penalty and interest is charged at 7 percent on delinquent taxes beginning February 1 and increase each month to 18 percent on July 1.

Appraised values are established by the Tarrant Appraisal District at 100 percent of estimated market value and certified by the Appraisal Review Board. The assessed value for the tax roll of January 1, 2006, upon which the original FY07 levy was based, was \$16,793,425,000.

City property tax revenues are recorded as receivables and deferred revenues at the time the tax levy is billed. Current year revenues recognized are those collected within the current period, or soon enough thereafter to pay current liabilities, generally within sixty days after year-end. An allowance is provided for delinquent personal property taxes not expected to be collected in the future.

For the fiscal year ended September 30, 2007, the City had a tax rate of \$0.6480 (\$0.4468 for general government and \$0.2012 for debt service) per \$100 assessed valuation with a tax margin of \$1.8520 per \$100 valuation based upon a maximum ad valorem tax of \$2.50 per \$100 valuation permitted by Article XI, Section 5, of the State of Texas Constitution. Additional revenues up to approximately \$311,014,227 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately \$16,793,425,000.

In Texas, county-wide central appraisal districts are required to assess all property within the appraisal district on the basis of 100 percent of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. Under this system, the City sets tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

### 3. RECEIVABLES

Receivables at September 30, 2007 for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following:

(Amounts expressed in thousands)

|                                    | General          | Debt Service    | Stadium Venue | Water & Sewer    | Gas Lease   | Street Capital Projects | Nonmajor & Other Funds | Total            |
|------------------------------------|------------------|-----------------|---------------|------------------|-------------|-------------------------|------------------------|------------------|
| <b>Receivables:</b>                |                  |                 |               |                  |             |                         |                        |                  |
| Taxes                              | \$ 8,101         | \$ 420          | \$ -          | \$ -             | \$ -        | \$ -                    | \$ 1,635               | \$ 10,156        |
| Franchise Fees                     | 6,028            | -               | -             | -                | -           | -                       | -                      | 6,028            |
| Trade Accounts                     | -                | -               | -             | 8,575            | -           | -                       | -                      | 8,575            |
| Unbilled Trade Accounts            | -                | -               | -             | 6,540            | -           | -                       | -                      | 6,540            |
| Special Assessments                | -                | -               | -             | -                | -           | 224                     | -                      | 224              |
| Sales Taxes                        | 8,209            | 4,123           | -             | -                | -           | -                       | 2,061                  | 14,393           |
| Accrued Interest                   | 2,674            | 83              | 878           | -                | -           | -                       | -                      | 3,635            |
| Other                              | 2,468            | -               | -             | 26               | -           | 2                       | 1,292                  | 3,788            |
| <b>Gross Receivables</b>           | <b>27,480</b>    | <b>4,626</b>    | <b>878</b>    | <b>15,141</b>    | <b>-</b>    | <b>226</b>              | <b>4,988</b>           | <b>53,339</b>    |
| Less: Allowance for Uncollectibles | (4,945)          | -               | -             | (2,232)          | -           | -                       | (24)                   | (7,201)          |
| <b>Net total Receivables</b>       | <b>\$ 22,535</b> | <b>\$ 4,626</b> | <b>\$ 878</b> | <b>\$ 12,909</b> | <b>\$ -</b> | <b>\$ 226</b>           | <b>\$ 4,964</b>        | <b>\$ 46,138</b> |

### 4. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 was as follows:

(Amounts expressed in thousands)

|  | Balance at Beginning Of Year | Transfers And Additions | Transfers And Retirements | Balance at End Of Year |
|--|------------------------------|-------------------------|---------------------------|------------------------|
| <b>Governmental activities:</b>              |                              |                         |                           |                        |
| Capital assets, not being depreciated:       |                              |                         |                           |                        |
| Land   | \$ 80,600                    | \$ 1,166                | \$ (6)                    | \$ 81,760              |
| Construction in progress-other               | 103,898                      | 48,116                  | (49,409)                  | 102,605                |
| Construction in progress-stadium             | 141,005                      | 230,741                 | -                         | 371,746                |
| Total capital assets, not being depreciated  | <u>325,503</u>               | <u>280,023</u>          | <u>(49,415)</u>           | <u>556,111</u>         |
| Capital assets, being depreciated:           |                              |                         |                           |                        |
| Buildings                                    | 134,794                      | 14,642                  | (331)                     | 149,105                |
| Improvements other than buildings            | 55,584                       | -                       | -                         | 55,584                 |
| Equipment                                    | 50,325                       | 12,550                  | (894)                     | 61,981                 |
| Infrastructure                               | 760,720                      | 23,151                  | -                         | 783,871                |
| Total capital assets, being depreciated      | <u>1,001,423</u>             | <u>50,343</u>           | <u>(1,225)</u>            | <u>1,050,541</u>       |
| Less accumulated depreciation for:           |                              |                         |                           |                        |
| Buildings                                    | 49,541                       | 5,312                   | (305)                     | 54,548                 |
| Improvements other than buildings            | 18,936                       | -                       | -                         | 18,936                 |
| Equipment                                    | 32,680                       | 6,539                   | (845)                     | 38,374                 |
| Infrastructure                               | 471,347                      | 28,899                  | -                         | 500,246                |
| Total accumulated depreciation               | <u>572,504</u>               | <u>40,750</u>           | <u>(1,150)</u>            | <u>612,104</u>         |
| Total capital assets, being depreciated, net | <u>428,919</u>               | <u>9,593</u>            | <u>(75)</u>               | <u>438,437</u>         |
| Governmental activities capital assets, net  | <u>\$754,422</u>             | <u>\$289,616</u>        | <u>(\$49,490)</u>         | <u>\$994,548</u>       |

|   | Balance at<br>Beginning<br>Of Year | Transfers<br>And<br>Additions | Transfers<br>And<br>Retirements | Balance at<br>End<br>Of Year |
|---|------------------------------------|-------------------------------|---------------------------------|------------------------------|
| <b>Total Business-type activities:</b>          |                                    |                               |                                 |                              |
| Capital assets, not being depreciated:          |                                    |                               |                                 |                              |
| Land  | \$ 4,828                           | \$ 113                        | \$ -                            | \$ 4,941                     |
| Construction in progress                        | <u>76,987</u>                      | <u>24,854</u>                 | <u>(28,061)</u>                 | <u>73,780</u>                |
| Total capital assets, not being<br>depreciated  | <u>81,815</u>                      | <u>24,967</u>                 | <u>(28,061)</u>                 | <u>78,721</u>                |
| Capital assets, being depreciated:              |                                    |                               |                                 |                              |
| Buildings and improvements                      | 2,833                              | -                             | -                               | 2,833                        |
| Water and sewer system                          | 528,277                            | 31,745                        | -                               | 560,022                      |
| Machinery and equipment                         | <u>9,889</u>                       | <u>7</u>                      | <u>-</u>                        | <u>9,896</u>                 |
| Total capital assets, being depreciated         | <u>540,999</u>                     | <u>31,752</u>                 | <u>-</u>                        | <u>572,751</u>               |
| Less accumulated depreciation for:              |                                    |                               |                                 |                              |
| Buildings and improvements                      | 964                                | 53                            | -                               | 1,017                        |
| Water and sewer system                          | 161,218                            | 10,671                        | -                               | 171,889                      |
| Machinery and equipment                         | <u>9,602</u>                       | <u>129</u>                    | <u>-</u>                        | <u>9,731</u>                 |
| Total accumulated depreciation                  | <u>171,784</u>                     | <u>10,853</u>                 | <u>-</u>                        | <u>182,637</u>               |
| Total capital assets, being<br>depreciated, net | <u>369,215</u>                     | <u>20,899</u>                 | <u>-</u>                        | <u>390,114</u>               |
| Business-type activities capital<br>assets, net | <u>\$451,030</u>                   | <u>\$45,866</u>               | <u>(\$28,061)</u>               | <u>\$468,835</u>             |

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

|  |                  |
|--|------------------|
| Governmental activities:   |                  |
| General Government   | \$ 2,933         |
| Public Safety  | 1,346            |
| Parks and recreation   | 3,311            |
| Public works   | 29,875           |
| Public health  | 5                |
| Capital assets held by the government's internal service<br>funds are charged to the various functions based on<br>their usage of the assets | <u>3,280</u>     |
| Total depreciation expense – governmental activities   | <u>\$40,750</u>  |
| Business-type activities:  |                  |
| Water and sewer  | <u>\$ 10,853</u> |
| Total depreciation expense – business-type activities  | <u>\$ 10,853</u> |

Discretely presented component units:

|  | (Amounts expressed in thousands)   |                               |                                 |                              |
|--|------------------------------------|-------------------------------|---------------------------------|------------------------------|
|  | Balance at<br>Beginning<br>Of Year | Transfers<br>And<br>Additions | Transfers<br>And<br>Retirements | Balance at<br>End<br>Of Year |
| <b>Arlington Sports Facilities<br/>Development Authority, Inc.:</b>                  |                                    |                               |                                 |                              |
| Capital assets, being depreciated:   |                                    |                               |                                 |                              |
| Buildings and improvements   | <u>\$2,739</u>                     | <u>\$ -</u>                   | <u>\$ -</u>                     | <u>\$2,739</u>               |
| Total capital assets, being depreciated  | <u>2,739</u>                       | <u>-</u>                      | <u>-</u>                        | <u>2,739</u>                 |
| Less accumulated depreciation for:   |                                    |                               |                                 |                              |
| Buildings and improvements   | <u>1,369</u>                       | <u>109</u>                    | <u>-</u>                        | <u>1,478</u>                 |
| Total accumulated depreciation   | <u>1,369</u>                       | <u>109</u>                    | <u>-</u>                        | <u>1,478</u>                 |
| Total capital assets, being depreciated, net   | <u>1,370</u>                       | <u>(109)</u>                  | <u>-</u>                        | <u>1,261</u>                 |
| Arlington Sports Facility Development Authority, Inc. activities capital assets, net | <u>\$1,370</u>                     | <u>(\$109)</u>                | <u>\$ -</u>                     | <u>\$1,261</u>               |
|  | Balance at<br>Beginning<br>Of Year | Transfers<br>And<br>Additions | Transfers<br>And<br>Retirements | Balance at<br>End<br>Of Year |
| <b>Arlington Housing Authority, Inc.:</b>  |                                    |                               |                                 |                              |
| Capital assets, being depreciated:   |                                    |                               |                                 |                              |
| Machinery and equipment  | <u>\$ 672</u>                      | <u>\$ 28</u>                  | <u>\$ -</u>                     | <u>\$700</u>                 |
| Total capital assets, being depreciated  | <u>672</u>                         | <u>28</u>                     | <u>-</u>                        | <u>700</u>                   |
| Less accumulated depreciation for:   |                                    |                               |                                 |                              |
| Machinery and equipment  | <u>226</u>                         | <u>34</u>                     | <u>-</u>                        | <u>260</u>                   |
| Total accumulated depreciation   | <u>226</u>                         | <u>34</u>                     | <u>-</u>                        | <u>260</u>                   |
| Total capital assets, being depreciated, net   | <u>446</u>                         | <u>(6)</u>                    | <u>-</u>                        | <u>440</u>                   |
| Arlington Housing Authority, Inc. activities capital assets, net                     | <u>\$ 446</u>                      | <u>\$ (6)</u>                 | <u>\$ -</u>                     | <u>\$440</u>                 |
|  | Balance at<br>Beginning<br>Of Year | Transfers<br>And<br>Additions | Transfers<br>And<br>Retirements | Balance at<br>End<br>Of Year |
| <b>Arlington Convention and<br/>Visitors Bureau, Inc.:</b>                           |                                    |                               |                                 |                              |
| Capital assets, being depreciated:   |                                    |                               |                                 |                              |
| Machinery and equipment  | <u>\$503</u>                       | <u>\$ 101</u>                 | <u>\$ -</u>                     | <u>\$604</u>                 |
| Total capital assets, being depreciated  | <u>503</u>                         | <u>101</u>                    | <u>-</u>                        | <u>604</u>                   |
| Less accumulated depreciation for:   |                                    |                               |                                 |                              |
| Machinery and equipment  | <u>286</u>                         | <u>73</u>                     | <u>-</u>                        | <u>359</u>                   |
| Total accumulated depreciation   | <u>286</u>                         | <u>73</u>                     | <u>-</u>                        | <u>359</u>                   |
| Total capital assets, being depreciated, net   | <u>217</u>                         | <u>28</u>                     | <u>-</u>                        | <u>245</u>                   |
| Arlington Convention and Visitors Bureau, Inc. activities capital assets, net        | <u>\$217</u>                       | <u>\$28</u>                   | <u>\$ -</u>                     | <u>\$245</u>                 |

## 5. PENSION AND EMPLOYEE BENEFIT PLANS

### Texas Municipal Retirement System

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), one of 821 currently administered by TMRS, an agent multiple-employer public employee retirement system. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing to TMRS, P.O. Box 149153, Austin, Texas, 78714.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100 percent, 150 percent, or 200 percent) of the employee's accumulated contributions. In addition, the City can grant as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions, with interest, and the employer-financed monetary credits, with interest, were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years, but he must leave his accumulated contributions in the plan. If a member withdraws his own money, he is not entitled to the employer-financed monetary credits, even if he was vested. The plan provisions are adopted by the City Council, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Plan provisions for the City were as follows (as of 4/1/07):

|                                    |         |
|------------------------------------|---------|
| Deposit Rate:                      | 7%      |
| Matching Ratio: (City to Employee) | 2 to 1  |
| A member is vested after:          | 5 years |

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year open amortization period. When the City periodically adopts updated service credits and increases annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period, which began in January 1997. The unit credit actuarial cost method is used for determining the City contribution rate. Contributions are made monthly by both the employees and the City. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year lag between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect.

For 2007, the City's annual pension cost of \$15,164,648 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the unit credit actuarial cost method. The actuarial assumptions included a 7 percent investment rate of return (net of administrative expenses), (b) no projected salary increases, (c) no cost of living adjustment, and (d) a 3.5% inflation rate adjustment. The actuarial value of assets is adjusted cost for bonds (original cost adjusted for amortization of premium or accrual of discount) and original cost for

short-term securities and stocks, which is the same as book value. The City's unfunded actuarial accrued liability is being amortized over a constant 25-year open amortization period as a level percentage of payroll.

The following table discloses three-year historical trend information relating to the TMRS plan.

| <b><u>Fiscal Year Ending</u></b> | <b><u>Annual Required Contribution (ARC)</u></b> | <b><u>Percentage of ARC Contributed</u></b> | <b><u>Net Pension Obligation</u></b> |
|----------------------------------|--|---|--------------------------------------|
| 9/30/05                          | \$14,671,901                                     | 100.00%                                     | -                                    |
| 9/30/06                          | \$14,512,396                                     | 100.00%                                     | -                                    |
| 9/30/07                          | \$15,164,648                                     | 100.00%                                     | -                                    |

Future Funding Requirements - In early December 2007 the TMRS Board of Trustees met and adopted actuarial changes that include a change from the Unit Credit actuarial cost method to the Projected Unit Credit actuarial cost method for all TMRS city plans as well as a closed amortization period of 30 years. The effect of these changes will result in an increase in city contribution rates for most Texas cities. Cities will have the option to increase their contributions over an eight-year phase-in period. All cities will receive their 2009 contribution rate letter in May 2008 that will specify exactly how these changes will affect the future annual required contribution rate upon completion of an actuarial valuation to be performed as of December 31, 2007. These changes are intended to help the TMRS system remain well-funded, to preserve members' benefits, and to give cities a more complete picture of the cost of benefits currently adopted. While the impact of TMRS changes is not presently known, the City's contribution rate is expected to increase significantly. Tentative estimates of the City's future contribution rate show an increase from 13.45 to 19.00. Management believes that while these possible increases will present additional challenges to the City during the budget process the City will be able to make necessary changes to mitigate any adverse financial impact to the City.

Thrift Savings Plan

All full-time City employees may participate in the Thrift Savings Plan (the "Thrift"), a single-employer defined contribution plan administered by the Retirement Committee at the City. The plan provisions and contribution savings are adopted and amended by the City Council, within the options available in the federal statutes governing Internal Revenue Code, section 401(k). This voluntary IRS Code 401(k) plan allows all full-time City employees to contribute between 1 percent to 10 percent of their salary with the City matching the first 6 percent of employee contributions at 50 cents to the dollar. Partial vesting of employer contributions begins after three years of participation with full vesting taking place after six years of participation. At September 30, 2007, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was \$98,658,000.

The City's total payroll during fiscal 2007 was \$133,629,000. The current year contribution was calculated based on a covered payroll of \$75,014,000, resulting in a required and actual employer contribution of \$2,043,000 and actual employee contributions of \$4,954,000. The employer contribution represents 2.72 percent of the covered payroll. The employee contribution represents approximately 6.6 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2007. There were no related-party transactions. The Thrift Plan does not issue separate stand-alone financial statements.

Part-Time Deferred Income Trust

The City provides retirement benefits for all part-time, seasonal, and temporary employees through the Part-time Deferred Income Trust Plan (the "PDIT"), a single-employer defined benefit pension plan administered by the City of Arlington's Workforce Services Department. The PDIT was adopted by the City Council in accordance with the safe harbor rules of the Internal Revenue Service regulations. The PDIT does not issue separate stand-alone financial statements.

The contribution rate for employees is 3 percent, and the City’s actuarially determined matching percent is currently 3.3 percent. The City’s required contribution rate was determined as part of the July 1, 2006, actuarial valuation (the most recent actuarial valuation) using the aggregate cost method, which does not identify or separately amortize unfunded actuarial liabilities.

The actuarial assumptions used in the July 1, 2006 actuarial valuation included were (a) 6.50 percent investment return, (b) no inflation rate adjustment, and (c) 4.50 percent salary increases. The accrual basis of accounting is utilized by the PDIT fund. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Administrative costs of the plan are financed through investment earnings. Cash and cash equivalents are stated at cost that approximates fair value. Investments are stated at the approximate value of the financial asset based on either the month end price, the last available price, or the last available activity. The actuarial accrued liability was determined using the entry age normal cost method.

The following table discloses three-year historical trend information relating to the Part-Time Deferred Income Trust Plan.

| <b>Fiscal Year</b> | <b>Annual Required Contribution (ARC)</b> | <b>Percentage of ARC Contributed</b> | <b>Net Pension Obligation</b> |
|--------------------|---|--------------------------------------|-------------------------------|
| 9/30/05            | \$87,000                                  | 100.00%                              | -                             |
| 9/30/06            | \$67,000                                  | 100.00%                              | -                             |
| 9/30/07            | \$114,000                                 | 100.00%                              | -                             |

Benefits depend on length of service to the City and the employee’s total contributions. At normal retirement age (65), the benefit consists of monthly payments equal to a percentage of the employee’s average pay multiplied by years of service. The percentage of the employee’s pay ranges from 1.50 percent to 2.00 percent, depending on the number of months of service.

IRC 457 Deferred Compensation Plans

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 which is administered by the International City Management Associations Retirement Corporation (the “ICMA”). In addition, the City offers its executive employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 which is also administered by the ICMA. Due to the fact that the City does not administer these plans, these plans are not included in the City’s financial statements.

City contributions for the above plans for the year ended September 30, 2007, are as follows (amounts in thousands):

|        |                 |
|--------|-----------------|
| TMRS   | \$15,164        |
| THRIFT | 2,043           |
| PTDIT  | 114             |
|        | <u>\$17,321</u> |



Statement of Net Assets and Statement of Changes in Net Assets

The Part-Time Deferred Income Trust and Thrift Savings Plans do not issue separate GAAP financial reports. Their financial statements are presented below as of September 30, 2007 (amounts in thousands):

|   | <u>Net Assets</u>                        |                           |                  |
|---|--|---------------------------|------------------|
|   | Part-Time<br>Deferred<br>Income<br>Trust | Thrift<br>Savings<br>Plan | Total            |
| ASSETS  |  |                           |                  |
| Investments                                       | <u>\$1,601</u>                           | <u>\$98,658</u>           | <u>\$100,259</u> |
| Total Assets                                      | <u>\$1,601</u>                           | <u>\$98,658</u>           | <u>\$100,259</u> |
| NET ASSETS, Held in Trust<br>For Pension Benefits | <u>\$1,601</u>                           | <u>\$98,658</u>           | <u>\$100,259</u> |
|   |  |                           |                  |
|   | <u>Changes in Net Assets</u>             |                           |                  |
|   | Part-Time<br>Deferred<br>Income<br>Trust | Thrift<br>Savings<br>Plan | Total            |
| ADDITIONS   |  |                           |                  |
| Employer contributions                            | \$ 114                                   | \$ 2,043                  | \$ 2,157         |
| Employee contributions                            | 101                                      | 4,954                     | 5,055            |
| Net appreciation in fair value<br>of investments  | <u>112</u>                               | <u>11,660</u>             | <u>11,772</u>    |
| Total Additions                                   | <u>\$ 327</u>                            | <u>\$18,657</u>           | <u>\$18,984</u>  |
| DEDUCTIONS  |  |                           |                  |
| Benefits  | 49                                       | 8,808                     | 8,857            |
| Plan administration                               | <u>17</u>                                | <u>16</u>                 | <u>33</u>        |
| Total Deductions                                  | <u>66</u>                                | <u>8,824</u>              | <u>8,890</u>     |
| Increase in Net Assets                            | 261                                      | 9,833                     | 10,094           |
| NET ASSETS, October 1                             | <u>1,340</u>                             | <u>88,825</u>             | <u>90,165</u>    |
| NET ASSETS, September 30                          | <u>\$1,601</u>                           | <u>\$98,658</u>           | <u>\$100,259</u> |

**6. OTHER POST EMPLOYMENT BENEFITS**

Disability Income Plan

Effective October 1, 1992, the City began providing active employees with disability insurance through a policy obtained from a commercial carrier. Previously, all City employees had participated in a Disability Income Plan (DIP), a single-employer other postemployment benefit disability plan, which had been funded by actuarially determined contributions. This plan had been accounted for in the DIP fund. Benefits to employees who were disabled while participating under the previous plan will continue to be paid from the remaining assets of the DIP fund.

The following table discloses three-year historical trend information relating to the Disability Income Plan.

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contribution</u> | <u>Net Pension Obligation</u> |
|---------------------------|----------------------------------|---------------------------------------|-------------------------------|
| 9/30/05                   | \$288,000                        | 100.00%                               | -                             |
| 9/30/06                   | 348,000                          | 100.00%                               | -                             |
| 9/30/07                   | 323,000                          | 100.00%                               | -                             |

Summary of Significant Accounting Policies

*Basis of Accounting.* DIP's financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

*Method Used to Value Investments.* Cash and cash equivalents with original maturity dates less than one year are stated at cost that approximates fair value. Investments are stated at fair based on either the month end price, the last available price or the last available activity.

Plan Description and Contribution Information

Membership of the plan consisted of the following at July 1, 2006, the date of the latest actuarial valuation:

|   |              |
|---|--------------|
| Retirees and beneficiaries receiving benefits | 33           |
| Active plan members                           | <u>1,999</u> |
| Total   | <u>2,032</u> |

Number of participating employers 1

*Plan Description.* DIP is a single-employer defined benefit disability income plan that covers the employees of the City. The plan originally provided in-service death benefits and long term disability benefits commencing upon disablement. The plan was amended to eliminate the in-service death benefit and to start disability payments at age 65. The plan contemplates that long term disability benefits will be provided through a separate LTD insurance contract prior to age 65. The retired life liability for current disabled employees (many of whom are under age 65) is retained under the plan.

*Contributions.* The retirement committee of the City has the authority to establish and amend contribution requirements of the plan. The City's contribution is determined through an actuarial valuation. Per the most recent valuation, the City is contributing at a rate equivalent to 0.30 percent of covered payroll. For the year ended September 30, 2007, the City contributed \$323,000 to the plan. Administrative cost of DIP are financed through investment earnings.

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if

paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan, (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

|   |                           |
|---|---------------------------|
| Valuation date                                    | 07/01/06                  |
| Actuarial cost method                             | Entry age normal          |
| Amortization method                               | Level dollar amortization |
| Remaining amortization period                     | 20 years                  |
| Asset valuation method                            | Market value              |
| Actuarial assumptions                             |                           |
| Investment rate of return                         | 7.5 percent               |
| (Includes an inflation assumption of 4.5 percent) |                           |
| Pay progression                                   | 5.5 percent               |

DIP does not issue separate GAAP financial reports. Its financial statements are presented below as of September 30, 2007 (in thousands):

|                               | <u>Net Assets</u> |
|-------------------------------|-------------------|
| Assets                        |                   |
| Investments                   | <u>\$417</u>      |
| Total assets                  | <u>\$417</u>      |
| Net assets, held in trust for |                   |
| Other postemployment benefits | <u>\$417</u>      |

|                                | <u>Changes in Net Assets</u> |
|--------------------------------|------------------------------|
| Additions                      |                              |
| Employer contributions         | \$323                        |
| Net appreciation in fair value |                              |
| Of investments                 | <u>28</u>                    |
| Total additions                | <u>\$ 351</u>                |
| Deductions                     |                              |
| Benefits                       | 278                          |
| Plan Administration            | <u>8</u>                     |
| Total deductions               | <u>286</u>                   |
| Increase in net assets         | 65                           |
| Net assets, October 1, 2006    | <u>352</u>                   |
| Net assets, September 30, 2007 | <u>\$ 417</u>                |

### **Retiree Health Insurance**

The City provides postretirement health care benefits to eligible employees who retire from the City with at least 10 years of service with the City of Arlington. Currently, 508 retirees meet those eligibility requirements. Retirees may select either one or a combination of the following benefit plans offered by the City – medical, dental and/or vision coverage. Participants under age 65 may select from three EPO plans. Effective January 1, 2005, participants age 65 and over had the additional option to enroll in Medicare supplemental AARP Plans F or J. Effective January 1, 2007 post-65 retirees enrolled in both Medicare Part A & B had the option to enroll in Secure Horizons or AARP Plan K to supplement their Medicare coverage. The Secure Horizon plan includes Medicare Part D and AARP Plan K participants were offered the UHC Medicare Part D plan option. The City plan has a non-duplication coordination of benefits with Medicare and other primary plans for retirees and/or their dependants. During the year, expenditures of \$1,887,352 were recognized for postretirement health care.

## 7. DEBT AND LIABILITES

### General Short-Term Debt

During fiscal 2005, the City authorized a \$30,000,000 commercial paper program for interim funding of general obligation debt. During fiscal year 2007 the City issued \$12,000,000 of commercial paper with interest rates ranging from 3.60 percent to 3.78 percent. This debt will mature on various days over the next several months.

General short-term debt balances and transactions for the year ended September 30, 2007 are as follows (amounts in thousands):

|                  | Balance,<br>October 1,<br>2006 | Additions       | Retirements<br>and Other | Balance,<br>September 30,<br>2007 |
|------------------|--------------------------------|-----------------|--------------------------|-----------------------------------|
| Commercial Paper | <u>\$2,000</u>                 | <u>\$12,000</u> | <u>\$ -</u>              | <u>\$14,000</u>                   |

### General Long-Term Debt

The City received a determination in 2002 by the State of Texas Comptroller's office that the City had received \$2,228,186 in sales tax receipts from the Comptroller's office in error over the past several years. The Comptroller's office agreed to allow the City to repay the excess sales tax revenue interest free over a period of ten years through reduced sales tax allocations from the state. The state began withholding \$18,568 monthly from the City's sales tax allocations beginning in March 2003. The withholding is allocated between the General Fund for \$12,427 per month and the ASFDA for \$6,140 per month. As of September 30, 2007, this liability is reported at \$782,958 in the governmental activities and \$386,862 in the component units of the statement of net assets. Beginning in 2003, as sales tax allocations were reduced monthly, the City recorded an expense at the fund level and recorded sales tax revenue for the amount of the monthly sales tax allocation withheld by the Comptroller's office. The City also recorded a fund liability to the extent that sales tax revenues are recognized and accrued at year-end.

General long-term and special obligation debt balances and transactions and other long term obligations for the year ended September 30, 2007 are as follows (amounts in thousands):

|   | Balance,<br>October 1,<br>2006 | Additions      | Retirements<br>and Other | Balance,<br>September 30,<br>2007 | Due<br>Within<br>One Year |
|---|--------------------------------|----------------|--------------------------|-----------------------------------|---------------------------|
| General obligation debt <sup>(1)</sup>    | \$226,760                      | \$ -           | (\$20,885)               | \$205,875                         | \$20,015                  |
| Special tax revenue debt <sup>(2)</sup>   | 297,990                        | -              | -                        | 297,990                           | -                         |
| Certificates of obligation <sup>(1)</sup> | 25,935                         | -              | (3,530)                  | 22,405                            | 3,385                     |
| Premium on general bonds                  | 5,796                          | -              | (661)                    | 5,135                             | -                         |
| Premium on special bonds                  | 6,865                          | -              | (377)                    | 6,488                             | -                         |
| Deferred loss on refunding                | (3,018)                        | -              | 544                      | (2,474)                           | -                         |
| Accrued compensated absences              | 23,427                         | 3,469          | (1,303)                  | 25,593                            | 1,276                     |
| Capital lease obligation                  | 2,260                          | 78             | (611)                    | 1,727                             | 560                       |
| Arbitrage rebate                          | 45                             | 925            | -                        | 970                               | -                         |
| Claims payable                            | 10,444                         | 4,963          | (5,815)                  | 9,592                             | 6,413                     |
| Landfill Closure Liability                | 4,722                          | -              | (211)                    | 4,511                             | -                         |
| Sales tax payable                         | 932                            | -              | (149)                    | 783                               | 149                       |
| Total                                     | <u>\$602,158</u>               | <u>\$9,435</u> | <u>(\$32,998)</u>        | <u>\$578,595</u>                  | <u>\$31,798</u>           |

(1) The general obligation debt of \$228,280 consists of serial and term bonds and certificates of obligation payable from general property taxes. The bonds mature annually in varying amounts through fiscal year 2026, and interest is payable semiannually at rates ranging from 2.50 percent to 7.375 percent.

The principal and interest requirements of the above general obligation debt at September 30, 2007 are as follows (amounts in thousands):

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u>     |
|--------------------|------------------|-----------------|------------------|
| 2008               | \$ 23,400        | \$ 10,923       | \$ 34,323        |
| 2009               | 21,510           | 9,822           | 31,332           |
| 2010               | 20,160           | 8,794           | 28,954           |
| 2011               | 20,160           | 7,852           | 28,012           |
| 2012               | 19,610           | 6,887           | 26,497           |
| 2013-2017          | 80,005           | 21,429          | 101,434          |
| 2018-2022          | 38,095           | 5,877           | 43,972           |
| 2023-2026          | <u>5,340</u>     | <u>421</u>      | <u>5,761</u>     |
|                    | <u>\$228,280</u> | <u>\$72,005</u> | <u>\$300,285</u> |

General obligation debt authorized and unissued as of September 30, 2007, amounted to \$84,160,000. This includes \$16,000,000 in unissued commercial paper.

- (2) The special obligation debt of \$297,990 consists of tax exempt special tax bonds and taxable special tax and revenue bonds. The bonds, together with excess funds and interest, provided for the City's share of project costs for the Cowboy's Stadium. The Series A and C bonds mature annually in varying amounts through fiscal year 2035, and interest is payable semiannually at rates ranging from 3.0 percent to 5.0 percent. The Series B bonds interest is payable monthly. See note 11.

The principal and interest requirements of the above special obligation debt at September 30, 2007, are as follows (amounts in thousands):

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u>  | <u>Total</u>     |
|--------------------|------------------|------------------|------------------|
| 2008               | \$ -             | \$ 12,389        | \$ 12,389        |
| 2009               | 4,950            | 12,389           | 17,339           |
| 2010               | 5,230            | 12,220           | 17,450           |
| 2011               | 7,415            | 12,033           | 19,448           |
| 2012               | 7,695            | 11,757           | 19,452           |
| 2013-2017          | 39,845           | 54,117           | 93,962           |
| 2018-2022          | 4,460            | 48,648           | 53,108           |
| 2023-2027          | -                | 48,311           | 48,311           |
| 2028-2032          | 30,500           | 47,567           | 78,067           |
| 2033-2036          | <u>197,895</u>   | <u>21,103</u>    | <u>218,998</u>   |
|                    | <u>\$297,990</u> | <u>\$280,534</u> | <u>\$578,524</u> |

#### Debt of the Enterprise Funds

The City issued \$24,000,000 of Water and Wastewater System Revenue Bonds, Series 2007 during 2007 at an effective interest rate of 4.53 percent and will mature on June 1<sup>st</sup> of each year over a period from 2008 to 2027. Interest is payable June 1 and December 1 of each year commencing on December 1, 2007. Total interest requirements for these bonds, at rates ranging from 4.25 percent to 5.00 percent, aggregate \$11,165,000. The bond proceeds were used to improve and extend the water and wastewater system.

The revenue bonds of the Enterprise Funds are payable from operations of the Water and Sewer Fund. The bonds mature annually in varying amounts through fiscal year 2027, and interest is payable semiannually at rates ranging from 2.375 percent to 6.0 percent. Debt balances and transactions for the year ended September 30, 2007, are as follows (amounts in thousands):

|   | <u>Balance,<br/>October 1,<br/>2006</u> | <u>Additions</u> | <u>Retirements<br/>and Other</u> | <u>Balance,<br/>September 30,<br/>2007</u> | <u>Due<br/>Within<br/>One Year</u> |
|---|---|------------------|----------------------------------|--|------------------------------------|
| Waterworks and Sewer System-<br>Revenue bonds | \$84,510                                | \$24,000         | (\$9,510)                        | \$99,000                                   | \$8,230                            |
| Deferred loss on refunding                    | (496)                                   | -                | 58                               | (438)                                      | -                                  |
| Compensated Absences                          | <u>1,660</u>                            | <u>340</u>       | <u>(112)</u>                     | <u>1,888</u>                               | <u>113</u>                         |
| Total   | <u>\$85,674</u>                         | <u>\$24,340</u>  | <u>(\$9,564)</u>                 | <u>\$100,450</u>                           | <u>\$8,343</u>                     |

The revenue bonds are collateralized by the revenue of the water and sewer system and assets of various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is first to be used to pay operating and maintenance expenses of the system and secondly to establish and maintain the special funds. Any remaining revenues may then be used for any lawful purpose. The ordinances also contain provisions, which restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts calculated in accordance with provisions of the existing bond ordinances and certain financial ratios are met.

The principal and interest requirements at September 30, 2007, for the enterprise fund debt for the next five years and thereafter, are as follows (amounts in thousands):

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Waterworks and<br/>Sewer System<br/>Revenue Bonds</u> |
|--------------------|------------------|-----------------|--|
| 2008               | \$ 8,230         | \$ 4,083        | \$ 12,313  |
| 2009               | 8,190            | 3,999           | 12,189   |
| 2010               | 8,145            | 3,666           | 11,811   |
| 2011               | 7,495            | 3,342           | 10,837   |
| 2012               | 7,155            | 3,027           | 10,182   |
| 2013-2017          | 30,070           | 10,625          | 40,695   |
| 2018-2022          | 21,145           | 4,488           | 25,633   |
| 2023-2027          | <u>8,570</u>     | <u>963</u>      | <u>9,533</u>   |
|                    | <u>\$99,000</u>  | <u>\$34,193</u> | <u>\$133,193</u>   |

#### Long-Term Debt of the Discretely Presented Component Units

As part of the Incremental Funding, as defined in the Agreement, on February 2, 1993, the ASFDA authorized the issuance of \$20,124,000 Junior Lien Revenue Bonds, First Series (the "Bonds"). The Bonds are noninterest-bearing limited special obligations of the ASFDA, secured by a subordinated junior lien on the one-dollar ticket surcharge of up to \$2,000,000 annually. The Bonds are due on December 31, 2008, and are callable at any time at the option of the ASFDA. As of September 30, 2007, \$17,179,900 in Bonds were outstanding. Proceeds from the Bonds were used toward the development of the Texas Rangers sports facility.

The special obligation debt balance and other long term obligation at September 30, 2007, is as follows (amounts in thousands):

|                         | <u>Principal</u> | <u>Interest</u> | <u>Total</u>    |
|-------------------------|------------------|-----------------|-----------------|
| Special Obligation Debt | \$17,180         | \$ -            | \$17,180        |
| Sales Tax Payable       | <u>313</u>       | <u>-</u>        | <u>313</u>      |
|                         | <u>\$17,493</u>  | <u>\$ -</u>     | <u>\$17,493</u> |

**8. PRIOR YEAR BOND REFUNDINGS**

In prior years, the City legally defeased certain general obligation, revenue, and other bonds by placing cash and/or proceeds of refunding bond issues in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's report. As of September 30, 2007, previously defeased debt still outstanding amounted to \$52,270,000.

**9. INTERFUND TRANSACTIONS**

A summary of interfund receivables and payables at September 30, 2007, is as follows (amounts in thousands):

| <u>Fund</u>    | <u>Interfund<br/>Receivables</u> | <u>Interfund<br/>Payables</u> |
|----------------|----------------------------------|-------------------------------|
| General Fund   | \$3,277                          | \$ -                          |
| Nonmajor Funds | -                                | <u>3,277</u>                  |
|                | <u>\$3,277</u>                   | <u>\$3,277</u>                |

The General Fund receivable represents cash provided to nonmajor funds and will be reimbursed in 2008.

Transfers between funds during the year were as follows (amounts in thousands):

|                                | <u>Transfers Out</u> | <u>Transfers In</u> |
|--------------------------------|----------------------|---------------------|
| Major Governmental Funds:      |                      |                     |
| General Fund                   | \$ 13,159            | \$ 6,673            |
| Debt Service Fund              | 84                   | 2,131               |
| Stadium Venue Fund             | -                    | 84                  |
| Gas Lease                      | -                    | 5,020               |
| Street Capital Projects        | <u>124</u>           | <u>1,244</u>        |
| Total Major Governmental Funds | 13,367               | 15,152              |
| Water and Sewer Fund           | 6,520                | -                   |
| Nonmajor Funds                 | 3,292                | 4,214               |
| Internal Service Funds         | <u>-</u>             | <u>3,813</u>        |
| Total All Funds                | <u>\$23,179</u>      | <u>\$23,179</u>     |

The combined Water and Sewer, and Convention and Event Services transferred \$3,517,000 to the General Fund to cover their budgeted indirect costs.

The General Fund transferred \$3,963,000 to Street Maintenance Fund, Special Transportation (Handitran), Arlington Property Finance Authority and other special revenue funds to cover budgeted operating expenses.

The General Fund transferred \$5,020,000 to the special revenue Gas Lease funds to cover budgeted operating expenses.

The other General Fund transfers were to cover budgeted operating expenses in other funds.

The Debt Service Fund transferred \$84,000 in revenue not required for debt service to the Stadium Venue Fund for construction.

The Debt Service Fund received budgeted transfers of \$2,243,000 from the Convention and Event Services, Water and Sewer and Park Performance Funds to cover debt service repayments.

**10. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS**

The City accounts for its landfill closure and post-closure care costs in accordance with GASB No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Post-Closure Care Costs."

State and federal laws and regulations require the City to place a final cover on its municipal landfill site when it stops accepting waste and to perform certain maintenance functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. In 2004 the City received a permit for vertical expansion which increased the capacity and the life of the landfill. The \$4,511,000 reported as a landfill closure and post-closure accrued liability at September 30, 2007, represents the cumulative amount reported to date based on the use of approximately 55 percent of the estimated capacity of the active cells of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of \$3,713,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2007. The City expects to close the landfill in 2028. Actual costs may change due to inflation, changes in technology, or changes in regulations.

On March 18, 2005, the City entered into a contract with Republic Waste Services of Texas, Ltd. (Republic) for a 20 year renewable operating lease of the landfill. The City received an initial payment of \$15 million, \$6 million of which was for the purchase of the City's dirt inventory. The remaining \$9 million was recorded as deferred revenue and will be amortized over the life of the lease. Republic is responsible for the funding of monthly contributions to a trust account that will pay closure and post-closure costs as required by state and federal laws and regulations. Republic is in compliance with these requirements and at September 30, 2007, cash and cash equivalents are held for these purposes.

**11. COMMITMENTS AND CONTINGENCIES**

Trinity River Authority

The City entered into a 50 year contract dated October 10, 1973, with the Trinity River Authority (TRA) whereby the TRA agrees to provide supplemental sewage treatment for consideration. Payments by the City are based on metered usage, at rates designed to charge the City a pro rata share of the TRA's annual operating and maintenance expenses, and principal and interest requirements on bonds issued by the TRA.

Grant Audits

The City receives federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would be insignificant.

Construction Commitments

The City has various active construction projects as of September 30, 2007. The projects include street construction, park construction, police construction, traffic construction, and the construction of water and sewer facilities. At year-end the City's commitments with contractors are as follows (amounts in thousands):

| <u>Project</u>               | <u>Spent-to-Date</u> | <u>Remaining<br/>Commitment</u> |
|------------------------------|----------------------|---------------------------------|
| Street Construction          | \$ 46,120            | \$ 10,734                       |
| Park Construction            | 16,232               | 3,056                           |
| Police Construction          | 6,490                | 5,792                           |
| Traffic Construction         | 7,229                | 1,524                           |
| Water and Sewer Construction | 73,780               | 16,491                          |
| Stadium Venue                | <u>371,745</u>       | <u>4,266</u>                    |
|                              | <u>\$521,596</u>     | <u>\$41,863</u>                 |



The street, police and traffic construction projects are funded primarily by permanent improvement bonds proceeds. The park construction projects are funded by permanent improvement bond proceeds, certificate of obligation proceeds, and park fee revenues. Water and sewer construction projects are funded by revenue bond proceeds and cash from operating revenues of the water and sewer system.

Litigation

The City is currently involved in an employment lawsuit in wherein the plaintiff alleges that his termination violated the Family Medical Leave Act and the case was tried to a jury in April 2004. Judgment in the amount of \$1.1 million was rendered against the City. The case was appealed to the Fifth Circuit. On June 30, 2006, the Fifth Circuit affirmed the liability portion of the judgment and remanded the damages portion to the district court to apply an offset for benefits received from the City. Meanwhile, it was learned that the plaintiff filed bankruptcy prior to his appeal and failed to disclose the trial court judgment to the bankruptcy court. The bankruptcy case has been reopened and the bankruptcy trustee now owns the claim. The City of Arlington has a claim that the plaintiff (and therefore the trustee) is judicially estopped from pursuing the judgment. A motion on the matter is before the District Court at this time. It is anticipated that the ruling will be appealed by the non-prevailing party. Damages in the event of failing to prevail on the legal issues are not anticipated to exceed \$800,000.

The City is currently involved in an American with Disabilities Act discrimination lawsuit, in which the plaintiffs allege that they are discriminated against because of the condition of curb ramps and sidewalks in the public rights of way in the City of Arlington. The City contends that the City is in compliance with the ADA. The City is vigorously contesting this case which is still in the early pleading stages of litigation. A motion to dismiss is pending. The range of exposure to the City in the event of a jury verdict is inestimable. The probability of an unfavorable outcome cannot be determined at this time.

Various claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of APFA limitations (see Note 11) of insurance coverage, if any, on all claims will not have a materially adverse effect on the City's financial position, as a whole.

Derivative Instruments

*Objective of the swap.* The City of Arlington, Texas (the "City") issued its variable-rate Dallas Cowboys Complex Tax-Exempt Special Tax Bonds, Series 2005B (Multi-Modal) (the "Bonds") on September 1, 2005 in the amount of \$164,265,000, for the governmental purpose of the planning, acquisition, establishment, development and construction of the Dallas Cowboys Complex. In anticipation of the Bonds' issuance, on July 25, 2005 the City entered into two separate pay-fixed, receive-variable interest rate swaps (collectively, the "Swaps"). The variable rate the City will receive under the Swaps is The Bond Market Association™ Municipal Swap Index, which is expected to closely approximate the variable interest rate of the Bonds. The City entered into the Swaps to synthetically fix the rate payable on the Bonds for an established period, and thus manage its interest rate risk while obtaining a lower fixed interest rate than would have been available for similar fixed-rate debt obligations. The Swaps will terminate on September 1, 2016, at which point the City will face an unhedged variable interest rate exposure on the Bonds, unless an additional swap or swaps are procured on or before that time, or if, as is the City's intention, the City begins retiring the Bonds at that time. The Swaps were entered into in equal notional amounts of \$82,132,500 with JPMorgan Chase Bank, N.A. and \$82,132,500 with UBS AG, Stamford Branch (collectively, the "Counterparties").

*Terms, fair values, and credit risk.* The terms, including the fair values and credit ratings of the Swaps, as of September 30, 2007, are included below. The City's Swaps contain one scheduled reduction to the outstanding notional amounts on September 1, 2013 from \$82,132,500 to \$57,527,500. This notional reduction is expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

| Associated Bond Issue | Notional Amount | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values      | Swap Termination Date | Counterparty Credit Rating (Moody's/S&P/Fitch) |
|-----------------------|-----------------|----------------|-----------------|------------------------|------------------|-----------------------|--|
| Series 2005B          | \$82,132,500    | 9/1/2005       | 3.719%          | BMA                    | (\$731,779.98)   | 9/1/2016              | (Aa2/AA/AA)                                    |
| Series 2005B          | \$82,132,500    | 9/1/2005       | 3.719%          | BMA                    | (\$730,719.97)   | 9/1/2016              | (Aa2/AA/AA)                                    |
|                       |                 |                |                 |                        | (\$1,462,499.95) |                       |  |

*Fair value.* The Swaps had a negative fair value as of September 30, 2007 of (\$1,462,499.95). This fair value takes into consideration the prevailing interest rate environment, and the specific terms and conditions of the transaction. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the Swaps, assuming that the current forward tax-exempt rates implied by the BMA yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the taxable spot rates implied by the current London Interbank Offered Rate ("LIBOR") yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the Swaps.

*Credit risk.* As of September 30, 2007, the City was not exposed to credit risk on its Swaps because the Swaps had a negative fair value. However, should interest rates change and the fair values of the Swaps become positive, the City would be exposed to credit risk in the amount of the derivatives' fair value. The credit ratings of JPMorgan Chase Bank, N.A. are Aa2/AA-/AA-, and of UBS AG, Stamford Branch are Aa2/AA+/AA+ by Moody's/S&P/Fitch respectively.

The Swap agreements contain collateral provisions with the Counterparty. The Swaps require collateralization of the fair value of the Swaps should the Counterparty's credit ratings fall below A2 by Moody's or A by S&P. This protects the City by mitigating credit risk inherent in the Swaps. Collateral on the Swaps is to be in the form of cash or negotiable debt obligations (other than interest-only obligations) issued by the U.S. Treasury Department and held by a third-party custodian.

*Basis risk.* Basis risk is the risk that the interest rate paid by the City on underlying variable rate Bonds to bondholders differs from the variable swap rate received from the Counterparty. The City bears basis risk on its Swaps. The Swaps have basis risk since the City receives BMA to offset the actual variable Bond rate the City pays on its Bonds. The City is exposed to basis risk should the floating rate that it receives on a Swaps be less than the actual variable rate the City pays on the Bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected overall synthetic fixed rate from the Swaps may not be realized.

*Termination risk.* The City or the Counterparty may terminate the Swaps if the other party fails to perform under the terms of the respective contracts. If the Swaps are terminated, the associated variable-rate Bonds would no longer be hedged to a fixed rate. The City has a swap insurance policy in place with MBIA Insurance Corporation (the "Insurer"), which mitigates its exposure to termination risk. The City will not be required to post collateral as long as the Insurer's credit ratings do not fall below A2 by Moody's or A by S&P. As of September 30, 2007, the Insurer's credit ratings were AAA by Moody's and AAA by S&P. If at the time of termination the Swaps have a negative fair value, the City would be liable to the Counterparty for a payment equal to the Swaps' fair value. The additional termination events in the agreement are limited to credit related events only and the ratings triggers are substantially below the current credit rating of the City.

*Rollover Risk.* The City is exposed to rollover risk because the Swaps mature prior to the stated maturity date of the related Bonds. The Swaps mature on September 1, 2016, and the Bonds mature on August 15, 2035. If new swaps are not put in place, the associated variable-rate Bonds would no longer be hedged to a fixed rate. The City anticipates having revenue to enable it to begin paying off some or all of the Bonds prior to the stated maturity date, which would reduce this risk.

*Swap payments and associated debt.* As of September 30, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

**Dallas Cowboys Complex Special Obligations, Series 2005B**

| Fiscal Year<br>Ended<br>September 30 | Principal             | Interest              | Interest Rate<br>Swaps, Net | Total                 |
|--------------------------------------|-----------------------|-----------------------|-----------------------------|-----------------------|
| 2008                                 | \$ -                  | \$ 6,455,615          | (\$346,599)                 | \$ 6,109,016          |
| 2009                                 | -                     | 6,455,615             | (346,599)                   | 6,109,016             |
| 2010                                 | -                     | 6,455,615             | (346,599)                   | 6,109,016             |
| 2011                                 | -                     | 6,455,615             | (346,599)                   | 6,109,016             |
| 2012                                 | -                     | 6,455,615             | (346,599)                   | 6,109,016             |
| 2013-2017                            | -                     | 32,278,073            | (1,046,014)                 | 31,232,059            |
| 2018-2022                            | -                     | 32,278,073            | -                           | 32,278,073            |
| 2023-2027                            | -                     | 32,278,073            | -                           | 32,278,073            |
| 2028-2032                            | -                     | 32,278,073            | -                           | 32,278,073            |
| 2033-2035                            | 164,265,000           | 18,828,876            | -                           | 183,093,876           |
| <b>Total</b>                         | <b>\$ 164,265,000</b> | <b>\$ 180,219,243</b> | <b>(\$2,779,009)</b>        | <b>\$ 341,705,234</b> |

**12. DALLAS COWBOYS COMPLEX DEVELOPMENT PROJECT**

In November of 2004, the voters authorized the City to provide the planning, acquisition, construction and financing for the Dallas Cowboys Complex Development Project (Complex), approving an increase in the City's sales tax of ½ cent, a two percent increase in the hotel occupancy tax and a five percent short-term motor vehicle rental tax. The Complex will be a multi-functional enclosed facility with a retractable roof and seating for approximately 80,000. In accordance with the funding and closing agreement, the City of Arlington will pay half, up to \$325 million, to build the Complex. The Complex is anticipated to be completed by the summer of 2009.

Stadium Lease - As part of the closing agreement, the City entered into a lease agreement with the Cowboys Stadium, L.P. (tenant) for lease of the Complex. The lease calls for an initial term of 30 years, after the new stadium opens, at a rental rate of \$2,000,000 per year. The lease contains several renewal options at guaranteed annual rental payments of \$1,000,000 per year for the first 10-year option and \$1,250,000 per year for all remaining renewals. The lease also provides the tenant with an option to purchase the Complex from the City at the end of the initial lease term and each renewal option thereafter. Under the lease, the tenant pays for all costs of operation and maintenance of the Complex. The tenant will also make separate annual payments to the City, beginning during the construction period, equal to five percent of the net naming rights revenue, if any, received by the tenant, capped at \$500,000 per year. The lease is accounted for as an operating lease.

City Debt - On July 15, 2005 the City issued \$297,990,000 Dallas Cowboy Complex Special Obligations pledging the ½ cent sales tax, two percent hotel occupancy tax and five percent car rental tax along with base rental revenue and five percent of the naming rights revenue. The proceeds of this bond sale, along with interest earnings and excess revenues, will provide the City's funding for the project. Series A and C of the Dallas Cowboy Complex Special Obligations are fixed rate debt totaling \$133,725,000. The Series B of the Dallas Cowboy Complex Special Obligations are variable debt totaling \$164,265,000. The variable rate Series B are hedged with two interest rate swaps as described in footnote 11.

Conduit Debt - On July 11, 2006, \$147,865,000 of Dallas Cowboy Complex Admissions and Parking Taxes Revenue Bonds, Taxable Series 2006 were issued with a pledge of a 10% admissions tax and a \$3 parking tax for events held at the Cowboys Complex, with additional security provided by a Guaranty Agreement from The Cowboys Stadium, L.P. The proceeds of this bond sale, along with interest earnings, will provide a portion of the Cowboy's funding for the complex, as well as capitalized interest, a reserve, and various costs of issuance and insurance. The bonds are not payable from or secured by any money raised or to be raised from property taxes or any other of the City's revenue sources. The bonds do not constitute a debt or pledge of the faith and credit of the City and accordingly have not been reported as a liability in the City's financial statements but are disclosed here as conduit debt.

Franchise - The City and the Dallas Cowboys Football Club, LTD. entered into a franchise agreement that requires the Dallas Cowboys NFL football franchise to remain in Arlington and to play all of the team's home games in the Complex for a minimum of 30 years after the stadium opens. If the lease renewal options are exercised, the Cowboys' obligation to stay in Arlington is extended for the renewal term.

### **13. RISK MANAGEMENT**

The City's risk management activities are administered through various internal service funds.

#### Arlington Property Finance Authority (APFA)

The APFA was created for the purpose of acting on the City's behalf in financing various governmental programs as prescribed by ordinance or resolution of the City Council. In October 1986, the City Council adopted an ordinance to establish the City's Self-insurance and Risk Management Program (the "Program"). The purpose of the Program is to provide the City a defined and funded self-insurance program for bodily injury, property damage, personal injury, advertising injury, and regulatory injury.

For fiscal year 2006, a \$1,384,000 transfer was made from the Worker's Compensation fund to provide for an ending fund balance equal to one year ultimate loss estimate which will protect against unexpected fluctuations in cost or reserve needs. Annual transfers from the General Fund and the Water Fund based on actuarial projections of Ultimate Losses, are made to support the program. Under the Program Ordinance, the annual surplus on deposit in the APFA Fund may be withdrawn upon order of the City's APFA Claims Board and used for any lawful purpose. The payments out of the APFA Fund for all purposes cannot exceed \$1,000,000 per occurrence and \$3,000,000 in aggregate in one annual period. Should claims exceed this amount, the excess claims are to be funded by other available City resources.

The APFA claims liabilities are actuarially determined annually to include the effects of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 3.5 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately \$2,578,000 at September 30, 2007.

#### Workers' Compensation

The City's workers' compensation plan provides City employees with workers' compensation insurance through the Workers' Compensation Fund (the "WCF"). Under this program, the WCF provides coverage for up to a maximum of \$300,000 per claim. The City purchases commercial insurance for claims in excess of coverage provided by the WCF. No settlements have utilized this commercial insurance coverage for the past three years. All City departments participate in the workers' compensation program. Payments to the WCF from such departments are based on actuarial estimates of the amounts needed to pay prior and current year claims and related administrative expenses. The WCF claims liabilities are actuarially determined annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 5.0 percent. These liabilities are reported in the accompanying financial statements at their present value of approximately \$4,699,000 at September 30, 2007.

#### Group Health

Group medical benefits are paid through the Group Health Fund. Revenues are recognized from payroll deductions and from City contributions for employee and dependent coverage.

The year-end liability for incurred but not reported claims is reported in the accompanying financial statements at the present value of approximately \$2,315,000 at September 30, 2007.

Changes in the balances of claims liabilities during fiscal 2007 and 2006 were as follows (amounts in thousands):

| <u>Fiscal 2007</u>    | <u>October 1</u> | <u>Claims and<br/>Changes in<br/>Estimates</u> | <u>Claim<br/>Payments</u> | <u>September 30</u> |
|-----------------------|------------------|--|---------------------------|---------------------|
| APFA                  | \$ 3,338         | \$ (468)                                       | \$ (292)                  | \$ 2,578            |
| Workers' Compensation | 4,406            | 3,195  | (2,902)                   | 4,699               |
| Group Health          | <u>2,700</u>     | <u>16,363</u>                                  | <u>(16,748)</u>           | <u>2,315</u>        |
|                       | <u>\$10,444</u>  | <u>\$19,090</u>                                | <u>(\$19,942)</u>         | <u>\$9,592</u>      |
| <u>Fiscal 2006</u>    |                  |  |                           |                     |
| APFA                  | \$ 2,559         | \$ 2,093                                       | \$ (1,314)                | \$ 3,338            |
| Workers' Compensation | 6,034            | (1,039)  | (589)                     | 4,406               |
| Group Health          | <u>2,926</u>     | <u>17,545</u>                                  | <u>(17,771)</u>           | <u>2,700</u>        |
|                       | <u>\$11,519</u>  | <u>\$18,599</u>                                | <u>(\$19,674)</u>         | <u>\$10,444</u>     |

#### 14. LEASES

##### A. As Lessee

As lessee, the City is committed under various leases for data processing and office equipment. These leases are considered for accounting purposes to be capital leases. The liability for future capital lease payments totals \$1,727 and is reported as capital lease obligations current liabilities (\$560) and capital lease obligations non-current liabilities (\$1,167) in the General Services Fund and the Court Technology Fund.

Future minimum lease payments for capital leases including interest and principal are as follows (amounts in thousands):

| <u>Year ending<br/>September 30, 2007</u>   | <u>Rental<br/>Payments</u> |
|---|----------------------------|
| 2008  | \$ 713                     |
| 2009  | 682                        |
| 2010  | 310                        |
| 2011  | <u>153</u>                 |
| Total minimum future lease payments         | 1,858                      |
| Less: Amount representing interest          | <u>(131)</u>               |
| Present value of net minimum lease payments | <u>\$1,727</u>             |

The City's investment in equipment under capital lease arrangements as of September 30, 2007 is \$3,170,000.

The City is also committed under various leases for data processing, office equipment and machinery. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the fiscal year ended September 30, 2007, amounted to \$64.

Future minimum lease payments for these leases are as follows (amounts in thousands):

| <u>Year ending<br/>September 30</u> | <u>Rental<br/>Payments</u> | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> |
|-------------------------------------|----------------------------|------------------------------------|-------------------------------------|
| 2008                                | 2                          | 2                                  | 0                                   |
|                                     | <u>\$2</u>                 | <u>\$2</u>                         | <u>\$0</u>                          |

B. As Lessor

Effective October 1, 1983, the City entered into a contract to lease a tract of land for the purpose of constructing and developing a hotel, commercial and office complex and business park. The term of the lease is for an initial period of fifty years with renewal options for two additional terms of fifteen years each. The rental payments are based upon a percentage (ranging from 1.0 percent - 1.75 percent) of gross revenues (as defined in the agreement) through December 31, 2006. After December 31, 2006, and throughout the remainder of the lease term, annual rental payments shall be the greater of 0.5 percent of gross revenues or an aggregate of \$750,000. Total rental payments received in 2007 were approximately \$243,000.

**15. DISPUTE SETTLEMENT AGREEMENT**

On April 27, 1999, the ASFDA and the City entered into a Dispute Settlement Agreement and Agreement Not To Pursue Claim (the "Dispute Settlement Agreement") with the Texas Rangers baseball club (the "Rangers"). The Dispute Settlement Agreement relates to the amount of costs of acquiring certain tracts of land for the Project, which the ASFDA and the City alleged should be paid by the Rangers (the "Claim").

The Dispute Settlement Agreement requires the Rangers to make annual installment payments, without interest, to the Authority on or before December 31 of each year as follows:

| <u>Year</u>   | <u>Amount</u>       |
|---------------|---------------------|
| 2007          | \$ 800,000          |
| 2008          | 800,000             |
| 2009          | 800,000             |
| 2010          | 900,000             |
| 2011          | 1,000,000           |
| 2012to 2016   | 5,000,000           |
| 2017 to 2021  | 5,000,000           |
| 2022 to 2024  | <u>3,000,000</u>    |
|               | 17,300,000          |
| Less Discount | <u>6,301,000</u>    |
|               | <u>\$10,999,000</u> |

The payment in 2024 is due on or before March 1. By entering into this agreement, the ASFDA and the City agreed to release and discharge the Rangers from the Claim.

**16. CAPITAL LEASE**

A lease agreement was executed on June 23, 1992 between the Texas Rangers, Ltd. (the Rangers) and the ASFDA for the Ballpark Complex Development (the Facility). The lease is a triple net lease to the Rangers, with the Rangers retaining all concession and signage rights. The Rangers agreed to pay a base rent of \$2,000,000 per year for the 30-year term of the lease. Upon retirement or defeasance of the debt, the Rangers have the option to purchase the Facility, excluding the linear park, at a cost of \$60,000,000, with full credit given for all base and additional rents paid, as well as up to \$1,500,000 annual credit for maintenance costs paid on the Facility by the Rangers. If the purchase option is exercised, the Rangers are committed to play baseball in the City for ten additional years.

Pursuant to applicable accounting standards, the lease of the Facility to the Rangers has been accounted for as a capital lease in the component unit, ASFDA. Accordingly, a lease receivable has been established representing the future expected lease proceeds and the capital assets have been removed from the accounts of the ASFDA. As of September 30, 2007 the lease receivable balance was \$18,390,658.

Minimum future rentals are as follows:

| <u>September 30</u>          |                     |
|------------------------------|---------------------|
| 2008                         | \$ 2,000,000        |
| 2009                         | 2,000,000           |
| 2010                         | 2,000,000           |
| 2011                         | 2,000,000           |
| 2012                         | 2,000,000           |
| 2013-2017                    | 10,000,000          |
| 2018-2022                    | 10,000,000          |
| 2023-2024                    | <u>3,055,556</u>    |
|                              | 33,055,556          |
| Less Discount                | <u>14,664,898</u>   |
| Minimum future lease rentals | <u>\$18,390,658</u> |

## 17. CONDENSED COMPONENT UNIT INFORMATION

The City includes five component units in its reporting entity (see note I.B.). Condensed component unit information for the year ended September 30, 2007, for all discretely presented component units is as follows (amounts in thousands):

### Condensed Statement of Net Assets

|  | Arlington<br>Sports<br>Facilities<br>Development<br>Authority, Inc. | Housing<br>Authority | Nonmajor<br>Discretely<br>Presented<br>Component<br>Units | Total<br>Discretely<br>Presented<br>Component<br>Units |
|--|---|----------------------|---|--|
| Current and other assets                           | \$44,206  | \$11,364             | \$503   | \$56,073   |
| Capital assets                                     | <u>1,261</u>  | <u>440</u>           | <u>245</u>  | <u>1,946</u>   |
| Total assets                                       | <u>45,467</u>   | <u>11,804</u>        | <u>748</u>  | <u>58,019</u>  |
| Long-term liabilities outstanding                  | 17,493  | -                    | -   | 17,493   |
| Other liabilities                                  | <u>793</u>  | <u>1,482</u>         | <u>131</u>  | <u>2,406</u>   |
| Total liabilities                                  | <u>18,286</u>   | <u>1,482</u>         | <u>131</u>  | <u>19,899</u>  |
| Net assets:  |   |                      |   |  |
| Invested in capital assets,<br>net of related debt | 1,260   | 440                  | 213   | 1,913  |
| Restricted   | 13,893  | -                    | -   | 13,893   |
| Unrestricted                                       | <u>12,028</u>   | <u>9,882</u>         | <u>404</u>  | <u>22,314</u>  |
| Total net assets                                   | <u>\$27,181</u>   | <u>\$10,322</u>      | <u>\$617</u>  | <u>\$38,120</u>  |

### Condensed Statement of Activities

|                                    | Arlington<br>Sports<br>Facilities<br>Development<br>Authority, Inc. | Housing<br>Authority | Nonmajor<br>Discretely<br>Presented<br>Component<br>Units | Total<br>Discretely<br>Presented<br>Component<br>Units |
|------------------------------------|---|----------------------|---|--|
| Expenses                           | \$ 3,557  | \$22,895             | \$3,318   | \$29,770   |
| Program Revenues:                  |   |                      |   |  |
| Charges for services               | 2,571   | -                    | 2,849   | 5,420  |
| Operating grants and contributions | <u>-</u>  | <u>23,050</u>        | <u>432</u>  | <u>23,482</u>  |
| Net Program (Expense) Revenue      | <u>(986)</u>  | <u>155</u>           | <u>(37)</u>   | <u>(868)</u>   |
| Interest Revenues                  | 1,979   | 95                   | 26  | 2,100  |
| Other NonTax General Revenues      | <u>151</u>  | <u>248</u>           | <u>1</u>  | <u>400</u>   |
| Change in Net Assets               | 1,144   | 498                  | (10)  | 1,632  |
| Net Assets, October 1,             | <u>26,037</u>   | <u>9,824</u>         | <u>627</u>  | <u>36,488</u>  |
| Net Assets, September 30           | <u>\$27,181</u>   | <u>\$10,322</u>      | <u>\$ 617</u>   | <u>\$38,120</u>  |

Conduit Debt- Mortgage Revenue Bonds

The Arlington Housing Finance Corporation issues Single Family Revenue Bonds. The proceeds of the bonds are placed in trust to be used for the origination of qualifying single-family mortgages or to refund, at any time, bonds previously issued by Arlington Housing Finance Corporation. The bonds are to be paid only from the funds placed in trust, and these funds can be used only for purposes specified in the bond indenture. Arlington Housing Finance Corporation is liable to the bondholders only to the extent of the related revenues and assets pledged under the indenture. Therefore, these transactions are accounted for as conduit debt, and the principal amount of the bonds outstanding and assets held by the trustee are not reflected on the face of the financial statements.

At September 30, 2007, outstanding conduit debt was as follows:

| <u>Bond Series</u> | <u>Original Issue<br/>Amount</u> | <u>Outstanding<br/>Amount</u> |
|--------------------|----------------------------------|-------------------------------|
| Arlington 02       | \$3,425,000                      | \$970,000                     |
| Arlington 02 Reset | 2,095,000                        | 1,325,000                     |
| Arlington 03B      | 12,375,000                       | 4,352,577                     |
| Arlington 06       | 12,857,000                       | 12,809,848                    |
| Total              | <u>\$30,752,000</u>              | <u>\$19,457,425</u>           |

**18. SUBSEQUENT EVENTS**

In October 2007, the City issued Permanent Improvement Bonds, Series 2007 of \$18.1 million with an interest rate range of 4.0 to 5.5 percent and serial maturities through FY 2027 for various permanent public improvements in the City. The City also issued Combination Tax and Revenue Certificates of Obligation, Series 2007 of \$7.2 million with an interest rate range of 4.0 to 5.0 percent and serial maturities through FY 2027 for various permanent improvements in the City.



**CITY OF ARLINGTON, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS - TMRS  
 LAST THREE FISCAL YEARS (Unaudited)**

The following table discloses certain three-year historical trend information presenting the City's progress in accumulating sufficient assets to pay benefits when due (amounts expressed in thousands, except for percentages):

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets</b> | <b>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)<br/>Unit Credit</b> | <b>Unfunded<br/>AAL<br/>(UAAL)</b> | <b>Funded<br/>Percent</b> | <b>Annual<br/>Covered<br/>Payroll</b> | <b>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll</b> |
|---|--|--|------------------------------------|---------------------------|---------------------------------------|--|
| 12/31/04                                | \$342,453                                | \$444,422  | \$(101,969)                        | 77.1%                     | \$115,074                             | 88.6%  |
| 12/31/05                                | 334,823                                  | 447,440  | (112,617)                          | 74.8%                     | 113,823                               | 98.9%  |
| 12/31/06                                | 342,866                                  | 466,521  | (123,755)                          | 73.4%                     | 118,938                               | 104.05%  |

**CITY OF ARLINGTON, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS - PART-TIME DEFERRED INCOME TRUST  
LAST THREE FISCAL YEARS (Unaudited)**

The following table discloses certain three-year historical trend information (amounts expressed in thousands, except for percentages):

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets</b> | <b>Actuarial<br/>Liability<br/>(AAL)<br/>Entry Age</b> | <b>Excess<br/>Funded AAL<br/>(EAAL)</b> | <b>Funded<br/>Percent</b> | <b>Annual<br/>Covered<br/>Payroll</b> | <b>EAAL as a<br/>Percentage<br/>of Covered<br/>Payroll</b> |
|---|--|--|---|---------------------------|---------------------------------------|--|
| 7/1/04                                  | \$ 1,039                                 | \$ 914   | \$125                                   | 113.7%                    | \$2,415                               | 5.2%   |
| 7/1/05*                                 | 1,193                                    | 985  | 208                                     | 121.1%                    | 2,487                                 | 5.2%   |
| 7/1/06                                  | 1,270                                    | 1,056  | 214                                     | 120.3%                    | 2,558                                 | 8.4%   |

\* Valuation results for 7/1/2005 were estimated based on 7/1/2004 and 7/1/2006 valuations.  
An actuarial valuation was not performed as of 7/1/2005

**CITY OF ARLINGTON, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS - DISABILITY INCOME PLAN  
 LAST THREE FISCAL YEARS (Unaudited)**

The following table discloses certain three-year historical trend information (amounts expressed in thousands, except for percentages):

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets</b> | <b>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)<br/>Entry Age</b> | <b>Funded<br/>Ratio</b> | <b>Unfunded<br/>AAL<br/>(UAAL)</b> | <b>Annual<br/>Covered<br/>Payroll</b> | <b>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll</b> |
|---|--|--|-------------------------|------------------------------------|---------------------------------------|--|
| 7/1/02                                  | \$288                                    | \$3,104  | 9.3%                    | \$(2,816)                          | \$104,055                             | 2.7%   |
| 7/1/04                                  | 286                                      | 2,960  | 9.7%                    | (2,674)                            | 102,013                               | 2.6%   |
| 7/1/06                                  | 349                                      | 2,633  | 13.3%                   | (2,284)                            | 105,480                               | 2.2%   |

An actuarial valuation was not performed as of 7/1/2003 or 7/1/2005.

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**APPENDIX C**

**FORMS OF BOND COUNSEL OPINIONS**

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[Form of Bond Counsel Opinion]

[Closing Date]

\$39,880,000  
CITY OF ARLINGTON, TEXAS  
PERMANENT IMPROVEMENT BONDS  
SERIES 2008

WE HAVE represented the City of Arlington, Texas (the “Issuer”), as its bond counsel in connection with an issue of bonds (the “Bonds”) described as follows:

CITY OF ARLINGTON, TEXAS, PERMANENT IMPROVEMENT BONDS, SERIES 2008, dated June 1, 2008, in the principal amount of \$39,880,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the “Ordinance”).

WE HAVE represented the Issuer as its bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer, customary certificates of officers, agents and representatives of the Issuer and other public officials and other certified showings relating to the authorization and issuance of the Bonds. We have also examined executed Bond No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the Issuer; and

(B) A continuing ad valorem tax upon all taxable property within the City of Arlington, Texas, necessary to pay the principal of and interest on the Bonds, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law; and the total indebtedness of the Issuer, including the Bonds, does not exceed any constitutional, statutory or other limitations.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT:

(1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law; and

(2) The Bonds are not “private activity bonds” within the meaning of the Internal Revenue Code of 1986, as amended (the “Code”), and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the “adjusted current earnings” of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

In providing such opinions, we have relied on representations of the Issuer and the purchaser with respect to matters solely within the knowledge of the Issuer and the purchaser, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds.



Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the U.S. may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the “Service”); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state and local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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[Form of Bond Counsel Opinion]

[Closing Date]

\$5,920,000  
CITY OF ARLINGTON, TEXAS  
COMBINATION TAX AND REVENUE  
CERTIFICATES OF OBLIGATION  
SERIES 2008A

WE HAVE represented the City of Arlington, Texas (the “Issuer”), as its bond counsel in connection with an issue of certificates of obligation (the “Certificates”) described as follows:

CITY OF ARLINGTON, TEXAS, COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2008A, dated June 1, 2008, in the principal amount of \$5,920,000.

The Certificates mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the “Ordinance”).

WE HAVE represented the Issuer as its bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer, customary certificates of officers, agents and representatives of the

Issuer and other public officials and other certified showings relating to the authorization and issuance of the Certificates. We have also examined executed Certificate No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the Issuer; and

(B) A continuing ad valorem tax upon all taxable property within the City of Arlington, Texas, necessary to pay the principal of and interest on the Certificates, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law; in addition, the payment of the principal of and interest on the Certificates is further secured by a limited pledge of the Surplus Revenues, as defined in the Ordinance, derived from Issuer's water and wastewater system; and the total indebtedness of the Issuer, including the Certificates, does not exceed any constitutional, statutory or other limitations.

THE RIGHTS OF THE OWNERS of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT:

(1) Interest on the Certificates is excludable from gross income for federal income tax purposes under existing law; and

(2) The Certificates are not "private activity bonds" within the meaning of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Certificates is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Certificates will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, REMIC or FASIT) for purposes of computing its alternative minimum tax.

In providing such opinions, we have relied on representations of the Issuer and the purchaser with respect to matters solely within the knowledge of the Issuer and the purchaser, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Certificates for federal income tax purposes. If such representations are determined to be inaccurate or

incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Certificates could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Certificates.

Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the U.S. may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Certificates).

The opinions set forth above are based on existing law which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the “Service”); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state and local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

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**APPENDIX D**

**FORM OF BOND INSURANCE SPECIMEN**

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**FINANCIAL  
SECURITY  
ASSURANCE®**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)



