Arlington, Texas

New Issue Summary

Sale Date: On or around June 20

Series: $56,060,000, Permanent Improvement Bonds (PIB), Series 2023A; and, $25,765,000, Permanent Improvement Refunding Bonds, Series 2023B

Purpose: The series 2023A PIBs will finance capital needs. The series 2023B bonds will be used to refund a portion of the city's outstanding debt for cost savings.

Security: The series 2023A and 2023B PIBs are payable by an ad valorem tax levied on all taxable property within the city of Arlington, limited to $2.50 per $100 of taxable assessed valuation (TAV).

The 'AAA' IDR GO, PIB and CO bond ratings incorporate Fitch's expectation for the city to maintain healthy financial flexibility through economic cycles, as demonstrated throughout the coronavirus pandemic. The city's solid financial profile reflects its healthy reserve levels, a diverse and stable revenue base, modest expenditure growth pressures and a demonstrated ability to reduce expenditures during economic downturns. Fitch expects long-term liabilities to remain moderate based on the city's long-term capital plans and expected growth in the resource base.

Economic Resource Base: Arlington is located in the center of the Dallas-Fort Worth metroplex, about 20 miles west of Dallas, with an estimated 2021 population approaching 400,000.

Key Rating Drivers

Revenue Framework: 'aaa': Over the long term, Fitch expects Arlington to experience sound revenue growth based on economic development that has been underway and the city's participation in the expanding regional economy. The city's independent legal ability to raise property tax revenues provides ample flexibility.

Expenditure Framework: 'aa': Arlington's natural pace of spending is likely to be on par with or slightly above its revenue growth absent significant or other non-discretionary spending pressures. The city has demonstrated the flexibility and willingness to cut employee salaries and other costs during economic downturns.

Long-Term Liability Burden: 'aa': The long-term liability burden is moderate at 14% of personal income. Fitch expects the long-term liability burden to remain in the moderate range given debt issuance plans, the scheduled pace of amortization of outstanding debt and expectations for population and income growth.

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

Rating Sensitivities

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

- Not applicable for a 'AAA' rating.

FACT Tools

Ratings

Long Term Issuer Default Rating	AAA

New Issues

$56,060,000 Permanent Improvement Bonds, Series 2023A	AAA
$25,765,000 Permanent Improvement Refunding Bonds, Series 2023B	AAA

Outstanding Debt

Combination Tax & Revenue Certificates of Obligation	AAA
Combination Tax & Revenue Certificates of Obligation (Taxable)	AAA
General Obligation Pension Bonds (Taxable)	AAA
Permanent Improvement & Refunding Bonds	AAA

Rating Outlook

Stable

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (May 2021)

Related Research

Fitch Rates Arlington, TX's Series 2023 Public Improvement Bonds 'AAA'; Outlook Stable (May 2023)

American Rescue Plan Boosts State & Local Government Budgets (March 2021)

Arlington (TX) [General Government] - ESG Navigator (May 2019)

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

- Increases in the long-term liability burden to above 20% of total personal income.
- A weakening of post-pandemic economic activity that slows the current solid revenue growth or increase in revenue volatility, weakening the revenue framework assessment.

Current Developments

In 2021 the city was awarded $81.5 million in American Rescue Plan Act funds. According to management, the city received half of its allocation in 2021 and the balance in 2022. The majority of funds are being used for one-time infrastructure needs and community-based programs.

Following the series 2023 PIB issuance, the city will have about $53 million in authorized but unissued debt remaining from its May 2018 bond referendum. Officials plan to issue the remaining authorization over the next 12 to 24 months. On May 6, 2023, voters approved a $278.285 million bond package. Based on the city's capital improvement plan and customary approach to debt issuance, the bonds will be issued incrementally over the next several years. The recently authorized bond program will finance street improvements, quality of life enhancements, public safety facility construction and various other capital needs.

Credit Profile

Arlington has a diverse economic base that consists of manufacturing, industrial and warehousing operations, as well as a sizable entertainment sector, including the Six Flags Over Texas theme park, Global Life Field in Arlington (the current home of Major League Baseball's Texas Rangers) and AT&T Stadium (the current home of the National Football League's Dallas Cowboys). The city's direct economic base along with its inclusion in the larger regional economy provide residents with a broad and robust employment market. Historically, the city's unemployment rate has been below state and national levels, reflecting the generally strong local and regional job market. Unemployment at 3.2% as of December 2022 is slightly below the state level and on par with the national level.

The city's fiscal 2023 TAV, at $36.3 billion, is a 15% increase from the prior year. While the city's tax base has exhibited strong growth, management expects growth to moderate a bit over the near term, as the major entertainment construction projects have concluded and the city is becoming more mature. Officials anticipate that TAV growth over the near term will largely be driven by the reassessments of pre-existing properties, redevelopment initiatives and expansion efforts among the city's major employers and taxpayers.

Revenue Framework

Property taxes account for the bulk of the city's operating revenues at 43% of general fund revenues in fiscal 2022.

For the 10-year period through fiscal 2022, which ended on Sept. 30, the rate-adjusted general fund revenue CAGR of 3.4% was slightly below U.S. GDP but comfortably exceeded the rate of inflation.

Arlington's fiscal 2023 tax rate of $0.5998 per $100 of TAV provides ample capacity below the statutory cap of $2.50. Any increase in the operating tax rate that produces an annual operating levy increase of more than 3.5% (the voter approval tax rate for most local taxing units) requires a ratification election. The revenue cap does not apply to debt service tax levies; the city's fiscal 2023 debt service tax rate is $0.1968 out of the total rate.

Expenditure Framework

Similar to most municipalities, Arlington's public safety spending accounts for a significant portion of the general fund operating budget, at 58% of general fund expenditures in fiscal 2022.

The pace of spending growth should generally align with solid revenue growth as population increases and inflationary pressure results in additional service costs.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	5/15/23
AAA	Upgraded	Stable	5/11/15
AA+	Affirmed	Positive	5/22/14
AA+	Revised	Stable	4/30/10
AA	Affirmed	Stable	6/20/03
AA	Assigned		4/20/00

The city of Arlington maintains considerable expenditure flexibility through solid control of workforce costs. Management maintains very strong control over headcount, and there are no collective bargaining agreements in place. Fiscal 2022 carrying costs are 23% of total governmental expenditures. The city retains full control over workforce spending, which continues to support solid expenditure flexibility.

Long-Term Liability Burden

Arlington's long-term liabilities, including direct and overlapping debt and net pension liabilities, are a moderate 14% of estimated personal income. Fitch expects the city's long-term liability burden to increase but remain moderate over the next several years, considering Arlington's issuance plans, amortization of outstanding debt and expectations for income growth.

In 2020, Arlington issued general obligation pension bonds to fully fund the city's pension liability for its participation in the Texas Municipal Retirement System. At the time of the issuance, the city's net pension liability was approaching $180 million. As of fiscal year-end 2022, the city reports no pension liability. Per fiscal 2022 audited results, fiduciary assets covered 108% of the city's total pension liabilities (based on a 6.75% investment return assumption). However, due to Fitch's standard 6% assumption, there is a small net pension liability. Per Fitch's calculation, the estimated ratio of assets/liability for fiscal 2022 is 98%.

Operating Performance

Given Arlington's historically strong fund balance position and ability to adjust expenditures, Fitch believes that the city has the capacity to reasonably absorb financial pressure resulting from economic cycles without impairing its strong financial resilience.

The city has a history of strong budgetary management, as demonstrated by its favorable operating performance. Revenues typically outperform budgeted projections, and the city uses excess revenues to finance one-time items and to bolster its financial cushion during economic upturns.

The adopted fiscal 2023 budget reflects balanced general operations, net of transfers. With less than five months remaining in the current fiscal year, management has confirmed that the budget is trending well, with sales tax revenues outpacing earlier projections.

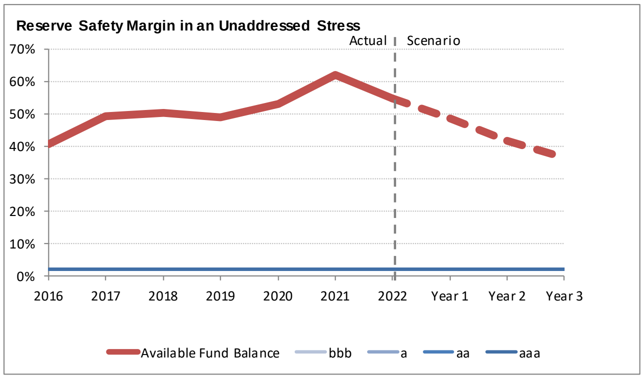
ESG Considerations

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

Arlington (TX)

Scenario Analysis

Ver 48



Analyst Interpretation of Scenario Results

Arlington's fiscal 2022 (FYE September 30) available general fund reserves were $80.5 million. Included therein is a one-month working capital reserve, an unallocated reserve for emergencies and a business continuity reserve that provides funding for operational needs when necessary. In addition to its general operating reserves, the city maintains an endowment which is funded primarily from natural gas lease and royalty payments. The Arlington Tomorrow Foundation corpus totaled $81.8 million in fiscal 2022 and can be used for general purposes with supermajority approval of the city council. The combined fiscal 2022 available general fund balance and the Arlington Tomorrow Foundation account for 54.7% of the city's fiscal 2022 operating expenditures, which is well above the city's 15% minimum general fund balance policy.

Scenario Parameters:		Year 1	Year 2	Year 3
GDP Assumption (% Change)		(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)		2.5%	2.5%	2.5%
Revenue Output (% Change)	*Min Y1 Stress:* **-1%** *Case Used:* **Moderate**	(1.0%)	2.0%	3.7%
Inherent Budget Flexibility			Superior	

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2016	2017	2018	2019	2020	2021	2022	Year 1	Year 2	Year 3
Total Revenues	258,625	218,642	231,220	246,302	244,522	245,876	266,647	263,981	269,321	279,286
% Change in Revenues	-	(15.5%)	5.8%	6.5%	(0.7%)	0.6%	8.4%	(1.0%)	2.0%	3.7%
Total Expenditures	216,279	227,375	237,273	251,338	250,366	225,288	259,336	265,819	272,465	279,277
% Change in Expenditures	-	5.1%	4.4%	5.9%	(0.4%)	(10.0%)	15.1%	2.5%	2.5%	2.5%
Transfers In and Other Sources	23,202	22,346	24,541	22,387	22,042	22,604	25,372	25,118	25,626	26,575
Transfers Out and Other Uses	61,092	13,242	15,031	17,759	11,486	26,534	37,535	38,473	39,435	40,421
Net Transfers	(37,890)	9,104	9,510	4,628	10,556	(3,930)	(12,163)	(13,355)	(13,809)	(13,846)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Deficit) After Transfers	4,456	371	3,457	(408)	4,712	16,658	(4,852)	(15,194)	(16,953)	(13,837)
Net Operating Surplus/(Deficit) (% of Expend. and Transfers Out)	1.6%	0.2%	1.4%	(0.2%)	1.8%	6.6%	(1.6%)	(5.0%)	(5.4%)	(4.3%)
Unrestricted/Unreserved Fund Balance (General Fund)	61,096	61,606	65,047	64,311	68,445	84,954	80,521	65,327	48,374	34,537
Other Available Funds (GF + Non-GF)	51,900	57,000	61,500	66,800	70,600	70,600	81,800	81,800	81,800	81,800
Combined Available Funds Balance (GF + Other Available Funds)	112,996	118,606	126,547	131,111	139,045	155,554	162,321	147,127	130,174	116,337
Combined Available Fund Bal. (% of Expend. and Transfers Out)	40.7%	49.3%	50.2%	48.7%	53.1%	61.8%	54.7%	48.4%	41.7%	36.4%

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.