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CREDIT OPINION
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City of Arlington, TX

Update to credit analysis

Summary

The City of Arlington, TX (Aa1 stable) benefits from a growing economy with a large and diverse tax base that bolstered by the institutional presence of the University of Texas at Arlington (University of Texas System rated Aaa stable). The city adheres to prudent fiscal management and liquidity is strong; the available fund balance ratio is below peers because the city has a significant amount of fund balance that is classified as restricted but spendable for things like capital projects and debt service. Constraining factors to the credit profile include elevated long-term liabilities and fixed costs ratios that will continue to grow. Further, resident income and full value per capita are below the national and state medians for the rating category, due in part to the university.

Credit strengths

» Favorably located in the center of the Dallas-Fort Worth metro area

» Healthy liquidity

» Experienced and sophisticated management team

Credit challenges

» Below median resident income and full valuer per capita ratios for the rating category

» Growing and elevated leverage metrics

» Slightly increased vulnerability to investment market volatility because of the pension obligation bonds

Rating outlook

The stable outlook reflects the expectation that finances will continue to be conservatively managed leading to stable reserves, and that the tax base will continue to grow because of a strong economy that is driving new residential development. The outlook also reflects the expectation that the leverage ratios will remain moderately elevated but manageable because of revenue growth.

Factors that could lead to an upgrade

» Significant improvement in resident income and full value per capita

» Material growth in the available fund balance and liquidity ratios

» Material decline in the long-term liabilities and fixed costs ratios

Factors that could lead to a downgrade

» Economic contraction and or declines in resident income or full value per capita

» Imbalanced operations leading to declines in the available fund balance and liquidity ratios

» Material growth in the long-term liabilities and fixed costs ratios

Key indicators

Exhibit 1

Arlington (City of) TX

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income ratio (%)	93.1%	93.4%	91.4%	N/A	115.4%
Full Value ($000)	$25,921,882	$29,510,132	$30,036,635	$31,664,722	$2,728,197
Population	395,477	397,269	392,304	N/A	23,462
Full value per capita ($)	$65,546	$74,282	$76,565	N/A	$108,666
Economic growth metric (%)	N/A	1.4%	1.3%	N/A	-0.6%
Financial Performance					
Revenue ($000)	$1,014,543	$984,486	$681,450	$747,395	$50,065
Available fund balance ($000)	$224,713	$204,719	$209,112	$190,004	$25,773
Net unrestricted cash ($000)	$376,282	$409,279	$441,751	$528,568	$34,793
Available fund balance ratio (%)	22.1%	20.8%	30.7%	25.4%	51.2%
Liquidity ratio (%)	37.1%	41.6%	64.8%	70.7%	69.5%
Leverage					
Debt ($000)	$1,364,426	$1,618,524	$1,596,852	$1,642,322	$35,801
Adjusted net pension liabilities ($000)	$715,694	$933,059	$1,015,073	$785,693	$58,004
Adjusted net OPEB liabilities ($000)	$113,841	$119,321	$136,170	$127,764	$6,701
Other long-term liabilities ($000)	$68,995	$72,094	$56,271	$54,694	$1,659
Long-term liabilities ratio (%)	223.1%	278.6%	411.5%	349.3%	248.8%
Fixed costs					
Implied debt service ($000)	$92,083	$99,480	$115,907	$112,003	$2,504
Pension tread water contribution ($000)	$23,841	$31,826	$27,901	$16,630	$1,672
OPEB contributions ($000)	$6,022	$6,735	$7,091	$6,252	$193
Implied cost of other long-term liabilities ($000)	$4,853	$5,030	$5,163	$3,947	$113
Fixed-costs ratio (%)	12.5%	14.5%	22.9%	18.6%	11.2%

For definitions of the metrics in the table above please refer to the US Cities and Counties Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published US Cities and Counties Median Report.
The Economic Growth metric cited above compares the five-year CAGR of real GDP for Dallas-Fort Worth-Arlington, TX Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.
Sources: US Census Bureau, Arlington (City of) TX's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

Profile

The City of Arlington, TX is in the center of the Dallas (A1 stable)/Fort Worth (Aa3 stable) metroplex. The city encompasses 99.5 square miles and has a current population of approximately 397,000. The city provides services such as public safety (police and fire), streets, water treatment and distribution, wastewater collection and conveyance (treatment is done by the Trinity River Authority), parks and recreation, and public health services.

Detailed credit considerations

Economy

The city is favorably located in the center of the Dallas-Fort Worth metropolitan area and the economy remains strong and will continue to grow. Manufacturing and distribution continue to be important to the city's economy, and the two industries are expanding. The city also benefits from its role as a hub of large regional entertainment centers which bolsters the tourism industry. Arlington is home to AT&T stadium, Six Flags and Hurricane Harbor, as well as two professional sports franchises — the Dallas Cowboys and the Texas Rangers. Additionally, the city benefits from the institutional presence of the University of Texas at Arlington, which has an undergraduate enrollment of approximately 35,000 or about 9% of the city's population.

The city is mature, although development and redevelopment of various commercial and residential corridors continues. Assessed value (AV) has grown an average of 9% over the past five years to $36.1 billion as of fiscal 2023. The city is conservatively projecting a 5.7% increase in taxable values for fiscal 2024; the city will receive certified values in July. The tax base is fairly diverse (about two-thirds residential) and the top 10 taxpayers account for a low 4.6% of fiscal 2023 AV. Although the city does not have significant exposure to office space, that sector is facing headwinds and we expect the overall rate of taxable value growth to moderate in the near-term. The city reports that its office occupancy rate is 90%

The Dallas-Fort Worth-Arlington MSA's real gross domestic product has been growing for the past several years at a rate that exceeds that of the nation; the five-year economic growth ratio is 1.3%. The city's unemployment rate of 4.2% as of Feb. 2023 is below the state's 4.5% and slightly above the national rate of 3.9%.

Resident income is below the state and national Aa1 medians at 91.4%. Full value per capita is also below median at $91,939, some of which is due to the university, but this metric will continue to improve annually because of tax base growth.

Financial operations

The city's financial position is sound and reserves are expected to remain stable, supported by growing property tax and utility fee revenue and management's adherence to fiscal policies. As of audited fiscal 2022 (ending Sept. 30) the available fund balance and liquidity ratios were 25.4% and 70.7%, respectively. The ratios include fund balances and cash and investments (excluding nonspendable and restricted) across all governmental and business-type activities funds. A large portion of the city's fund balance is restricted for debt service and capital projects. The business-type activities funds consist of the water and sewer fund and the stormwater utility fund, whose revenue comes from user fees. The primary revenue sources of the governmental funds are property and sales taxes. These revenue sources have been increasing materially over the past couple of years and while we expect the revenue growth to continue, it will likely be at a slower pace.

Through the first quarter of fiscal 2023, overall general fund revenue is slightly under budget, despite strong growth in sales tax revenue, because of shortfalls in service charges (largely due to declines in construction management fees and in reimbursements from bond-funded projects for inspections). Most general fund departments' expenses are under budget. Most other funds are performing favorably.

The city maintains significant additional resources outside of the governmental and business-type activity funds. The primary outside liquidity is the Arlington Tomorrow Foundation fund, which is a discretely presented component unit of the city. This fund had a net position of $75.1 million in fiscal 2022. This is down from last year because some money was spent for capital projects and there was also a $12 million unrealized loss in securities due to declines in the stock market. Derived from natural gas bonus payments and royalties received by the city, the foundation is controlled by a board, made up of the city council and an executive director that is an employee of the city. This fund provides substantial operating flexibility given a super-majority vote of city council could enable it to be used for any lawful purpose of the city.

Leverage

The long-term liabilities and fixed costs ratios will remain elevated over next several years because of plans for further issuance to support the capital improvement plan (CIP), but it will remain manageable because of continued increases in property tax and utility fee revenue. The long-term liabilities ratio totaled 350% in fiscal 2022, which is higher than the national Aa1 median. Associated fixed costs are also elevated but manageable at 19%. The leverage ratios include debt and the Moody's adjusted net pension and OPEB liabilities; most of the city's leverage is coming from debt and pension.

Post-issuance of the Series 2023A and 2023B bonds, the city will have $315.7 million of authorized but unissued debt and plans to issue bonds annually in accordance with its five-year capital improvement plan, but within the debt parameters (discussed below). Capital improvement priorities generally include replacement of aging infrastructure, public safety, library, technology, risk management and parks and recreation.

The city's debt management guidelines state that the net direct debt burden (total tax supported general obligation limited tax debt less debt service fund balance) must remain less than 2% of AV, annual debt service expenditures must be less than 20% of total operating expenditures and debt per capita less than $1,245. Because the pension obligation bonds (POBs) issued in 2020 put the city out of compliance, the council amended the policy to allow for the debt metrics to be presented both with and without the POBs included. The city remains under the guidelines without the POBs for fiscal 2022 and projected fiscal 2023. With the POBs, fiscal 2023 debt service is 19.4% of expenses and debt per capita is $1,636.

Legal security
The bonds constitute direct and general obligations of the city, payable from the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the city.

Debt structure
All debt is fixed rate. The city structures its new money debt to amortize over twenty years, with level annual principal, resulting in front-loaded annual debt service payments. Principal payout within 10 years is 66%.

Debt-related derivatives
The city is not a party to any swaps or other derivative agreements.

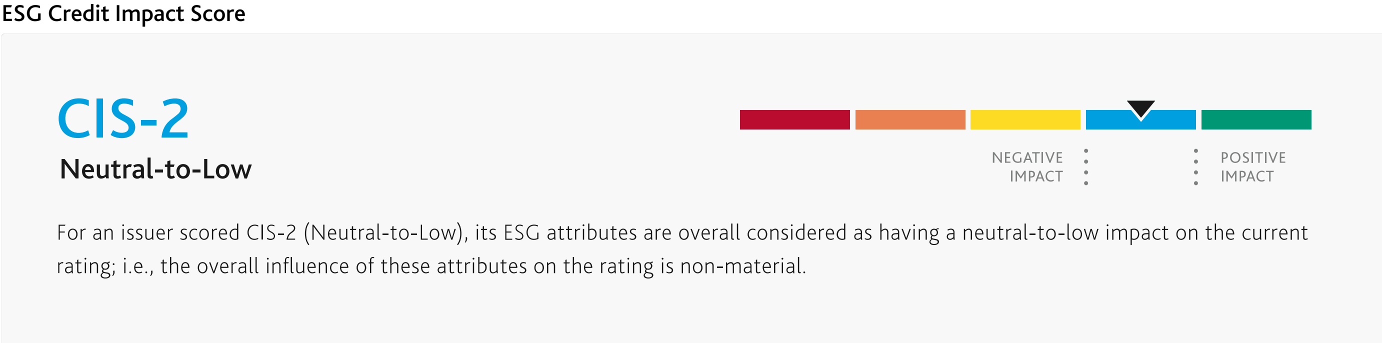
Pensions and OPEB
The city participates in the Texas Municipal Retirement System (TMRS), an agent multiple-employer plan administered by the state. The city issued pension obligation bonds in 2020 to make payments to TMRS that are equivalent to its reported unfunded liability as of the December 31, 2019 actuarial valuation. Moody's adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, was $785.7 million (105% of total revenue) based on a discount rate of 2.8%. The ANPL will decline next year because of an increase in the discount rate.

The city offers Other Post-Employment Benefits (OPEB) to cover retiree healthcare, term life insurance and disability. The city's adjusted net OPEB liability as of fiscal 2022 was $127.8 million or 17% of total revenue.

ESG considerations

Arlington (City of) TX's ESG Credit Impact Score is Neutral-to-Low CIS-2

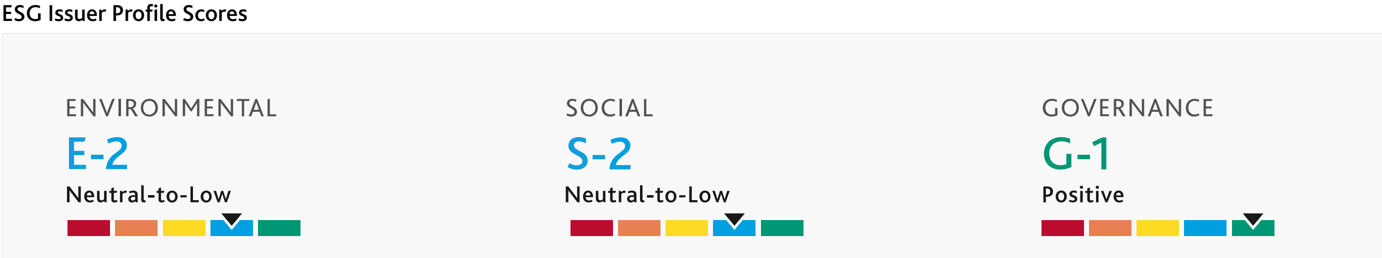
Exhibit 2
ESG Credit Impact Score



Source: Moody's Investors Service

Arlington's ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting low exposure to environmental and social risks, as well as a strong governance profile.

Exhibit 3
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

The city's overall E issuer profile score is neutral to low (**E-2**), reflecting relatively low exposure to environmental risks across all categories, including physical climate, carbon transition, water management, natural capital, and waste and pollution risks.

Social

We assess the S issuer profile score as neutral-to-low (**S-2**), reflecting relatively low exposure to social risks across all categories, including demographics, labor and income, education, housing, access to basic services, and health and safety. Population and the labor force have been growing, though the city's median family income as a percentage of the state and national medians has been modestly declining for the past few decades. Home prices remain affordable compared to the US median, residents have easy access to basic services and educational attainment is similar to most cities.

Governance

The city's G issuer profile score is positive (**G-1**). The city benefits from a strong institutional structure as well as strong budget management, as evidenced in outcomes that are favorable compared to expectations. The city adheres to established policies, produces detailed quarterly financial reports, and timely files audited financial statements and other required disclosures.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned. The Aa1 assigned rating considers the institutional presence of the University of Texas at Arlington, which negatively impacts the resident income and full value per capita rations. Further, available fund balance does not include restricted fund balance that the city can spend on capital projects and debt service.

Exhibit 4

Arlington (City of) TX

	Measure	Weight	Score
Economy			
Resident income ratio	91.4%	10.0%	A
Full value per capita	80,715	10.0%	A
Economic growth metric	1.3%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	25.4%	20.0%	Aa
Liquidity ratio	70.7%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	349.3%	20.0%	A
Fixed-costs ratio	18.6%	10.0%	A
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			A1
Assigned Rating			**Aa1**

Sources: US Census Bureau, Arlington (City of) TX's financial statements and Moody's Investors Service

Appendix

Exhibit 5
Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the US City and Counties Methodology .
Source: Moody's Investors Service

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