City of Arlington, Texas

(Tarrant County, Texas)

Annual Report

Updating Financial Information and

Operating Data

For

Fiscal Year Ending

September 30, 2012

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SECTION ONE: THE CITY OF ARLINGTON, TEXAS

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 99.4 square miles.

The City incorporated January 17, 1920, under the provisions of the Home Rule Amendment to the Texas State Constitution. The residents of the City receive the following services: 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. A nine member City Council (the "Council") has local legislative power. Elected "at large" are three council members and the Mayor. Five single member districts elect five council members. All elected members of the Council serve two-year terms, with the elections 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 vested in the Council under provisions of the City Charter. Ordinances, resolutions and zoning proposals go before Council at 6:30 p.m. on the second and fourth Tuesday of each month. The local cable public access station broadcast the Council meetings. 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 three Deputy City Managers, he coordinates the functions of the various municipal agencies and departments responsible for the delivery of services to residents. The Council appoints the City Manager and he serves at the pleasure of the Council.

The City Manager appoints and removes all City employees excluding the positions and offices of the City Attorney, City Auditor and other designated appointments reserved for Council action. 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. The City Attorney is chief legal advisor to the Council, the City Manager, and all City departments and agencies. It is the City Attorney's 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. The City Auditor responds to management requests for analysis, appraisals, recommendations, as well as, monitors security of electronic data and assets.

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. Trey Yelverton – with the City since January 1993, most recently as the Deputy City Manager for Neighborhood Services and Economic Development. Prior to this he was 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. He is a Certified Manager with the International City Management Association.

Deputy City Manager for Neighborhood Services – Mr. Theron Bowman - with the City since May 1983. Mr. Bowman began his career in law enforcement in 1983. He received his bachelor's Degree in Biology, his Master's Degree in Public Administration and his Doctorate in Urban and Public Administration all from the University of Texas at Arlington and has been recognized with the University of Texas at Arlington Distinguished Alumni Award.

Deputy City Manager for Strategic Support – 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 Economic Development & Capital Investment – Mr. Don Jakeway – with the City since October 2012. From 2003 – 2006, Mr. Jakeway was President and CEO of the Michigan Economic Development Corporation, which was a public/private partnership established to serve as a one-stop economic development organization by the State of Michigan. Mr. Jakeway has a Bachelor's in Education from Ashland University, in Ashland Ohio and a Master's of Business Administration from Sarasota University.

Director of Water Utilities – Mr. Walter "Buzz" Pishkur - with the City since October 2012. Mr. Pishkur has a Bachelor's Degree in Business from Ohio State University, and he received his Master's Degree in Business Administration from the University of Illinois. He is a member of the American Water Works Association and has been active with the National Rural Water Association and the National Association of Water Companies.

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.

Director of Financial and Management Resources, CFO – Ms. April Nixon – with the City since November 1992, most recently the Director of Management Resources and Administrative Services since 2005. Ms. Nixon received a Bachelor's Degree in Journalism from the University of Texas at Austin and a Master's of Business Administration from Texas Wesleyan University.

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. The City's Enterprise Funds accounts for water and wastewater services and storm water utility services. Beginning in May 2005, the City leased operation of the landfill to a private company.

The City's main municipal facilities include two general administrative buildings and a public safety building. There are 17 fire stations, four geographically distributed police stations, a police-training center, a fire training center, one main and six 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.

FUNCTIONAL GROUPS

Neighborhood Services Group

The Deputy City Manager for Neighborhood Services is responsible for the oversight and management of the Police, Fire, Library, Code Compliance 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 780 members of the Arlington Police Department enforce the law using a neighborhood based policing model. 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 2008.

The City's Fire Department is responsible for fire prevention, fire suppression and first response emergency medical services. The 335 employees of the Fire Department provide emergency responses from the City's 17 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 reports to the Deputy City Manager.

The Library Department provides services through a network of seven library facilities located strategically throughout the city, as well as numerous LibraryLiNK locations placed in schools or other service organizations. LibraryLiNK services vary by location, but generally include delivery/check-out of materials or access to digital materials. In addition to literacy programming, the Library offers programming for all ages, often in partnership with community educational and cultural institutions, that serves to enhance quality of life and civic involvement, increase appreciation for the arts, and improve vocational skills for Arlington residents. The Library's collection of print and audiovisual materials (books, DVDs, audiobooks, music, etc.) is supplemented by a growing array of digital services offered on arlingtonlibrary.org, including online language learning, test preparation, ebooks, e-audiobooks, research databases, resume and career development resources, indexed full-text newspapers and magazines, genealogy resources, as well as homework help support.

Code Compliance Services consists of Animal Services and Code Compliance to ensure the health of communities through the control of animals and regulation of code issues. The department is active in providing programs relating to youth and seniors in our community. Code Compliance Services focuses on providing community outreach through education, animal maintenance and control, as well as the enforcement of code issues to increase the safety and vitality of neighborhoods.

The Parks and Recreation Department is responsible for the operation and maintenance of the City's 4,697 acres of parks, including four municipal golf courses and five recreational centers, two senior citizen centers, and the management of the Bob Duncan Community 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 and Capital Investment Group

The Deputy City Manager for Economic Development and Capital Investment is responsible for oversight and management of five departments. The City functions covered include the Public Works and Transportation, Community Development and Planning, the Convention Center, Economic Development and Aviation.

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

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 facilitate effectively program development and implementation. Additional responsibilities include providing City staff and the public with current zoning and inventory maps and a wide range of demographic statistics. The Housing Division is responsible for administering federal and state grant funds and providing housing assistance to qualified citizens.

The Arlington Convention Center has divisions consisting of Event Services and Facility Operations, and a contract with the Arlington Convention and Visitors Bureau (ACVB/Experience Arlington). The Center offers 50,000 square feet of exhibit space, a 30,000 square foot Grand Hall for banquets, and 8,500 square feet of meeting space. Food, beverage and audio visual services are available to accommodate small and large groups for conferences, exhibits, trade shows, and meetings. Located in the Entertainment District, the Center is close to the Rangers Ballpark, the Cowboys Stadium, Six Flags and Hurricane Harbor, and is easily accessible from I-30. The Convention Center and the ACVB/Experience Arlington partner to increase tourism and promote many attractions and events throughout the city.

The Office of Economic Development has divisions consisting of Business Development and Business Recruitment and Retention, and contracts with Downtown Arlington Management and various Minority Chambers. Incentives available consist of tax abatements, chapter 380 agreements, Freeport Exemptions, Enterprise Zones, I-20 Corridor, Tax Increment Financing Districts, and the Downtown Business Zoning District. The Economic Development team strives to grow and diversify the economy through business attraction and retention, creating a vibrant downtown through partnerships and legacy building, and expanding the commercial tax base through improved property values.

The Aviation Department operates Arlington Municipal Airport, a full-service general aviation airport owned by the City of Arlington. The facility is designated as a reliever airport, providing corporate, cargo, charter and private aviation, an alternative to DFW Airport and Love Field. There are approximately 260 aircraft and 24 businesses based at the Airport, including Bell Helicopter Textron, Van Bortel Aircraft, Inc. and AgustaWestland.

Strategic Support Group

The Deputy City Manager for Strategic Support is responsible for the oversight and management of four City departments, which include the Water Utilities Department, Workforce Services, Information Technology, and Municipal Court. This group also includes Handitran/Special Transit.

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 is recognized nationally for its advanced technology in water treatment. Transmission capacity was designed to anticipate future peak demands well into this century. The department has three divisions: Operations, Business Services, and Treatment. The department received awards from the United States Environmental Protection Agency, Texas Municipal Utilities Association, Texas Water Utilities Association and the American Water Works Association.

The Workforce Services Department consists of Employee Operations, Employee Services, Organizational Development, and Risk Administration. This Department is an organizational conduit to recruit, develop and retain quality employees and volunteers that are the foundation for building a thriving community. These human assets deliver our core services in alignment with the brand of Arlington. Workforce Services is also charged with minimizing organizational and community risk.

The Information Technology Department consists of Project Management, Infrastructure, Information Security, Business Development, Software Services, Network Support, Server Support, and Customer Support. The Department is a vital partner with all City departments to provide quality services through the innovative use of technology. They provide network infrastructure stability, assistance with technology requests, manage technology security, and customer service for many varied software and hardware issues.

The Municipal Court handles payment for citations, court appearances for teens and adults, jury service requirements, and management of revenues from fines. The court strives to improve customer service through advanced technology. Three projects are currently in the works. One, updating court recording equipment from analog to digital, which will not only benefit the public, but our employees as well. Two, installing video boards outside each court room, which will give up to the minute information regarding dockets. Three, increasing online services, which will eliminate the need for an in person trip to the court to handle citations. The court has also recently implemented Court Notify, a call system that reminds defendants of a payment or court date.

Financial and Management Resources

Reporting directly to the City Manager, the Financial and Management Resources Director oversees the financial affairs of the City and ensures the financial integrity of City operations. Department services include Accounts Payable, Accounting, Payroll, Purchasing, Treasury Management and maintenance of the City's Fixed Asset inventory. It also 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 and issues publications, and implements programs to educate and inform citizens about City policies and programs. It is responsible for providing a communication and service link between the residents of and business owners in the City and all City Departments. It also includes Knowledge Services, which provides printing, copying, records management, and mailroom services to the organization.

ECONOMIC AND DEMOGRAPHIC FACTORS

Population

The following table presents population figures for selected years.

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

Year	Arlington	United States
1950	7,692	150,697,361
1960	44,775	178,464,236
1970	90,229	203,211,926
1980	160,113	226,545,805
1990	261,721	248,765,170
2000	332,969	281,421,906
2010	365,438	308,745,538
2011	365,530	312,759,230
2012	365,860	314,395,013

Source: U.S. Dept. of Commerce, U.S. Census, North Central Texas Council of Governments

Per Capita Personal Income

Region	2011	2010	2009	2008	2007
Tarrant County	40,965	39,367	37,567	40,889	38,892
Texas	41,560	39,791	38,637	40,947	39,506
United States	40,147	38,222	36,595	39,615	37,098

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

Educational Facilities

Arlington Independent School District (AISD) is the principal public educator. However, Mansfield Independent School District (MISD) and Kennedale Independent School District (KISD) house school buildings within Arlington's city limits, also. 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 staff of 7,907 serves a peak enrollment of 64,971 students. MISD has fifteen schools in Arlington, including two high schools, four middle schools and nine elementary schools. These fifteen schools serve approximately 13,266 students. KISD facilitates one school within Arlington's city limits with 425 students.

The University of Texas at Arlington, founded in 1895, has an approximate enrollment of over 33,000 students and offers 187 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. The campus recently added a student activity center and has greatly expanded its dormitory capacity. Several off campus housing projects have also been developed targeting students.

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

Summarized below is information concerning the Arlington Independent School District's and Mansfield Independent School District's annual peak enrollment and the total percentage changes for the last five fiscal years.

Public School Enrollment

Fiscal Year	AISD Peak Enrollment	MISD Peak Enrollment	Percentage Change
2008	62,863	14,112	(0.73)
2009	63,506	14,149	0.88
2010	63,989	13,295	(0.48)
2011	64,380	13,825	1.19
2012	64,971	13,691	0.58

Source: Arlington Independent School District, Texas Education Association

Employment

Arlington Major Employers [(1)]

Employer	Type of Business	Employees
Arlington Independent School District	Public Education	8,000
University of Texas at Arlington	Higher Education	5,300
Six Flags Over Texas	Amusement Park	3,800
The Parks at Arlington	Retail	3,500
General Motors	Automobile Assembly	2,900
City of Arlington	Municipality	2,462
J.P. Morgan Chase	Banking Services	1,965
Texas Rangers Baseball Club	Major League Baseball	1,881
Americredit	Retail	1,591
Arlington Memorial Hospital	Healthcare	1,400
Total		32,799

[(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, Arlington has managed to maintain lower unemployment rates than the United States and the State of Texas. For 2012, the City's unemployment rate averaged 6.8 percent compared to the U.S. rate of 8.3 percent and the Texas rate, which was 7.2 percent.

Unemployment Rate
Annual Average Rates
2008 to 2012

Region	2012	2011	2010	2009	2008
Arlington	6.8	7.6	7.8	7.1	4.5
Texas	7.2	7.9	8.2	7.5	4.8
United States	8.3	8.9	9.4	9.3	5.8

Source: U.S. Bureau of Labor Statistics.

Building Permits

During FY 2012, the City issued 4,210 building permits with a total value of $324,556,000. Presented below is a table covering building permit activity for the last three fiscal years:

	2012		2011		2010	
	Permits	Declared Value	Permits	Declared Value	Permits	Declared Value
New Single Family	395	74,809,709	228	40,670,582	263	43,662,632
New Multifamily			2	16,612,505		
New Commercial	146	148,544,196	94	71,945,351	125	52,765,921
Other Residential	2,903	24,821,662	1,449	12,629,566	1,270	12,391,411
Other Commercial	766	76,380,122	671	69,427,453	639	59,477,668

Source: City Building Inspections Division

WATER FACILITIES

Water Treatment Facilities

Arlington currently operates two water treatment plants to treat and purify raw water prior to distribution for use. The Pierce-Burch Water Treatment Plant (PBWTP), located in west Arlington, treats raw water pumped into the plant from Lake Arlington. The south PBWTP has an ozonated treatment capacity of 75 million gallons per day (MGD). At this time, there are no plans to expand the PBWTP. However, land is available at the site to accommodate an additional 100 MGD capacity treatment facility in the future, if needed. The north PBWTP has a capacity of 34 MGD and utilizes a conventional treatment process without ozone treatment, and is used for emergency purposes only.

The 1980's population growth and development in the southern part of the City necessitated the construction of the John F. Kubala Water Treatment Plant (JKWTP). The JKWTP began serving Arlington's citizens in May 1989. The plant receives its raw water directly from the Tarrant Regional Water District's (TRWD) Richland Chambers and Cedar Creek pipelines. Beginning in August 1998, TRWD also began delivering water from Lake Benbrook, a U.S. Army Corps of Engineers-owned reservoir. The JKWTP currently has a rated ozonated treatment capacity of 97.5 MGD. Further expansion is possible as demand necessitates. The ultimate expanded treatment capacity would be 130 MGD.

The Distribution System

The City's water distribution system has three pressure planes, referred to as the Upper pressure plane, West pressure plane, and Lower pressure plane. JKWTP supplies the Upper and West pressure planes. The more efficient John F. Kubala Water Treatment Plant is also normally used to supply a portion of the Lower pressure plane via transfer valves between the two pressure zones. The Pierce-Burch Water Treatment Plant supplies the remaining volume necessary to meet citywide demand in the Lower pressure plane. With this supply strategy, the JKWTP normally supplies all of the water required by the Upper and West pressure planes, and approximately 50 percent of the supply to the Lower pressure plane. A combination of electrically driven and natural gas pumps transfer water from the plants into the distribution system. There are eleven elevated storage tanks and nine ground storage tanks with a combined capacity of 50.7 million gallons. Tierra Verde Tank is the 11th elevated tank that came on line November 2010.

The City's water distribution system is fully metered and consists of 1,560 miles of pipe. The System includes concrete cylinder, cast iron, polyvinyl chloride (PVC), and ductile iron pipes with a minimum diameter of six inches. The entire System meets the minimum standards prescribed by the Texas Fire Insurance Commission, the United States Environmental Protection Agency and the Texas Commission on Environmental Quality (TCEQ).

The City's water system has adequately met the demand for treating and distributing water during the past ten fiscal years as follows:

Fiscal Year	Average Daily Pumpage (MGD)	Maximum Daily Pumpage (MGD)
2003	57.13	120.02
2004	54.68	91.19
2005	57.49	95.41
2006	67.26	116.72
2007	51.52	86.04
2008	57.23	109.49
2009	59.54	115.2
2010	55.44	102.24
2011	64.25	114.69
2012	57.99	106.45

Source: City Water Utilities Department

Water Supply

The Tarrant Regional Water District is the primary supplier of raw water used by 65 municipal and non-municipal entities located both within and outside of Tarrant County. Among the major customers of the District are the cities of Fort Worth, Arlington, and Mansfield, and a wholesale water provider, the Trinity River Authority (TRA).

The City receives water from TRWD's Cedar Creek Reservoir, completed in 1964, and Richland Chambers Reservoir, completed in November 1987. Water from these reservoirs is transported through transmission facilities to Lake Arlington and the John F. Kubala Water Treatment Plant. In August 1998, TRWD also began delivering water from the U.S. Army Corps of Engineers-owned reservoir Lake Benbrook. This water supply service was initially provided under the terms and provisions of a contract dated July 13, 1971. Under that contract, TRWD agrees to supply all of the City's municipal water requirements during its term.

On September 1, 1982, TRWD entered into a revised water supply contract ("Amendatory Contract") with the City, and the cities of Fort Worth, Mansfield and TRA. The revised contract will continue in effect until all bonds of TRWD relating to TRWD's System have been paid, and thereafter during the useful life of TRWD's System. Under the Amendatory Contract, the City is required to purchase all of its raw water needs from TRWD. TRWD is obligated to meet the City's needs by developing additional water supply sources, subject to force majeure, the ability of TRWD to obtain suitable financing and a determination of feasibility. If TRWD is unable to supply all of the City's raw water requirements or if it should become apparent that TRWD will become unable to supply such requirements, the Amendatory Contract provides a procedure by which the City would be permitted to develop or obtain a supplemental water supply to meet its needs. The City is depending upon TRWD to meet its full raw water needs under the Amendatory Contract and, at present, the City has no assurance of the availability of a supplemental water supply if TRWD should fail to meet such needs. TRWD's current sources as well as additional supplies that are actively under development are projected to provide an adequate water supply through 2030.

TRWD's most recent system enhancements include the Eagle Mountain Pipeline and continued development of the wetlands of Richland-Chambers Reservoir.

In March 2002, TRWD issued $331,430,000 in Water Revenue Refunding and Improvement Bonds (Series 2002) to refund the Series 1993 Bonds and to fund the acquisition and expansion of the Wetland Water Treatment System for Richland Chambers, for design/engineering of the pipeline connection to Eagle Mountain Lake and other construction, improvements and repairs to TRWD's Water System. Construction of the Richland Chambers Dam and Reservoir Project was funded with proceeds derived from the sale of Water Revenue Bonds, which were originally issued in 1979 (Series 1979-A) and have since been refunded with the Series 2002 Bonds.

In 2006, TRWD issued $182,905,000 in Water Revenue Bonds for:

- acquisition and expansion of the Wetland Water Treatment system for Richland Chambers Reservoir;
- initial cost for a Wetland Water Treatment system for the Cedar Creek Reservoir;
- expansion and improvements to TRWD's water supply transmission system to Eagle Mountain Lake;
- acquisition and installation of control equipment for the Eagle Mountain Pipeline connection and Richland Chambers Wetland projects;
- engineering, acquisition and construction of a new communication system;
- engineering and studies for expansion of discharge facilities at Lake Arlington;
- acquisition and improvements to TRWD's existing water supply security system;
- acquisition of right-of-way and permanent and perpetual flowage easements for the System together with all other design, construction, improvements and repairs and studies and plans for TRWD's Water System;
- to fund a debt service reserve fund; and
- to pay the costs associated with the issuance of the Bonds.

Two bond issues were made in 2008, Series 2008A-RC Water Revenue Bond ($3,135,000) and 2008B-CC Water Revenue Bond ($6,755,000). The 2008A-RC Bonds were issued to support pre-construction efforts to complete the Richland-Chambers Reservoir Wetland Project. The 2008B-CC Bonds were issued to support pre-construction efforts for the Cedar Creek Wetlands Project. These bonds were issued as a part of the Texas Water Development Board

(TWDB) Water Infrastructure Fund established to finance implementation of projects identified in the 2007 State Water Plan.

In March 2009, TRWD issued $69,535,000 in bonds to refund $16,895,000 of the Series 1999 Water and Revenue Refunding and Improvement Bonds and to pay for construction of a parallel pipeline segment; the design of additional pipeline and pumping facilities; the construction of a balancing reservoir on the Eagle Mountain Connection pipeline; major repairs, replacements and additions of valves, vaults, pumps, variable frequency drives, switchgear, aeration facilities, and tank recoating related to the water transmission system; expansion and rehabilitation of chemical and dechlorination facilities related to the District's water transmission system; dam stability analysis and remediation, water transportation improvements, including log jam removal; design of hydro generation facilities at Lake Arlington; development of new water resources, including costs related to the acquisition of out of state water, and associated legal, engineering and consultation costs; other design, construction, improvements and repairs and studies and plans for the District's Water System.

In 2010, TRWD had three bond issues, 2010, 2010A and 2010B. The 2010 issue for $89,250,000 was issued for engineering and initial right of way costs related to additional pipeline and pumping facilities; engineering and construction of the build-out phase of the Richland-Chambers wetlands facilities; land and right-of-way for construction of the Cedar Creek wetlands; construction of hydro generation facilities at Lake Arlington; development of new water resources, including costs related to the acquisition of out of state water, and associated legal, engineering, and consulting costs; other design, construction, improvements and repairs and studies and plans for the District's Water System. The 2010A, ($17,835,000) and 2010B, ($83,785,000) series were issued to support development costs related to the Integrated Pipeline Project (IPL) and were issued as a part of the Texas Water Development Board (TWDB) Water Infrastructure Fund established to finance implementation of projects identified in the 2007 State Water Plan.. The IPL Project is an integrated water delivery transmission system that will deliver water supply from Lake Palestine Cedar Creek and Richland-Chambers Reservoirs integrated with TRWD's existing pipelines and provide flexibility in water sources and delivery as well as quick response to fluctuating customer demands. The IPL Project consists of 150 miles of pipeline, three new lake pump stations, and three new booster pump stations. The City of Dallas is funding a portion of the cost to design, construct and operate the IPL in proportion to delivery of Dallas water supply from Lake Palestine.

In January 2012, the TRWD board approved a resolution authorizing the issuance, sale, and delivery of the Tarrant Regional Water District, a water control and improvement district, water transmission facilities contract revenue bonds (City of Dallas Project) and revenue refunding and improvement bonds for TRWD, both are series 2012. Funding on these bonds will not occur until March 2012.

Tarrant Regional Water District estimates that the existing and permitted water supply system has adequate water to meet its customers' projected water requirements through the year 2030. TRWD continues to participate in statewide and regional water supply planning authorized by the 1997 passage of Senate Bill 1. The regional plan for the Dallas-Fort Worth region includes plans for TRWD to develop an additional 622 MGD through the year 2060 at an estimated cost of $3.6 billion. These projects include water conservation, reuse, reservoir and pipeline construction.

Under the terms of the Amendatory Contract, the City pays TRWD an amount equal to the City's proportionate share of TRWD's "Annual Requirement." Said annual requirement includes the costs of operation and maintenance of TRWD's raw water supply facilities, debt service on TRWD's bonds and any future bonds it might issue, including deposits to any special or reserve fund established in TRWD's bond resolutions. Based upon the projected usage of the City for the 2011-2012 fiscal year, the budgeted monthly purchase price to be paid by the City under the revised water contract is $1,554,847, which results in a rate of approximately 87.291 cents per one thousand gallons. Such amount is subject to adjustment as provided in the Amendatory Contract. The City is obligated to pay TRWD for all water used by it, and under the Amendatory Contract, the minimum amount of water the City shall be deemed to have used shall be calculated at an amount equal to the greater of 30 MGD or the average MGD actually used by the City during the period of the immediately preceding five consecutive annual periods.

The Amendatory Contract provides that all payments to be made under said Contract shall constitute reasonable and necessary operating expenses of the System, and thus the City's requirement to make such payments from its revenues to the System shall have priority over any obligation to make payments from such revenues, including payment of principal and interest on the City's Outstanding Bonds, the Bonds and any additional Bonds.

Drought Contingency Plan

The City continues to work closely with TRWD to plan for and execute drought contingency measures.

TRWD updated its Water Conservation and Drought Contingency Plans in May 2005, in accordance with the Texas Commission of Environmental Quality (TCEQ) directives. The plans were revisited and, with guidance from major customers, revised in May 2007 following the drought that occurred during 2005 and 2006. Regular meetings were held to discuss evolving approaches to water conservation and extending supplies during drought or emergency situations. TRWD's customers had extensive input defining drought conditions and prescribing conservation measures related to each drought stage. All major customers agreed to specific, staged measures related to emergency conditions brought on by drought-induced water supply depletion or failure of components in TRWD's supply system.

Arlington Water Utilities updated its Drought Contingency Plan in 2008. The latest Drought Contingency Plan reduced the number of drought stages from four to three. Based on a statistical analysis of 43-year weather patterns in North Texas and their potential effects on water supplies, new drought triggers were established. The revised responses for each drought stage are triggered by two sets of conditions – water supply levels or excessive demand and emergency situations. Drought stages are triggered when the total combined raw water supply within the TRWD reservoir system drops below 75, 60 and 45 percent of conservation storage. Other conditions that would activate a drought response would include situations where:

- Water demand exceeds the amount that can be delivered to customers.
- Water demand for all or part of the TRWD delivery system exceeds delivery capacity because delivery capacity is inadequate.
- One or more of TRWD's water supply sources has become limited in availability.
- Water demand is projected to approach the limit of permitted supply.
- Supply source becomes contaminated.
- Water supply system is unable to deliver water due to the failure or damage of major water system components.
- The General Manager, with concurrence of the TRWD Board of Directors, finds that conditions warrant the declaration of a drought stage.

The summer of 2011 proved to be one of the hottest and driest on record for much of the State of Texas. Per the Drought Contingency Plan, when TRWD reservoirs dropped to 75% capacity in August, Stage 1 drought restrictions were implemented. A mandatory maximum two-day watering schedule was enforced and the goal was to reduce water consumption by 5%. Water consumption dropped after the Stage 1 declaration and the reduced water consumption goals were met locally in Arlington and regionally with TRWD. Stage 1 drought restrictions worked as intended and the City did not have any irreparable system supply problems before or during the restrictions. Stage 1 drought restrictions were lifted in May 2012 after spring rains filled TRWD reservoirs and a determination was made, based on expected water use, a return to Stage 1 restrictions would not occur in the near future.

The City coordinated with TRWD and its customer cities to take a regional approach in updating its Drought Contingency Plan in April of 2008. A review of the Drought Contingency Plan, per TCEQ requirements, will occur in April 2013 and an update is expected to be adopted by the end of 2013. An updated Conservation Plan was adopted by the Arlington City Council in April 2009. Because of this proactive approach to addressing drought conditions and managing emergency demand, combined with an excellent track record in planning and system development initiatives, the City does not anticipate, and did not recently experience with implementation of the Drought Contingency Plan, any system supply problems. However, steps will be taken in the event of a prolonged drought to ensure that the financial condition of the System remains strong.

Consumer Analysis Data

The following data provides information as to the average daily water consumption, excluding sales to municipalities, by user category for the fiscal years ended September 30, 2008, through September 30, 2012.

Average Daily Consumption (MGD)

Property Type	2012	2011	2010	2009	2008
Residential	28.06	30.57	25.04	27.1	27.97
Commercial	10.04	10.6	9.98	10.33	10.77
Fire lines, Sprinklers	5.35	6.41	4.61	5.49	5.61
Apartment Units	7.93	8.1	7.88	8.18	8.58
Mobile Homes. Confominiums, Townhouses	0.67	0.63	0.5	0.6	0.68
Total	52.05	56.31	48.01	51.7	53.61

The following table shows the number of units served, excluding sales to municipalities, by user category for the fiscal years ended September 30, 2008, through September 30, 2012.

Number of Units Served

Property Type	2012	2011	2010	2009	2008
Residential	92,945	92,594	92,423	92,016	91,704
Commercial	4,857	4,922	4,903	4,919	3,945
Fire lines, Sprinklers	969	966	960	1,010	2,050
Apartment Units	46,844	46,917	46,845	47,686	47,108
Mobile Homes, Condominiums, Townhouses	2,089	2,089	2,181	2,801	3,134
Total	147,704	147,488	147,312	148,432	147,941

The following is a listing of the top ten water customers of the City, ranked by consumption during the fiscal year ended September 30, 2012. Billing will vary based on the number of meters, increased minimum charges for larger meters, and higher commodity charges for sprinkler usage. During this period, the top ten customers' total annual water billings, which represented 10.01 percent of the System's water sales, were as follows:

Name	Consumption in 1,000 Gallons	Billing
Arlington Independent School District	273,887	1,110,067
University of Texas at Arlington	271,614	884,199
EUSB/General Motors	265,793	655,012
City of Arlington	259,701	1,224,080
Chesapeake Operating	185,339	1,174,486
Carrizo Oil & Gas	122,467	740,331
Six Flags Park	98,680	293,568
Cowboy's Stadium	95,097	339,781
Mansfield ISD	84,479	400,547
Hurricane Harbor	79,911	198,374
Total	1,736,968	$ 7,020,444

The following table lists certain data on historical water consumption during the last five fiscal years.

Historical Water Consumption Data
(Inside City Limits)

Fiscal Year Ended 9/30	Number of Water Meters	Total Water Pumped MG	Average Water Pumped MGD	Maximum Day Pumpage MGD	GPD Per Account	Ratio Maximum Day to Average Day
2008	105,947	20,888	57.23	109.49	540	1.91
2009	105,263	21,734	59.54	115.2	566	1.94
2010	105,638	20,236	55.44	102.24	525	1.84
2011	106,021	23,451	64.25	114.69	606	1.79
2012	106,081	21,166	57.99	106.45	547	1.98

Source: City Water Utilities Department

WASTEWATER FACILITIES

The wastewater collection system that serves all developed areas within the City limits is comprised of approximately 1,294 miles of sanitary sewer mains ranging in size from six to seventy-two inches. Although the City owns and maintains an extensive wastewater collection system, it does not treat its own wastewater. Wastewater produced in the City is treated under contract by the Trinity River Authority's (TRA) Central Regional Wastewater System (CRWS). The City's annual volume of contributing flow amounts to approximately 28.2 percent of the total wastewater flow into the CRWS Plant. As the city with the largest population in the CRWS service area, Arlington contributes the highest daily flow of all TRA regional plant customers. The CRWS Plant meets the effluent permit conditions to treat 162 MGD as set by the TCEQ and Environmental Protection Agency (EPA).

The following is a list of Arlington's wastewater flows treated by TRA's CRWS plant during the last five fiscal years.

Wastewater Treated
(Millions of Gallons)

2012*	2011	2010	2009	2008
13,510	13,329	13,293	13,460	14,391

*unaudited

Treatment Contract with Trinity River Authority (TRA)

The City's wastewater is treated under the terms of a 50-year contract with TRA dated October 10, 1973. TRA is the owner and operator of the CRWS Plant and the interceptor pipeline system, which serves part of Dallas, Dallas-Fort Worth International Airport, and 19 other Dallas County and Tarrant County municipalities. Under the terms of the contract, each contracting party contributes to TRA's "Annual Requirements" in proportion to its contributing flow of wastewater into the CRWS Plant. The "Annual Requirements" include cost of operation and maintenance of the system and debt service on TRA's bonds issued to construct the system, including deposits to special funds established by the bond resolution. Based upon actions approved in 1996, TRA began treating all of Arlington's wastewater when facilities constructed by Arlington were completed in September 2000. These pipeline facilities convey west Arlington wastewater to TRA System facilities, and on to the TRA treatment plant for final treatment. This Arlington to TRA pipeline project cost was $11,000,000. The transfer of west Arlington's wastewater flows from the Fort Worth Village Creek Regional Plant to this pipeline began in September 2000. Cash balances of the Water Utilities Department funded this project.

In 1989, TRA sold $134.75 million in System Revenue Bonds to fund an expansion of the System's treatment plant from 100 to 135 MGD, which was placed into operation in early 1994. Subsequently in 1992, an additional $33.0 million in System Revenue Bonds were issued to fund improvements required primarily in the System's 200 mile network of large diameter pipelines over the first half of a five-year planning period. These improvements increased the capacity of numerous segments of the pipelines, rehabilitated pipelines and initiated several engineering evaluations to define required improvements to the plant and pipelines in the future. In 1995, TRA issued $43.515 million in System Revenue bonds to fund the remaining portions of the 1992-1996 capital plans. A new five-year plan for 1997-2001 resulted in relief and rehabilitation of interceptors and plant improvements. Initial funds of $49 million were obtained from the 1998A bond issue. Also in 1998, $67 million in bonds were refunded through TRA's issuance of the 1998B Revenue Refunding Bonds. In 2001, TRA issued an additional $88.2 million in System Revenue Bonds through the Texas Water Development Board for plant improvements and relief pipeline construction as identified in the 2001 Capital Improvement Plan update. In early fiscal year 2003, TRA issued $136 million in refunding bonds to pay off the Series 1993 bonds. This results in a debt service savings to the City.

TRA's updated five-year capital improvement plan for 2004-2009 has been completed, including treatment process improvements and interceptor rehabilitation. Initial funds of $106 million were obtained from a 2004 bond issue. Additional bonds in the amount of $9.5 million were issued in 2005 for land acquisition and other related wastewater system improvements. In April 2007, a new update of the five-year capital improvement plan was issued outlining plans for expanding plant capacity from 162 MGD to 189 MGD, as well as badly needed relief (parallel) pipeline system construction. Estimated cost for these projects totals $300 million, and funding was obtained from the Texas

Water Development Board at below-market rates. The current plan includes a $120 million bond issuance which took place in June 2007, and two additional issuances of $90 million in February 2008 and March 2009 to complete the objectives of the updated capital improvement plan. An additional Texas Water Development Board bond of $127.005 million was issued in 2010, and in June 2011, the Authority issued $69.280 million in Revenue Refunding Bonds, Series 2011, for refunding the Series 2001 Bonds, producing a total debt service savings of $5,046,248 through the life of the bonds. In October 2011, the Authority issued Series 2011A Texas Water Development Bonds in the amount of $108.395 million and in August 2012, the Authority issued Series 2012 Texas Water Development Bonds in the amount of $74.270 million. These funds were needed to continue various plant and pipeline improvements. Other bond issues are scheduled for 2013, 2014 and 2015 to continue process and collection system improvements. The timing and amounts of these bonds will be determined at a later date.

The 162 MGD CRWS Plant is situated on a 500 acre site in Grand Prairie. The CRWS Plant uses a conventional activated sludge process enhanced for nitrification followed by filtration. Effluent quality discharged to the West Fork of the Trinity River has been excellent, meeting all regulatory requirements. The plant was selected by the state and federal regulatory agencies as the best large treatment plant in EPA's Region 6 five-state area during 1996 and has received the National Association of Clean Water Agencies Platinum Award for the second time in 2006, each award signifying five continuous years of Gold Awards (100% permit compliance). The CRWS Plant received the Platinum Award for fiscal year 2007, 2008, 2009, 2010 and 2011 under the Agencies' revised rules. A portion of the treated effluent is delivered for beneficial reuse to lakes in the Las Colinas area of Irving, where it is used for irrigation and lake and canal level control. Revenue from this sale is credited to the parties of the System.

Plant solids removed by this treatment-plant are now being beneficially reused by a land application program, which exports all biosolids from the plant site. An onsite sludge monofill exists with a 20-year remaining life, as a backup to the land application program and to provide an alternative disposal method in the event contractor failure or other unanticipated failure occurs.

For TRA's fiscal year beginning December 1, 2012, the volume of contributing flow by the City is estimated to average 38.600 MGD, which amounts to approximately 28.14 percent of the total volume of wastewater flow into the CRWS plant. This percentage of wastewater flow is used to determine the City's annual requirements under this contract. Arlington has the largest service area population and contributes the highest average daily flow of all TRA CRWS Plant customers. The City's current cost of wastewater treatment under this contract budgeted for 2013 is $25,368,560.

In addition, the City is a party to a contract (the "Arlington Project Contract") dated October 10, 1973, under which TRA constructed certain improvements to the City's System with the proceeds of its revenue bonds, which the City, by the terms of the contract, was to pay, together with certain fees and administrative overhead. The payment of these bonds was completed in August 2000, as was the final administrative overhead payment.

The facilities constructed by TRA related to the Arlington Project Contract are integral parts of the System and are maintained and operated by the City. Ownership of such facilities was vested in the City when all of the TRA bonds were paid. The improvements to the System financed by TRA consist of the raw water pumping station on Lake Arlington and certain major wastewater collection lines.

STORM WATER SYSTEM

Municipal Drainage Utility System

Chapter 552, Subchapter C of the Texas Local Government Code provides the authority for municipalities to establish a municipal drainage utility system and to develop a schedule of charges within the City. This enabling legislation was created in order to provide municipalities a funding source to address Environmental Protection Agency ("EPA") mandated storm water quality requirements, as well as local drainage system operating and maintenance costs.

The City established a Municipal Drainage Utility System in August, 1990, to protect the public health and safety from loss of life and property caused by surface water overflows and surface water stagnation.

Drainage Utility Charges and Billing

The City charges "Storm Water" Fees in support of the System. The current storm water fee structure and rates became effective on October 1, 2010. The current residential fee structure is described in "Table 1 – Residential Monthly Storm Water Drainage Fee Rates". Commercial property owners are charged based on an impervious area calculation shown. A storm water fee is added to each monthly utility bill. The City has the authority to impose storm water fees by ordinance without limitation.

Residential Property

Residential parcels include any benefited property platted, zoned or used for residential development including single family, duplex, triplex, quadraplex, town homes, manufactured homes or other improved parcel upon which buildings contain less than five dwelling units. Residential parcels will be billed based on one Equivalent Residential Unit ("ERU") at the scheduled rate, for the number of dwelling units.

TABLE 1 – RESIDENTIAL MONTHLY DRAINAGE UTILITY FEE RATES

The fee structure and historical rates are as follows:

Date of Rate Change	Flat Rate		
October 1, 2007	$	2.00	
October 1, 2008	$	2.75	
October 1, 2009	$	3.50	
October 1, 2010	$	4.25	(1)
October 1, 2011	$	4.25	(2)
October 1, 2012	$	4.25	

(1) Commercial Rate is calculated using the residential rate times the ERU. The minimum ERU rate is 1.0.

(2) Phase in of the rates was completed on October 1, 2010 and there are no current plans to change this rate.

Commercial Property

Every Commercial property owner pays the same unit rate based on the amount of impervious area on the property. Impervious area is defined as a surface that is resistant to infiltration by water. Several examples of impervious area include asphalt or concrete pavement, parking lots, driveways, sidewalks and buildings. Based on a study of Arlington residential property, the average square feet of impervious surface is 2800, referred to as an Equivalent Residential Unit (ERU).

Non-residential parcels include all benefited property that is not defined as residential by the Storm Water Drainage ordinance, including commercial, industrial, institutional, multi-family and governmental property. The monthly fee for non-residential parcels is determined by dividing impervious area square footage by 2800 square feet and multiplying by the current rate – the result shall be a minimum of 1 ERU for each non-residential account.

Other Drainage Utility Fee Information

Failure to pay drainage utility fees promptly when due shall subject users to discontinuance of any utility services provided by the City. Apartments are considered non-residential for the purpose of the calculation of the storm water fee. Any non-residential property on which mitigation measures have been taken may be eligible for a credit to the storm water fee. The Director of Public Works and Transportation shall adjust the fee for such properties according to the actual mitigative effect of the measures taken. Best Management Practices (BMPs) that were required as part of development plan approval will not be eligible for such credits.

Drainage Fee History

The following table details storm water fee revenue history for the last five years.

TABLE 2 – DRAINAGE FEE REVENUE AND ACCOUNT HISTORY [(1)]

	2012	2011	2010	2009	2008
Residential	5,756,292	5,764,000	4,726,641	3,817,743	2,730,945
Commercial	4,779,370	4,728,000	3,977,604	3,078,744	2,181,759
Total	$ 10,535,662	$ 10,492,000	$ 8,704,245	$ 6,896,487	$ 4,912,704

Accounts	2012	2011	2010	2009	2008
Residential	93,391	92,807	92,649	92,353	92,068
Commercial	5,315	5,231	5,233	5,209	5,169
Total	98,706	98,038	97,882	97,562	97,237

[(1)] Amounts do not include interest.
Source: Public Works & Administration

INVESTMENTS

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

Legal Investments

Under Texas law, and the more restrictive City of Arlington Investment Policy, the City is authorized to invest in (1) obligations of United States Treasuries, United States agencies and instrumentalities; (2) Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (3) Obligations of Texas, its agencies, counties, cities, and other political subdivisions rated as to investment quality by a nationally recognized investment rating firm not less than AA or its equivalent 5% of portfolio 5% per issuer; (4) Obligations of other states, its agencies, counties, cities, and other political subdivisions rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent 5% of portfolio 5% per issuer; (5) Certificates of Deposit issued by a depository institution that has its main office or a branch office in Texas. The certificate of deposit must be guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or secured by obligations in a manner and amount as provided by this Policy for bank deposits. In addition, certificates of deposit obtained through a broker or depository institution that has its main office or a branch office in Texas and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 2256.010(b) of the Act are authorized investments; 50% of portfolio; 20% per issue; (6) Fully collateralized direct security repurchase agreements and reverse security repurchase agreements in accordance with the conditions prescribed in Section 2256.011 of the Act. A repurchase agreement shall have a defined termination date and be secured by a combination of cash and obligations of the United States or its agencies and instrumentalities. These shall be pledged to the City, held in the City's name, and deposited at the time the investment is made with a third party selected and approved by the City. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in Texas; (7) A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery vs. payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 102% at the time funds are disbursed and throughout the term of the repurchase agreement. 40% of portfolio (excluding flexible repos for bond proceeds), 15% per counterparty; (8) Commercial paper that has a stated maturity of 270 days or less and is either rated not less than A-l+, P-l or equivalent by at least two nationally recognized credit rating agencies or is rated by one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States. The commercial paper issuer must have an underlying long term credit of at least AA or the equivalent. 20% of portfolio, 5% per issue, (9) Guaranteed investment contracts for bond proceeds only in accordance with the conditions prescribed in Section 2256.015 of the Act. 100% of bond proceeds; (10) No-load money market mutual funds that are registered and regulated by the Securities and Exchange Commission, have a dollar weighted average stated maturity of 90 days or less, seek to maintain a net asset value of $1.00 per share, and are rated AAAm or an equivalent rating, by at least one nationally recognized rating service. 100% of portfolio, 15% per fund; (11) Local government investment pools, which meet the requirements of Section 2256.016 of the Act, are rated no lower than AAA, or an equivalent rating, by at least one nationally recognized rating service, and are authorized by resolution or ordinance by the City Council. In addition, a local government investment pool created to function as a money market mutual fund must mark its portfolio to the market daily and, to the extent reasonably possible, stabilize at $1.00 net asset value, 100% of portfolio, 25% per pool.

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, yield a market 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 Director of Financial and Management Resources 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 September 30, 2012, the City's operating funds were invested in the following categories of investments:

Type of Investment	% Invested
Federal Agencies	56.78
Statewide Pools	34.52
Municipals	1.93
Certificates of Deposit	6.47
Cash	.30
Totals	100.00%

As of September 30, 2012, the weighted average maturity of the City's operating portfolio was 379 days and the market value of the operating portfolio was 100.9 percent of its book value.

SECTION TWO: DEBT STRUCTURE AND CAPITAL IMPROVEMENT PROGRAM

TAX-SUPPORTED DEBT

DEBT STATEMENT

Pursuant to the Constitution and laws of the State of Texas and the Charter of the City, the City is authorized to issue general obligation bonds secured by an ad valorem tax on all property within its boundaries subject to local taxation. A tax rate limitation is imposed by the Home Rule Section of the Texas Constitution, Article XI, Section 5, that allows a maximum tax rate of $2.50 per $100.00 assessed valuation.

The following table details the ad valorem tax-supported debt of the City as of September 30, 2012:

Total Outstanding Tax-Supported Debt	$320,810,000
Less Self-Supporting Debt	50,117,088
Net Tax-Supported Debt	$270,692,912

Source: City Financial and Management Resources Department

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.

Key Debt Ratios

Fiscal Year	Estimated Population [(1)]	Estimated Taxable Valuation Calendar Year [(2)]	Net Tax-Supported Debt Year Ended September 30 [(3)]	Ratio of Net Tax-Supported Debt: Per Capita	Ratio of Net Tax-Supported Debt: Taxable Valuation
2006	361,300	16,143,581,172	251,003,392	695	1.55%
2007	362,393	16,793,424,763	223,965,822	618	1.33%
2008	364,300	17,559,408,343	325,807,010	894	1.86%
2009	369,150	18,277,086,187	277,291,666	751	1.52%
2010	365,438	18,251,104,674	318,010,885	870	1.74%
2011	365,530	17,179,112,309	310,960,825	851	1.81%
2012	365,860	17,350,298,543	315,935,183	864	1.82%

(1) Population for 2010 is from the census. Estimates for prior years were based on percent of occupancy in available residences and population for 2011 and 2012 is an estimate from the North Texas Council of Governments.

(2) Estimated taxable valuation is obtained from the certified value as of September of each year including minimum estimated value of property under protest.

(3) Net Debt is defined as total outstanding tax supported general obligation debt less debt service fund balance (from the Financial Policy 1/8/2008.)

Source: City Financial and Management Resources Department

Rapidity of Principal Retirement
All General Obligation Debt

Maturing Within	Amount Maturing	Percent of Total Debt Outstanding
5 years	$138,800,000	43.3%
10 years	227,980,000	71.1%
15 years	286,540,000	89.3%
20 years	320,810,000	100.0%

As of September 30, 2012

Source: City Financial and Management Resources Department

DEBT SERVICE REQUIREMENTS

The following schedule reflects the principal and interest requirements on the City's outstanding debt for which ad valorem tax is pledged.

Tax-Supported Debt Service Requirements

FY Ending 9/30	Outstanding General Obligation Debt Principal	Outstanding General Obligation Debt Interest	Total Debt Service
2013	28,325,000	12,819,416	41,144,416
2014	29,090,000	11,741,684	40,831,684
2015	28,835,000	10,621,070	39,456,070
2016	27,220,000	9,468,766	36,688,766
2017	25,330,000	8,389,971	33,719,971
2018	21,435,000	7,360,793	28,795,793
2019	20,150,000	6,502,579	26,652,579
2020	17,385,000	5,712,550	23,097,550
2021	15,730,000	5,034,346	20,764,346
2022	14,480,000	4,416,336	18,896,336
2023	13,320,000	3,841,670	17,161,670
2024	12,175,000	3,301,006	15,476,006
2025	11,105,000	2,813,684	13,918,684
2026	11,190,000	2,348,870	13,538,870
2027	10,770,000	1,877,173	12,647,173
2028	9,775,000	1,391,473	11,166,473
2029	7,575,000	999,541	8,574,541
2030	5,750,000	707,256	6,457,256
2031	4,790,000	472,781	5,262,781
2032	3,915,000	275,575	4,190,575
2033	2,465,000	114,006	2,579,006
	$ 320,810,000	$ 100,210,547	$ 421,020,547

Source: City Financial and Management Resources Department

NET TAX-SUPPORTED DEBT

FY Ending 9/30	Outstanding General Obligation Debt Principal	Outstanding General Obligation Debt Interest	Less Self Supporting Debt Principal	Less Self Supporting Debt Interest	Total Net Tax Supported Debt Service
2013	28,325,000	12,819,416	3,636,700	2,245,112	35,262,605
2014	29,090,000	11,741,684	3,750,233	2,109,701	34,971,750
2015	28,835,000	10,621,070	3,875,207	1,965,221	33,615,642
2016	27,220,000	9,468,766	3,932,664	1,812,700	30,943,403
2017	25,330,000	8,389,971	3,757,188	1,645,900	28,316,884
2018	21,435,000	7,360,793	2,587,605	1,480,657	24,727,531
2019	20,150,000	6,502,579	2,434,991	1,347,663	22,869,925
2020	17,385,000	5,712,550	1,393,750	1,238,863	20,464,938
2021	15,730,000	5,034,346	1,463,750	1,169,176	18,131,421
2022	14,480,000	4,416,336	1,485,000	1,095,988	16,315,349
2023	13,320,000	3,841,670	1,550,000	1,029,163	14,582,508
2024	12,175,000	3,301,006	1,625,000	951,663	12,899,344
2025	11,105,000	2,813,684	1,705,000	876,506	11,337,178
2026	11,190,000	2,348,870	1,790,000	791,256	10,957,614
2027	10,770,000	1,877,173	1,875,000	701,756	10,070,416
2028	9,775,000	1,391,473	1,970,000	608,006	8,588,466
2029	7,575,000	999,541	2,060,000	519,356	5,995,185
2030	5,750,000	707,256	2,155,000	426,656	3,875,600
2031	4,790,000	472,781	2,250,000	326,988	2,685,794
2032	3,915,000	275,575	2,355,000	222,925	1,612,650
2033	2,465,000	114,006	2,465,000	114,006	-
	$ 320,810,000	$ 100,210,547	$ 50,117,088	$ 22,679,259	$ 348,224,201

As of September 30, 2012.

Self Supporting debt includes a portion of the Permanent Improvement Refunding Bonds, Series 2005, the Combination Tax and Tax Increment Reinvestment Zone Revenue Certificates of Obligation, Series 2008B, a portion of the Combination Tax and Revenue Certificates of Obligation 2009A and B, the Combination Tax and Revenue Certificates of Obligation, Series 2010B, a portion of the Permanent Improvement Refunding Bonds, Series 2010, a portion of the Permanent Improvement Refunding Bonds, Series 2010A, and a portion of Permanent Improvement Refunding Bonds, Series 2011B. To the extent that such revenues are insufficient to pay debt service on such obligations, the City will be required to levy and assess an ad valorem tax.

Source: City Financial and Management Resources Department

Computation of Self-Supporting Debt [(1)]

Hotel Occupancy Tax Revenue [(2)]	
Gross Hotel Occupancy Tax Revenues for Fiscal Year ended 9-30-12	6,102,269
Debt Service Requirements for Hotel Occupancy Tax Revenue Debt FY2012	1,359,603
Percent of Tax Increment Self-Supporting	100%
Water and Wastewater System (WWS) Revenues	
Revenue Available for Debt Service from WWS Revenues, FY end 9-30-12	37,191,000
Less: Revenue Bond Requirements, FY 2012	14,250,732
Balance Available for Other Purposes	22,940,268
Debt Service Requirements for Water Portion of CO 2001A and B, FY 2012	72,248
Percentage of Water and Wastewater System CO Debt, Self-Supporting	100%
Tax Increment Reinvestment Zone 5 (TIRZ5)	
Beginning Fund Balance TIRZ 5 Core, 9-30-11	-
Beginning Fund Balance TIRZ 5 Surrounding, 9-30-11	-
Tax Revenue TIRZ 5 Core, FY 2012	180,885
Tax Revenue TIRZ 5 Surrounding, FY 2012	306,312
Total Balance Available for Debt Service FY 2012	487,197
Debt Service Requirements for TIRZ 5, FY 2012	1,567,781
Percentage of TIRZ 5 Obligations Self-Supporting	31%
Tax Increment Reinvestment Zone 4 (TIRZ 4)	
Beginning Fund Balance TIRZ 4, 9-30-11	1,083,242
Tax Revenue TIRZ 4, FY 2012	953,969
Total Balance Available for Debt Service FY 2012	2,037,211
Debt Service Requirements for TIRZ 4, FY 2012	933,850
Percentage of TIRZ 4 Obligations Self-Supporting	100%
Park Performance Fund (PPF) Revenues	
Revenue Available for Debt Service from PPF Revenues, FY end 9-30-12	9,356,667
Debt Service Requirements for PPF Portion of PIB 2005, FY 2012	778,158
Percentage of Park Performance Fund Portion of PIB 2005 Debt, Self-Supporting	100%
Airport General Gas Lease Fund Revenues	
Revenue Available for Debt Service from Airport General Gas Lease Revenues, FY end 9-30-12	425,000
Debt Service Requirements for Aiport Portion of CO 2009A and B, FY 2012	652,793
Percentage of Airport Portion of CO 2009A and B Debt, Self-Supporting	65%
Total Debt Service Requirements, FY 2012	5,364,433

[(1)] If funds are not sufficient for any of the below debt service payments the difference(s) will be paid from ad valorem taxes.

(2) 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.

Hotel Occupancy Tax Certificates of Obligation

The City will use hotel occupancy taxes to pay a portion of the debt service on the Series 2005 Refunding Bonds which refunded a portion of the Combination Tax and Revenue Certificates of Obligation, Series 1998. Based on a calculation of the pro rata share of debt service on the Series 2005 Refunding Bonds, the hotel occupancy tax will provide $1,362,238 of the total debt service on the Series 2005 Refunding Bonds from October 1, 2012 through September 30, 2013. The Combination Tax and Revenue Certificates of Obligation, Series 1998, were payable from (1) the proceeds of a continuing direct ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City, and (2) a portion of the revenues derived by the City from the hotel occupancy tax. The hotel occupancy tax presently is levied and collected under authority of Texas, Government Code, Chapter 1504, as amended, and Texas, Tax Code, Chapter 351.

Tax Adequacy

The following analysis as of September 30, 2012, assumes 98 percent collection of ad valorem taxes levied against the City's fiscal year 2013 Taxable Valuation, and future Hotel Occupancy Tax collections at a level sufficient to pay debt service on the allocable portion of the Series 2005 Refunding Bonds, originally Combination Tax and Revenue Certificates of Certificates of Obligation, Series 1998.

Average Annual Requirement (2013/2033)	$17,411,210
A tax rate of $0.0977 per $100 assessed valuation produces	17,411,372
Average Annual Requirement (2013/2021)	26,561,945
A tax rate of $0.1599 per $100 assessed valuation produces	25,576,146
Maximum Annual Requirement (2013)	35,262,605
A tax rate of $0.2244 per $100 assessed valuation produces	35,264,829

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 "SECTION TWO: 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 September 30, 2012, the City has $0.00 in Commercial Paper Notes outstanding and has terminated the credit agreement relating to the Commercial Paper program, therefore effectively terminating the program.

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 entities listed may have issued additional Bonds 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.

Overlapping Debt
(Amounts in thousands)

	Amount [1]	As of	Percent	Amount
City of Arlington [2]	315,935	9/30/2012	100.00%	315,935
Arlington Independent School District	465,377	9/30/2012	77.90%	362,529
Tarrant County	315,899	9/30/2012	14.87%	46,974
Tarrant County Junior College District	20,765	9/30/2012	14.87%	3,088
Tarrant County Hospital District	56,385	9/30/2012	14.87%	8,384
Kennedale Independent School District	46,481	9/30/2012	51.52%	23,947
Mansfield Independent School District	722,445	11/1/2012	29.92%	216,156
Hurst-Euless-Bedford I.S.D.	330,853	9/30/2012	0.58%	1,919
Total Direct and Overlapping Debt [3]				978,932
2012 Population Estimate				365,860
Debt Per Capita				$ 2,676

(1) Source: Net debt outstanding per representative of each jurisdiction
(2) Total outstanding debt net of debt service fund balance.
(3) Substantially all of the City's residents are located within the Arlington I.S.D. Although Fort Worth I.S.D. also has taxing jurisdiction within a portion of the City, reference to this district has been intentionally omitted because less than 1 percent of its total debt is paid by residents of the City.

WATER AND WASTEWATER SYSTEM REVENUE BONDS

The following table sets forth the debt service requirements on the outstanding bonds of the Water and Wastewater System, formerly known as the Waterworks and Sewer System.

Debt Service Requirements
Water & Wastewater System Revenue Bonds [(1)]

Fiscal Year Ending 9/30	Outstanding Bonds Principal	Interest	Total	% of Principal Retired
2013	10,680,000	4,091,176	14,771,176	
2014	10,205,000	3,789,268	13,994,268	
2015	10,150,000	3,445,605	13,595,605	
2016	9,600,000	3,121,565	12,721,565	
2017	8,980,000	2,807,860	11,787,860	40%
2018	8,960,000	2,507,090	11,467,090	
2019	8,545,000	2,198,090	10,743,090	
2020	8,615,000	1,917,491	10,532,491	
2021	7,560,000	1,623,644	9,183,644	
2022	6,795,000	1,360,129	8,155,129	72%
2023	6,795,000	1,133,626	7,928,626	
2024	6,005,000	903,018	6,908,018	
2025	5,115,000	697,228	5,812,228	
2026	5,115,000	521,543	5,636,543	
2027	3,475,000	352,513	3,827,513	94%
2028	2,015,000	234,308	2,249,308	
2029	2,010,000	177,028	2,187,028	
2030	2,005,000	118,455	2,123,455	
2031	830,000	58,100	888,100	
2032	830,000	29,050	859,050	100%
Total	124,285,000	31,086,784	155,371,784	

[(1)] The debt schedule is as of September 30, 2012; it only includes $34,460,000 of the total $38,000,000 of TWBD 2008 Series Bonds. The $34,460,000 is the total amount of installments as of 9-30-12.

Source: City Financial and Management Resources Department

MUNICIPAL DRAINAGE UTILITY FACILITIES SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements on the Bonds of the Municipal Drainage Utility System. There are currently no outstanding Parity Bonds.

Fiscal Year Ended 9/30	Municipal Drainage Utility System Revenue Bonds, Series 2011 Principal	Interest	Total Debt Service Requirements	% of Principal Retired
2013	1,280,000	1,001,600	2,281,600	
2014	1,280,000	963,200	2,243,200	
2015	1,280,000	924,800	2,204,800	
2016	1,280,000	873,600	2,153,600	31.68%
2017	1,280,000	822,400	2,102,400	
2018	1,280,000	771,200	2,051,200	
2019	1,280,000	720,000	2,000,000	
2020	1,280,000	656,000	1,936,000	
2021	1,280,000	604,800	1,884,800	59.66%
2022	1,280,000	553,600	1,833,600	
2023	1,280,000	502,400	1,782,400	
2024	1,280,000	438,400	1,718,400	
2025	1,280,000	374,400	1,654,400	
2026	1,280,000	323,200	1,603,200	
2027	1,280,000	272,000	1,552,000	83.62%
2028	1,280,000	220,800	1,500,800	
2029	1,280,000	168,000	1,448,000	
2030	1,280,000	113,600	1,393,600	
2031	1,280,000	57,600	1,337,600	100.00%
	$ 24,320,000	$ 10,361,600	$ 34,681,600	

Average Annual Debt Service 1,825,347

DALLAS COWBOYS COMPLEX SPECIAL OBLIGATIONS

The following table sets forth the total debt service requirements for the Series 2005A, 2005C Dallas Cowboys Complex Special Obligations and Series 2008 and 2009 Special Tax Revenue Bonds.

Dallas Cowboys Complex Debt Service Requirements
September 30, 2012
Outstanding Bonds

FY Ending 9/30	Principal	Interest	Debt Service
2013	8,000,000	12,632,302	20,632,302
2014	7,710,000	12,265,931	19,975,931
2015	8,070,000	11,904,041	19,974,041
2016	8,530,000	11,519,063	20,049,063
2017	8,570,000	11,092,563	19,662,563
2018	13,235,000	10,683,563	23,918,563
2019	13,815,000	10,064,413	23,879,413
2020	14,455,000	9,417,963	23,872,963
2021	15,300,000	8,729,750	24,029,750
2022	16,240,000	7,912,250	24,152,250
2023	16,995,000	7,044,250	24,039,250
2024	17,860,000	6,136,000	23,996,000
2025	19,035,000	5,181,500	24,216,500
2026	20,030,000	4,163,750	24,193,750
2027	21,035,000	3,092,750	24,127,750
2028	10,430,000	1,968,000	12,398,000
2029	-	1,446,500	1,446,500
2030	-	1,446,500	1,446,500
2031	14,880,000	1,446,500	16,326,500
2032	14,050,000	702,500	14,752,500
2033			-
	$ 248,240,000	$ 138,850,085	$ 387,090,085

Subsequent event – on February 15, 2013 the City called all $10,200,000 of the August 15, 2032 maturity of the series 2005A Bonds, as part of the Special Mandatory Sinking Fund Redemption.

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 Capital Improvement Program is prepared annually and primarily driven by recent bond election results. The City's most recent permanent improvement bond election, totaling $140,825,000, was held on November 4, 2008 with all propositions passing. The propositions on the ballot included $115,735,000 for Public Works; $15,500,000 for Parks; $9,090,000 for Fire; and $500,000 for Libraries. Combined with the authorized but unissued bonds from prior elections, the City has $94,690,000 in unissued permanent improvement bonding authority.

WATER AND WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

The City's Water Utilities Department maintains a program of annually updating its estimate of foreseeable System capital improvements. This is accomplished through the joint efforts of the Operations, Treatment and Business Services Divisions of the Water Utilities Department and independent consulting engineers. The Water Utilities Department annually reviews its proposed Capital Improvement Program with the City Council.

The following table represents the estimated amount of financing needed to meet the proposed Capital Improvement Program for the fiscal years shown.

Water Proposed Capital Improvement Program

Fiscal Year	Planned Capital Expenditures	Texas Water Development Board(1)	Planned Bond Sale	Other Financing Sources(2)
2013	26,838,200	-	9,000,000	17,838,200
2014	35,214,000	-	5,000,000	30,214,000
2015	32,859,000	-	10,000,000	22,859,000

Storm Water Proposed Capital Improvement Program

Fiscal Year	Planned Capital Expenditures	Planned Bond Sale	Other Financing Sources
2013	7,823,000	-	7,823,000
2014	6,780,000	-	6,780,000
2015	6,850,000	-	6,850,000

(1) Texas Water Development Board Clean Water State Revolving Fund loan.
(2) Includes annual budgeted amounts for the water and wastewater main replacement program, cash contributions from the operating fund to the capital fund and remaining bond proceeds.

SECTION THREE: 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.

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, 2011. The City was awarded a Certificate of Excellence for its CAFR for the year ended April 30, 1966 and then annually from 1977 to 2003 and 2005 to 2010. The City has also received GFOA's Award for Distinguished Budget Presentation for fiscal years 1986 through 2012.

ACCOUNTING STANDARDS

The basic financial statements are prepared in conformity with GASB 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 non-major governmental funds.

Proprietary Fund

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

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 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.

Storm Water Fund accounts for the maintenance of the City's storm water system. Activities of the fund include administration, operation and maintenance of the storm water system, and actions to comply with federal and state laws and regulations related to the Clean Water Act. The Fund will also account for the accumulation of resources for, and the payment of, long-term debt principal and interest. All costs are financed through Storm Water fees collected as part of the Water and Wastewater billings.

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 Housing Authority, the Arlington Housing Finance Corporation, the Arlington Convention Center Development Corp., the Arlington Convention and Visitors Bureau, Inc. (dba Experience Arlington), the Arlington Tomorrow Foundation and the Arlington Industrial Development Corporation. The component unit, Arlington Property Finance Authority, Inc., has been blended with those of the City because (i) its governing body is substantially the same as the governing body of the City or (ii) the component unit provides services entirely to the City.

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, Capital Project Funds, the Enterprise Funds, and the Debt Service Funds.

Summaries for fiscal years 2008 to 2012 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 Ending September 30
(amounts in thousands)

	2012	2011	2010	2009	2008
Beginning Fund Balance	$66,775	$66,567	$58,281	$56,189	$60,346
Revenues					
Ad Valorem Taxes	74,279	72,801	79,521	80,385	77,829
Sales Tax	50,725	48,382	45,884	45,362	46,009
Other Taxes	1,154	1,633	1,945	2,484	1,463
Franchise Fees (1)	25,600	27,260	25,769	25,038	25,994
Service Charges	5,355	6,904	5,091	4,371	4,386
Interest	2,168	2,009	809	1,854	3,299
All Other	30,875	30,281	31,025	27,850	23,373
Total Revenues	$ 190,156	$ 189,270	$ 190,044	$ 187,344	$ 182,353
Expenditures					
Total Expenditures	$ 198,279	$ 189,505	$ 186,835	$ 191,612	$ 190,713
Net Revenues Over (Under) Expenditures	$ (8,123)	$ (235)	$ 3,209	$ (4,268)	$ (8,360)
Other Financing Sources					
Issuance of Capital Leases				-	-
Operating Transfers	4,845	443	5,077	6,360	4,203
Ending Fund Balance	$ 63,497	$ 66,775	$ 66,567	$ 58,281	$ 56,189

(1) Prior to FY 2008, Franchise fees received from Water & Wastewater System were included in Franchise Fees. Beginning in FY 2008, they are included in Operating Transfers.

Source: Fiscal Year 2012 CAFR

The following table presents a comparison of the City's General Fund balance for fiscal years 2008 to 2012.

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

General Fund Balance:	2012	2011	2010	2009	2008
Nonspendable:					
Inventory	$ 1,252	$ 1,228	$ 1,163	$ 583	$ 600
Prepaids	16	16	-	252	2
Committed to:					
Utility Rate Case	500	500	500	500	500
Capital Projects		1,122			
Assigned to:					
Encumbrances	7,766	5,613	4,316	3,780	6,074
Working Capital	16,745	16,054	16,218	16,219	16,512
Subsequent Years' Expenditures	6,378	5,944	5,839	5,839	5,944
Arbitrage			75	193	288
Compensated Absences	1,252	1,252	1,312	1,464	1,556
Other Post Employment Balances	1,718	1,718	1,718	1,718	1,718
Future Initiatives	21,487	21,487	21,487	21,487	21,487
Infrastructure			-	-	1,000
Dispatch	566	380	422	137	-
Group Health		-	3,001	2,446	-
Information Technology	607	774			
Business Continuity	5,155	4,538	6,889	-	-
Other Purposes	55	56			
Unassigned		6,093	3,627	3,663	508
Total General Fund Balance	$ 63,497	$ 66,775	$ 66,567	$ 58,281	$ 56,189
General Fund Balance as a Percentage of General Fund Expenditures	32.02%	35.24%	35.63%	30.42%	29.46%

Source: Fiscal Year 2012 CAFR

DEBT SERVICE FUND BUDGET
Fiscal Year 2013

Beginning Fund Balance	$ 4,550,108
Property Tax Revenue	36,580,091
Interest Revenue	123,044
Transfers In [(1)]	4,220,087
Total Available for Debt Service	45,473,330
Debt Service Expenditures	(41,269,417)
Estimated Ending Fund Balance	$ 4,203,913

[(1)] Includes transfers to the Debt Service Fund from the Convention and Event Service Fund, Park Performance Fund, TIRZ5, TIRZ4, Airport General Gas Lease Fund, and Water and Wastewater Fund.

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Source: Financial & Management Resources

CURRENT OPERATING BUDGET

On September 18, 2012, the City Council adopted a total Budget for fiscal year 2013 with expenditures of $396,498,719. The adopted General Fund Budget reflects a property tax rate of $0.6480/$100.

The adopted Budget for fiscal year 2013 maintains core services levels and programs within tight financial constraints. There is a 3% employee pay increases included in the adopted budget.

The adopted Budget authorizes City government personnel of 2,474 full-time positions, an increase of eight positions from the fiscal year 2012 budget.

The following table shows the City's estimated revenues and budgeted expenditures for fiscal year 2013, as reported in the adopted Budget.

Estimated Revenues and Budgeted Expenditures
Fiscal Year 2013 Budget [(1)]

		FY13 Budget	% FY 13 Budget
REVENUES			
	Property Taxes	76,830,111	19%
	Sales Tax	52,159,077	13%
	Other Taxes	1,700,211	0%
	Licenses and Permits	5,049,879	1%
	Utility Franchise Fees	35,270,670	9%
	Fines and Forfeitures	16,460,491	4%
	Leases and Rents	5,791,257	1%
	Service Charges	11,907,167	3%
	Miscellaneous Revenues	1,694,923	0%
	Water and Sewer Fund Revenues	117,533,501	29%
	Storm Water Utility Fund	10,350,383	3%
	Convention & Event Services Fund Rev	8,515,266	2%
	Debt Service Fund	36,703,135	9%
	Street Maintenance Fund	13,155,531	3%
	Park Performance Fund	9,250,996	2%
	Total Revenues	$ 402,372,598	100%
EXPENDITURES			
	Neighborhood Services	154,939,997	39%
	Capital Investment and Econ. Development	18,653,351	5%
	Strategic Support	25,299,726	6%
	Policy Administration	6,229,478	2%
	Water and Sewer Fund	101,652,817	26%
	Storm Water Utility Fund	5,559,457	1%
	Convention & Event Services Fund	6,753,708	2%
	Park Performance Fund	11,181,277	3%
	Street Maintenance Fund	24,959,491	6%
	Debt Service	41,269,417	10%
	Transfers (Net)		0%
	Total Expenditures	$ 396,498,719	100%

[(1)] All funds combined. Excludes interfund transfers.
Source: Fiscal Year 2013 Budget

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.

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 2013, the Council levied a tax rate equal to $0.6480 per $100 assessed valuation of which $0.2057 was allocated to pay debt service on outstanding tax-supported Bonds and notes. See "Tax Rate Distribution."

Truth-in-Taxation Limitation

The effective tax rate is the rate that will produce the same amount of operating revenue that the City levied the prior year on the same property. If the tax rate adopted for the next succeeding fiscal year exceeds the effective tax rate by more than eight percent, the qualified voters of the City may petition for an election to determine whether to limit the increase of the tax rate to no more than eight percent. The City is required to hold public hearings to permit voter discussion should the proposed tax rate levy taxes in excess of the amount levied the prior fiscal year.

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 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 2013 tax rolls reflect the Council granting persons 65 years of age and older, disabled persons and disabled veterans exemptions totaling $969,555,561.

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 2013 tax roll, which totaled $1,763,493,460, or 19.60 percent of the FY 2013 taxable valuation of appraised value of all residential real estate. In addition, $66,274,841 of value was reduced from the FY 2013 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 2013 tax roll reveals a value loss of $9,410,286 due to scenic deferrals.

Chapter 312 of the Property 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 2013 tax roll is $34,095,479. A schedule of abated values for the FY 2013 by property owners is as follows:

Property Owner	FY13	FY12	FY11	FY10	FY09
Pioneer 360	13,018,529				
Siemens Dematic	12,635,409	15,077,027	16,372,593	24,964,845	24,249,245
Americredit		15,756,219	16,128,873	31,967,050	36,023,354
General Motors		-	15,325,278	74,857,446	146,363,100
Primera		-	1,791,920	2,128,040	2,505,920
Lear Corporation		-	1,756,356	2,178,606	2,958,284
A E Petsche Property Inc		1,144,827	1,127,001	1,287,096	-
Pratt & Whitney Engine Service	3,051,661	411,662	516,618	2,478,548	-
Transnorm System Inc	152,607	146,247	130,154	124,269	-
MCR Oil Tools	413,966	413,966	-	-	-
Progressive Inc	4,823,307	5,163,797	-	-	-
Total	$ 34,095,479	$ 38,113,745	$ 53,148,793	$ 139,985,900	$ 212,099,903

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 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 appraised value subject to exemption for the FY 2013 tax roll was $874,076,077, with $416,287,809 actually exempted.

Tax Increment Financing Districts

The TIF Districts have a nine-member board of directors, five appointed by the City of Arlington and four members appointed by the other taxing jurisdictions. The board of directors prepares and adopts project plans and reinvestment zone financing plans for the TIF Districts and submit such plans to the City for its approval.

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. The TIF District 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 tax increment base will be the total net appraised value of all taxable property located in the reinvestment zone on January 1, 1998. All eligible tax jurisdictions are participating for the full amount of their maintenance and operations portion of their respective tax rates. The City's tax increment payment for FY12 was $199,517.

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. The TIF District took effect on January 1, 2006 and was dissolved by the City Council on March 27, 2007. TIF District #2 was replaced by TIF 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. The TIF District took effect on January 1, 2006 and was terminated on September 2, 2008 by Ordinance Number 08-070.

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. The TIF District took effect on January 1, 2005 and will terminate on December 31, 2025. The tax increment base will be the total net appraised value of all taxable property located in the reinvestment zone on January 1, 2005. All eligible tax jurisdictions except AISD are participating for varying percentages of their respective tax rates. The City's tax increment payment for FY12 was $748,990. The City sold $5,755,000 in Certificates of obligation in June, 2010 for TIF District # 4.

The City Council adopted an ordinance on December 19, 2006, establishing a tax increment financing district (the "TIF District #5") encompassing 2,187 acres generally defined by Lamar Boulevard to the north, the Missouri Pacific Railroad to the south, State Highway 360 to the east and Collins Street to the west. TIF District # 5 took effect on January 1, 2007 and will terminate on December 31, 2036. The tax increment base will be the total net appraised value of all taxable property located in the reinvestment zone on January 1, 2007. All eligible tax jurisdictions except AISD are participating for varying percentages of their respective tax rates. The City's tax increment payment for FY12 was $307,391. $34,010,000 in Certificates of Obligation were sold for TIF District # 5 in July 2008.

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. TIF District # 6 took effect on January 1, 2007 and will terminate on December 31, 2036. All taxing entities except AISD and HEBISD are participating, with TCCD beginning in year 5. The City's tax increment payment for FY12 was $298,803.

Appraisal of Taxable Property

The Property Tax Code established a county-wide appraisal district in each county of the State. Each appraisal district assumed 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. 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 the appraisal district. 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 2013 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 Mayor and City Council are responsible for setting the rate, levying and collecting the taxes. All taxable property in the City was valued on the City's tax roll at 100 percent of its estimated market value as of January 1, 2012 for FY13. 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 11.621. 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 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 67,007 residential homestead properties in FY 2013 and 16,301 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 1.26 percent per year over the last five years.

Principal Tax Revenue by Source
(Amounts in thousands)

FY Ending 9/30/13	General Fund Ad Valorem Taxes	General Fund Sales Tax	Other Taxes	Hotel Occupancy Tax	Franchise Fees	Total
2008	77,829	46,009	1,463	6,909	25,994	158,204
2009	80,150	45,873	1,242	6,291	31,234	164,790
2010	79,521	45,884	1,945	6,706	25,769	159,825
2011	77,764	48,982	1,545	7,889	34,352	170,531
2012	74,279	50,725	1,154	7,859	32,296	166,314

Source: City Financial and Management Resources Department

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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 $2,789,613,899 for FY13, are not included in the table. The Tarrant Appraisal District certified appraisal of taxable property less exemptions for FY13 is $17,677,641,683. This value is obtained from the certified taxable value as of September of each year including minimum estimated value of property under protest.

Historical Estimated Taxable Value [(1)]
Fiscal Years 2009 to 2013

FY Ending 09/30	Taxable Value Real Property	% Change from Prior Year	Taxable Value Personal Property	% Change from Prior Year	Taxable Value Mineral Property	% Change from Prior Year	Total Estimated Taxable Value	% Change from Prior Year
2008	15,289,634,220	n/a	2,322,418,586	n/a	-	n/a	17,612,052,806	n/a
2009	15,822,327,910	3.48	2,452,815,967	5.61	1,942,310	n/a	18,277,086,187	3.78
2010	15,594,948,319	(1.44)	2,518,615,655	2.68	137,540,700	6981.29	18,251,104,674	(0.14)
2011	14,790,032,598	(5.16)	2,248,799,281	(10.71)	140,280,430	1.99	17,179,112,309	(5.87)
2012	14,759,648,148	(0.21)	2,166,757,467	(3.65)	397,038,390	183.03	17,323,444,005	0.84
2013	15,021,327,851	1.77	2,289,771,862	5.68	366,541,970	(7.68)	17,677,641,683	2.04

(1) Real and personal property is assessed at 100 percent of fair market value. Total estimated taxable value excludes abated value.

Source: City Financial and Management Resources Department

Tax Rate Distribution
Fiscal Years 2009 to 2013

	2013	2012	2011	2010	2009
General Fund	0.4423	0.4393	0.4330	0.4467	0.4467
Debt Service Fund	0.2057	0.2087	0.2150	0.2013	0.2013
Total	0.6480	0.6480	0.6480	0.6480	0.6480

Collection Ratios
Fiscal Years 2009 to 2013

				% Collected [(2)]	
FY Ending 09/30	Estimated Net Taxable Value [(1)]	Tax Rate	Calculated Levy	Current Year	Prior Years
2009	18,277,086,187	0.648000	118,435,518	98.24	100.00
2010	18,251,104,674	0.648000	118,267,158	97.87	99.39
2011	17,179,112,309	0.648000	111,320,648	98.00	99.80
2012	17,323,444,005	0.648000	112,255,917	98.13	99.46
2013	17,677,641,683	0.648000	114,551,118	-	-

(1) Estimated 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.
Source: City Financial and Management Resources Department

Analysis of Delinquent Taxes
as of September 30, 2012

FY Ending 9/30	Tax Levy	Uncollected	Percentage of Levy
2002 and Prior	85,674,820	1,197,156	N/A
2003	90,940,968	217,639	0.24%
2004	97,321,335	251,288	0.26%
2005	101,083,596	243,787	0.24%
2006	104,610,406	193,907	0.19%
2007	108,821,392	196,180	0.18%
2008	114,126,102	222,063	0.19%
2009	118,435,518	311,871	0.26%
2010	118,267,158	403,035	0.34%
2011	111,320,648	420,715	0.38%
2012	112,255,917	917,054	0.82%
	Total	**4,574,694**	

Source: City Financial and Management Resources Department

Tax Base Distribution
Fiscal Years 2009 to 2013

	2013	2012	2011	2010	2009
Residential	58.65%	59.02%	59.53%	61.82%	61.12%
Commercial, Industrial, Retail	37.70%	37.04%	37.98%	39.59%	36.99%
Mineral	2.07%	2.29%	0.82%	0.75%	0.01%
Undeveloped	2.06%	2.16%	2.29%	2.11%	1.88%

Source: City Financial and Management Resources Department

Top Ten Taxpayers

Name	Total Taxable Value
General Motors Corp.	191,807,656
Oncor Electric Delivery	148,816,934
Parks @ Arlington	143,172,642
Chesapeake Operating	117,250,070
Arlington Highlands	115,938,650
Carrizo Oil & Gas	86,003,570
Six Flags Fund	78,075,742
Barnett Shale Operating	72,246,900
Lincoln Square Dunhill	68,253,352
Wal-Mart Real Estate Bus	64,579,715
Total	1,086,145,231

Source: Tarrant County Tax Office

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 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.

Per Capita Sales Tax Collection

Fiscal Year	Sales Tax Receipts	Ad Valorem Tax Levy	Sales Tax as a % of Tax Levy	Population Estimate	Per Capita Sales Tax Collection
2008	46,008,765	113,784,966	40	364,300	126
2009	45,873,000	118,435,518	39	369,150	124
2010	46,875,684	118,267,158	40	365,438 (1)	128
2011	48,982,079	111,320,648	44	365,530 (2)	134
2012	50,724,512	112,255,917	45	365,860	139

(1) 2010 Census population.

(2) Revised from 365,930

Source: City Financial and Management Resources 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(b) 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 Dallas Cowboys Complex Development 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**.

A portion of the Series 2005 Refunding Bonds, originally 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:

Fiscal Year	Hotel Occupancy Tax Receipts
2008	5,390,793
2009	4,834,785
2010	5,220,210
2011	6,065,421
2012	6,102,269

Source: City Financial and Management Resources 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 Dallas Cowboys Complex Development Project (the "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 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 came 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. 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. In December 2009 the City issued $112,185,000 in Special Tax Revenue Bonds to refund $104,265,000 of the $164,265,000 Dallas Cowboys Complex Special Obligations, Series 2005B and in May 2009 the City issued $62,820,000 to refund the remaining $60,000,000 of Series 2005B bonds. The refunding was done as a result of the market liquidity restrictions and the economic downturn in 2008, which adversely affected the debt service costs for the Series 2005B bonds. On February 15, 2011, the City called $26,000,000 of the August 15, 2034 Series 2005A Term Bonds for redemption. On August 15, 2011 the City called $1,500,000 of these bonds for redemption. On February 15, 2012, the City called an additional $7,700,000 of these bonds for redemption. These calls were mandated as part of the Special Mandatory Sinking Fund Redemption requirements.

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 of Texas 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 Cowboy Complex
Project Revenues and Debt Service Coverage

FY	Sales Tax	Motor Vehicle Rental Tax	Hotel Tax	Naming Rights	Rent	Total Revenues	Debt Service [1]	Coverage
2005	$ 10,199,454	$ 366,959	$ 730,787	$ -	$ -	$ 11,297,200	$ -	
2006	22,070,968	793,711	1,360,672	-	-	24,225,351	12,109,563	2.00 X
2007	22,653,714	781,397	1,459,619	-	-	24,894,730	12,109,563	2.06 X
2008	23,486,334	726,384	1,517,390	-	-	25,730,108	14,244,004	1.81 X
2009	23,122,330	597,408	1,376,441	-	666,667	25,762,846	27,842,248	0.93 X
2010	23,610,462	578,274	1,485,956	-	2,000,000	27,674,692	22,405,028	1.24 X
2011	24,704,639	630,567	1,872,982	-	2,000,000	29,208,188	21,755,028	1.34 X
2012	25,576,155	670,165	1,757,222	-	2,000,000	30,003,541	21,033,965	1.43 X
	$175,424,055	$ 5,144,864	$ 11,561,069	$ -	$ 6,666,667	$198,796,655	$ 131,499,398	

[1] 2009 Debt Service included $11,000,000 in swap termination fees which were paid from excess revenues.

FINANCIAL INFORMATION CONCERNING THE WATER AND WASTEWATER SYSTEM

WATER AND WASTEWATER RATES

The Council is authorized by its home rule charter and by laws of the State of Texas to establish and to amend rates charged for water and wastewater service. Rates fixed by the Council for domestic application are not subject to review by any other regulatory agency.

In August 2003, the City Council approved transitioning to a phased cost of service rate methodology and the introduction of conservation rate blocks. In order to minimize the impact to rate payers of implementing a full cost of service rate structure, cost of service rates were phased in over a five-year period, which began with fiscal year 2004. The two components of the rate structure are a fixed monthly charge based upon meter size and a commodity charge per 1,000 gallons used.

A separate fixed monthly fee scale was established for residential class customers with ¾-inch meters whose water and wastewater use is less than 2,000 gallons per month. The fixed charge, for meter sizes other than ¾-inch, increases with meter size to recognize the additional demands that large meter installations place on the system.

The water commodity charge is designed to encourage customers to efficiently use water. The commodity charge increases with higher volumes of water usage for both residential and commercial class customers. Unlike the variable water commodity rate, the wastewater commodity rate per 1,000 gallons is a flat rate for all account classifications that will not change based on usage. Beginning in fiscal year 2004, the 2,000 gallon volume credit was removed from the wastewater fixed monthly charge.

CITY OF ARLINGTON WATER UTILITIES
FIXED MONTHLY FEE
Effective October 1, 2012

Meter Size	Water	Wastewater
3/4" (≤2,000 gal)	$ 5.00	$ 4.20
3/4" (≥3,000 gal)	8.57	8.05
1"	15.00	14.09
1 1/2"	34.28	32.20
2"	59.99	56.35
3"	140.16	86.10
4"	224.98	149.31
6"	523.07	341.02
8"	819.67	537.70
10"	1,231.24	806.50

CITY OF ARLINGTON WATER UTILITIES
CONSERVATION RATES BLOCK STRUCTURE
Effective October 1, 2012

RESIDENTIAL

Usage (1,000 gal)	Water	Wastewater
0 – 2	$1.42	$3.33
3 - 10	2.02	3.33
11 - 15	2.98	3.33
16 - 29	3.44	3.33
≥ 30	4.11	3.33

COMMERCIAL

Usage (1,000 gal)	Water	Wastewater
0 - 15	$2.09	$3.33
≥ 16	2.40	3.33

IRRIGATION

Usage (1,000 gal)	Rate
0 - 29	$3.44
≥ 30	4.11

CONSTRUCTION

Usage (1,000 gal)	Rate
0 - 99	$4.78
≥ 100	6.03

Historical Rate Adjustments

Changes in revenue requirements during the past twenty years have resulted in the following changes in rates for the average residential customer. An average residential customer uses 10,000 gallons of water. Until December 1988, they were also billed for up to 12,000 gallons of wastewater flows. At that time, the wastewater maximum for residential customers was reduced to 9,000 gallons. Since March 1990, wastewater flows have been based on average winter water consumption. Each residential customer's maximum wastewater flows are calculated according to their water use during the billing periods of December through March. The overall system winter average for a residential customer is approximately 6,000 gallons.

Rate Changes by Percent
Last Ten Fiscal Years
Average Residential Customer
Using 10,000 Gallons Water and 6,000 Gallons Wastewater

Fiscal Year	Water	Wastewater	Total
2004	(8.4)	48.5	10.7
2005	2.6	3.4	2.9
2006	0.0	4.1	1.9
2007	(1.1)	10.2	4.2
2008	6.6	3.1	4.8
2009	10.2	9.5	9.9
2010	0.6	2.7	1.6
2011	2.8	3.5	3.2
2012	0.1	1.8	0.9
2013	0.0	0.2	1.2

Source: City Water Utilities Department

Operating Reserve

The current policy, authorized by the City Council, requires the operating reserve to equal a minimum of 60 days of the proposed operating and maintenance expense budget, excluding debt service (Resolution No. 11-363). Additionally, the reserve can be increased to a 60 day level using excess unbudgeted revenues, if available. The reserve fund balance as of September 30, 2012 was $14,422,129, which equals 60 days of operating and maintenance expense.

HISTORICAL FINANCIAL INFORMATION

The following three tables present five-year historical information and selected financial ratios for the System. Unless otherwise noted, all information is from the City's Comprehensive Annual Financial Report. Selected amounts and ratios in the tables are unaudited as noted. The tables are titled Water and Wastewater Statement of Net Assets, Historical Net Revenues Available for Debt Service, and Historical Net Revenues of the System and Financial Ratios.

WATER AND WASTEWATER SYSTEM STATEMENT OF NET ASSETS
Fiscal Year Ended September 30
(amounts in thousands)

Assets	2012	2011	2010	2009	2008
Cash and cash equivalents	$ 12,650	$ 13,033	$ 12,452	$ 12,077	$ 12,231
Receivable (net of allowances for uncollectibles)	15,063	17,997	15,875	14,401	13,931
Inventory of supplies, at cost	412	461	420	460	496
Restricted assets:					
Bond contingency	13,440	12,198	11,497	11,847	9,838
Capital/Bond construction	72,657	68,690	46,054	37,397	35,712
Meter deposits	4,973	4,904	4,853	4,888	4,880
Property, plant and equipment less accumulated depreciation	582,724	558,815	553,386	536,132	512,669
Total Assets	$ 701,919	$ 676,098	$ 644,537	$ 617,202	$ 589,757
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued liabilities	$ 3,402	$ 3,311	$ 3,387	$ 5,077	$ 4,965
Payable from restricted assets	15,031	11,650	12,628	15,138	15,719
Accrued compensated absences	-	-	-		
Current	133	147	105	147	137
Non Current/Long Term	1,534	1,311	1,638	1,698	1,779
Revenue bonds, net of discount, payable from unrestricted assets	119,057	113,287	106,981	97,077	89,347
Total Liabilities	$ 139,157	$ 129,706	$ 124,739	$ 119,137	$ 111,947
Net Assets/Equity:					
Invested in Capital Assets	$ 522,753	$ 501,255	$ 487,100	$ 470,889	$ 453,210
Restricted	18,655	19,706	10,140	10,310	9,753
Unrestricted	21,354	25,431	22,558	16,866	14,847
Total Assets/Equity	$ 562,762	$ 546,392	$ 519,798	$ 498,065	$ 477,810
Total Liabilities and Net Assets/Equity	$ 701,919	$ 676,098	$ 644,537	$ 617,202	$ 589,757

HISTORICAL NET REVENUES AVAILABLE FOR DEBT SERVICE
Fiscal Year Ended September 30
(Amounts in thousands)

Revenues	2012	2011	2010	2009	2008
Water Sales	$ 61,937	$ 70,339	$ 57,459	$ 57,685	$ 54,312
Wastewater Service	47,999	48,076	44,890	45,749	42,208
Interest Income	375	565	889	120	3,388
Other Income	4,783	4,543	5,451	4,790	5,804
Total Revenues	$ 115,094	$ 123,523	$ 108,689	$ 108,344	$ 105,712
Expenses					
Labor Costs	$ 13,955	$ 13,039	$ 13,085	$ 13,464	$ 12,959
Supplies	3,448	3,264	2,955	4,077	3,576
Maintenance	3,508	3,487	2,780	3,300	2,779
Water Supply (The District)	17,931	16,531	13,676	13,082	11,782
Wastewater Treatment Contracts	23,979	23,987	20,873	22,126	19,606
Utilities	3,183	3,088	3,162	3,181	3,562
Other Expenses (1)	11,899	15,321	4,199	4,177	3,962
Total Operating Expenses Before Depreciation	$ 77,903	$ 78,717	$ 60,730	$ 63,407	$ 58,226
Net Revenues of the System	$ 37,191	$ 44,806	$ 47,959	$44,937	$47,486
Interest During Construction Included Above	(95)	(129)	(98)	(349)	(1,192)
Net Revenues Available for Debt Service	$ 37,096	$ 44,677	$ 47,861	$ 44,588	$ 46,294
Debt Service Paid (2)	$ 14,250	$ 14,804	$ 13,990	$ 13,926	$ 12,422
Debt Service Coverage (times)	2.60 x	3.02 x	3.42 x	3.20 x	3.73 x
Debt Service Requirements Paid From					
Surplus Net Revenues (3)			-	-	-

(1) Beginning in 2008 Franchise Fees were not included in Other Expenses.

(2) Excludes TRA Revenue Bonds, accrued interest from bond sales, and refundings or cash defeasances.

(3) Unaudited

HISTORICAL NET REVENUES OF THE SYSTEM AND FINANCIAL RATIOS
Fiscal Year Ended September 30
(Amounts in thousands)

	2012	2011	2010	2009	2008
Gross Operating Revenues	$ 115,094	$ 123,523	$ 108,689	$108,224	$102,324
Interest Revenues (Excluding Interest During Construction)	280	436	791	(229)	2,196
Operating Expenses Before Depreciation (1)	77,903	78,717	60,730	63,407	58,226
Net Revenues Available for Debt Service	$ 37,471	$ 45,242	$ 48,750	$ 44,588	$ 46,294
Average Annual Debt Service	$ 7,011	$ 7,012	$ 7,013	$ 7,119	$ 6,486
Average Annual Debt Service Coverage (times) (2)	4.82 x	5.90 x	6.95 x	6.26 x	7.14 x
Accounts Receivable to Gross Operating Revenues (%)	13.09%	14.57%	14.61%	13.31%	13.61%
Unrestricted Cash to Unrestricted Current Liabilities (times) (2)	2.60 x	3.02 x	3.42 x	3.20 x	3.73 x
Unrestricted Current Assets to Unrestricted Current Liabilities (times) (2)	7.96 x	9.11 x	8.23 x	5.16 x	5.23 x
Long-term Debt to Net Plant (%)	19%	19%	20%	17%	17%

(1) Beginning in 2008 Franchise Fees were not included in Other Expenses.

(2) Unaudited.

(3) Revenue Bonds payable excluded from unrestricted current liabilities.

MUNICIPAL DRAINAGE UTILITY SYSTEM CONDENSED SCHEDULE OF OPERATIONS

The following two tables present five-year historical information and coverage and fund balances for the System. Unless otherwise noted, all information is from the City's Comprehensive Annual Financial Report.

	Fiscal Years Ended September 30,				
	2012	**2011**	**2010**	**2009**	**2008**
Revenues					
Service Charges	$10,536,000	$10,492,000	$ 8,702,000	$ 6,920,000	$ 4,913,000
Interest Revenue	99,000	173,000	104,000	120,000	163,000
Net Increase (decrease) in the fair value of investments	(6,000)	12,000	3,000	3,000	2,000
Other Income					
Total Revenues	$10,629,000	$10,677,000	$ 8,809,000	$ 7,043,000	$5,078,000
Expenses					
Salaries and Wages	1,576,000	1,543,000	1,190,000	1,139,000	-
Employee's Retirement	253,000	-	193,000	149,000	-
Supplies	55,000	63,000	41,000	30,000	-
Maintenance and Repairs	345,000	279,000	176,000	113,000	-
Utilities	8,000	8,000	-	1,000	2,288,000
Miscellaneous Services	637,000	762,000	758,000	622,000	-
Total Operating Expenses Before Depreciation	$ 2,874,000	$ 2,655,000	$ 2,358,000	$ 2,054,000	$2,288,000
Net Revenues of the System	7,755,000	8,022,000	6,451,000	4,989,000	2,790,000
Transfers in/(out)	(508,000)	(652,000)	(520,000)	3,562,000	202,000
Capital Outlay	-	-	(1,514,000)	(1,351,000)	(1,969,000)
Net Remaining Revenues Available for Debt Service	$ 7,247,000	$ 7,370,000	$ 4,417,000	$ 7,200,000	$1,023,000
Debt Service Paid	2,452,899				

TABLE 5 –COVERAGE

Maximum Principal and Interest Requirements, 2013	$ 2,281,600
Coverage of Maximum Requirements by Fiscal Year End Revenues	4.66X
Average Principal and Interest Requirements, 2012-2031	$ 1,825,347
Coverage of Average Requirements by Fiscal Year End Revenues	5.82X

PENSION AND EMPLOYEE BENEFIT PLANS

Texas Municipal Retirement System

Plan Description:

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 847 administered by TMRS, an agent, multiple-employer public employee retirement system. Each of the municipalities has an annual individual actuarial valuation performed. All assumptions for the December 31, 2011 valuations are contained in the 2011 TMRS comprehensive Annual Financial Report (CAFR), a copy of which may be obtained by writing to P.O. Box 149153, Austin, Texas 78714-9153 or accessing the CAFR on line at www.tmrs.com.

Benefits depend upon a 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 200 percent of 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. Additionally, initiated in 1998, the City provides on an annually repeating basis annuity increases for retirees. In 2012, that amount was equal to 50% of the change in the consumer price index (CPI).

Members can retire at age 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. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. The contribution rate for the employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City.

Funding Policy:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. The rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City discloses the annual pension costs (which equal the required contributions) based on the calculated rates for the City's fiscal year. The rate is 17.16% of covered payroll for the months in calendar year 2011, and 16.77% for the months in calendar year 2012. This rate consists of the normal cost contribution rate and the prior service contribution rate. The normal cost contribution rate finances the currently accruing monetary credits due to 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 for the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded actuarial liability. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2010 valuation is effective of rates beginning January 1, 2012). If a change in plan provisions is elected by the City, this rate can change.

Annual Pension Cost and Net Pension Obligation:

The City's annual pension cost of $25,111,256 was $35,811 lower than the City's contributions.

Annual required contribution (ARC)	$ 24,937,133
Interest	1 ,240,201
Adjustment to the ARC	(1,066,079)
Annual pension cost (expense)	25,111,256
Contribution made	25,147,067
Increase (decrease) in net pension obligation	(35,811)
Net pension obligation beginning of year	17,717,160
Net pension obligation end of year	$ 17,681,349

Three-Year Trend Information

Fiscal Year	Annual Pension Cost	Percentage of APC Contribution	Net Pension Obligation (Asset)
2012	$ 25,111,256	100%	$ 17,681,349
2011	$ 28,051,791	87.70%	$ 17,717,160
2010	$ 30,917,593	77.43%	$ 14,266,151

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets in increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Changes in Actuarial and Amortization Methods:

Since its inception, TMRS has used the Unit Credit actuarial funding method. This method accounts for liability accrued as the valuation date, but does not project the potential future liability of provisions adopted by the City. Two-thirds of the cities participating in TMRS have adopted the Updated Service Credit and Annuity Increases provisions on an annually repeating basis. For the December 31, 2007 valuation, The TMRS Board determined that the Projected Unit Credit (PUC) funding method should be used, which facilitates advance funding for future updated service credits and annuity increases that are adopted on an annually reporting basis. In addition, the Board also adopted a change in the amortization period from a 25-year "open" to a 25-year "closed" period. TMRS Board of Trustee rules provide that, whenever a change in actuarial assumptions or methods results in a contribution rate increase in an amount greater than .5%, the amortization period will be increased to 30 years, unless a city requests that the period remain at 25 years. The statutes further provide that plan members may request up to a forty year amortization period. For cities with repeating features, these changes would likely result initially in higher required contributions and lower funded ratios; however, the funded ratio should show steady improvement over time. To assist in this transition to higher rates, the Board also approved an eight-year phase-in period, which will allow cities the opportunity to increase their contributions gradually (approximately 12.5% each year) to their full rate (or their required contribution rate).

Funding Status and Funding Progress:

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial 53 experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 31, 2010 TMRS Comprehensive Annual Financial Report (CAFR).

As of December 31, 2011, the most recent actuarial valuation date, the plan was 84.8 percent funded. The actuarial accrued liability for benefits was $868,504,849, and the actuarial value of assets was $736,848,666, resulting in an unfunded actuarial accrued liability (UAAL) of $131,656,183. The covered payroll (annual payroll of active employees covered by the plan) was $149,939,786, and the ratio of the UAAL to the covered payroll was 87.8%.

Actuarial Methods and Assumptions:

A summary of actuarial assumptions is as follows:

Actuarial valuation date	12/31/2011
Actuarial cost method	Projected Unit Credit
Amortization method	Level percent of payroll
Remaining amortization period	26.1 years (closed)
Asset valuation method	Amortized cost
Investment rate of return	7.0 percent
Projected salary increases	Varies by age and service
Payroll growth	3 percent
Withdrawal rate (low, mid or high) for male/female	Mid-High/Mid-High
Inflation rate	3 percent
Cost of living adjustments	1.5 percent

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, 2012, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was $128,203,000.

The City's total payroll during fiscal 2012 was $155,192,000. The current year contribution was calculated based on a covered payroll of $89,874,000, resulting in a required and actual employer contribution of $2,433,000 and actual employee contributions of $5,737,000. The employer contribution represents 2.70 percent of the covered payroll. The employee contribution represents approximately 6.40 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2012. 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.

As of July 1, 2012, the most recent actuarial valuation date, the plan was 119.0 percent funded. The actuarial accrued liability for benefits was $2,000,068, and the actuarial value of assets was $2,380,534, resulting in an excess funded actuarial accrued liability (EAAL) of $380,466. The covered payroll (annual payroll of active employees covered by the plan) was $2,916,821, and the ratio of the EAAL to the covered payroll was 13.1 percent.

The contribution rate for employees is 3 percent, and the City's actuarially determined matching percent is zero for fiscal year 2012, however a rate of .5 percent was chosen to provide a cushion for future adverse experience (particularly investment experience, which can be volatile). For fiscal year 2013, the contribution rate required is .5 percent. The City's required contribution rate was determined as part of the July 1, 2012, actuarial valuation (the most recent actuarial valuation) using the aggregate cost method, which does not identify or separately amortize unfunded actuarial liabilities. Under this method the City's contribution rate is equal to the level percentage of future pay that is equivalent to the present value of future benefits less the plan assets.

The actuarial assumptions used in the July 1, 2012 actuarial valuation included were (a) 5.50 percent investment return, (b) no inflation rate adjustment, and (c) 3.50 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 the month end price, the last available price, or the last available activity. Because the assets of the plan exceed the actuarial liability, amortization of the unfunded liability is discontinued and the contribution required for the plan was developed under the aggregate cost method. This method does not identify or separately amortize unfunded actuarial accrued liabilities; the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

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

Fiscal Year Ending	Annual Pension Cost (APP)	Percentage of ARC Contributed	Net Pension Obligation
9/30/2012	$ 15,000.00	100%	-
9/30/2011	$ 75,000.00	100%	-
9/30/2010	$ 81,000.00	100%	-

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.

City contributions for the above plans for the year ended September 30, 2012, are as follows (amounts in Thousands):

TMRS	$ 25,147
THRIFT	2,433
PTDIT	15
	$ 27,595

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. Since the City does not administer these plans, these plans are not included in the City's financial statements.
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 and for the year-ended September 30, 2012 (amounts in thousands):

	Net Assets		
	Part-Time Deferred Income Trust	Thrift Savings Plan	Total
ASSETS			
Investments	$ 2,451	$ 128,203	$ 130,654
Total Assets	2,451	128,203	130,654
NET ASSETS, Held in Trust for Pension Benefits	$ 2,451	$ 128,203	$ 130,654

	Changes in Net Assets		
	Part-Time Deferred Income Trust	Thrift Savings Plan	Total
ADDITIONS			
Employer contributions	$ 15	$ 2,433	$ 2,448
Employee contributions	90	5,737	5,827
Net appreciation in fair value of investments	277	20,884	21,161
Total Additions	382	29,054	29,436
DEDUCTIONS			
Benefits	(86)	(9,476)	(9,562)
Plan administration	(36)	(60)	(96)
Total Deductions	(122)	(9,536)	(9,658)
Increase in Net Assets	260	19,518	19,778
NET ASSETS, October 1	2,191	108,685	110,876
NET ASSETS, September 30	$ 2,451	$ 128,203	$ 130,654

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, a fiduciary fund of the City.

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 value 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, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits:	17

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. For the year ended September 30, 2012, the City contributed $357,000 to the plan. Administrative costs 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, presents 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.

As of July 1, 2012, the most recent actuarial valuation date, the plan was 67.4 percent funded. The actuarial accrued liability for benefits was $1,774,123, and the actuarial value of assets was $1,196,570, resulting in an unfunded actuarial accrued liability (UAAL) of $577,553.

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	7/1/2012
Actuarial cost method	Entry age normal
Amortization method	Level dollar amortization
Remaining amortization period	26 years (closed)
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	5.5 percent
Inflation rate	3.0 percent

Funding Policy. The retirement committee of the City has the authority to establish and amend contribution requirements of the plan. The City fully funds the required contributions each year.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC),* an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB asset (dollar amounts in thousands):

Annual required contribution	$ 279
Interest on net OPEB asset	(21)
Adjustment to annual required contribution	25
Annual OPEB cost (expense)	283
Contributions made	(357)
Increase in net OPEB asset	(74)
Net OPEB asset - beginning of year	(316)
Net OPEB asset - end of year	$ (390)

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset for 2012 and the four preceding years are as follows:

Ending	Cost	Contribution	Asset
9/30/12	$283,000	126.10%	($390,000)
9/30/11	$249,000	149.80%	($316,000)
9/30/10	$305,000	127.21%	($192,000)
9/30/09	$358,000	142.25%	($109,000)
9/30/08	$364,000	100.00%	-

DIP does not issue separate GAAP financial reports. Its financial statements are presented below as of September 30, 2012 (in thousands):

Net Assets

Assets	
Investments	$ 1,264
Total assets	1,264
Net assets, held in trust for	
Other postemployment benefits	$ 1,264

Changes in Net Assets

Additions	
Employer contributions	$ 357
Net appreciation in fair value	
Of investments	176
Total additions	$ 533
Deductions	
Benefits	(217)
Plan Administration	(72)
Total deductions	(289)
Increase in net assets	244
Net assets, October 1, 2010	1,020
Net assets, September 30, 2011	$ 1,264

Retiree Health Insurance

Plan Description. The City of Arlington administers a single-employer defined benefit health care plan. The plan provides postretirement health care benefits to eligible retirees and their spouses.

An eligible employee can continue their health care coverage in retirement if their age plus service is at least 70 with a minimum age requirement of 50 years and a minimum of ten years of service with the City. Employees hired after December 31, 2005 are not eligible for postretirement health care benefits. As of January 1, 2012, 656 retirees met those eligibility requirements. The City plan has a non-duplication coordination of benefits with Medicare and other primary plans for retirees and/or their dependants.

Retiree Contributions for Pre-2008 Retirees

For retirees who are below age 65, the City subsidizes the premium rate for the three PPO options with a dollar amount that is based upon a defined percentage of the total premium for the Core Plan. This same dollar amount is the subsidy for the Plus Plan and the Premium Plan as well. The percentage subsidy for the Core Plan varies by years of service at retirement, ranging from 40% to 100%. The percentage subsidy for spouse coverage ranges from 30% to 50% based on years of service. Retirees pay the balance of the total premium rates. The City also subsidizes the AARP Plan K and Secure Horizons premium rates for retirees age 65 and over, and the percentage subsidy varies by years of service.

Retiree Contributions for January 1, 2008 and After

The subsidy for future retirees will be a defined dollar amount, increasing with trend each year for 15 years. After 15 years, the subsidy will remain fixed. Retirees as of January 1, 2008 are grandfathered and their subsidy will not become fixed after 15 years.

Funding Policy. The retirement committee of the City has the authority to establish and amend contribution requirements of the plan. Currently the plan is funded on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation (dollar amounts in thousands):

Annual required contribution	$ 12,445
Interest on net OPEB Obligation	933
Adjustment to annual required contribution	(1,245)
Annual OPEB cost (expense)	12,133
Contributions made	(5,661)
Increase in net OPEB obligation	6,472
Net OPEB obligation – beginning of year	20,731
Net OPEB obligation – end of year	$ 27,203

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the four preceding years are as follows (dollar amounts in thousands):

Ending	Cost	Contribution	Obligation
9/30/12	$ 12,133	46.66%	$ 27,203
9/30/11	$ 8,379	56.14%	$ 20,731
9/30/10	$ 8,398	31.80%	$ 17,056
9/30/09	$ 8,947	26.72%	$ 11,328
9/30/08	$ 8,100	41.09%	$ 4,772

Funded Status and Funding Progress. As of July 1, 2012, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $147.7 million, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $147.7 million. The covered payroll (annual payroll of active employees covered by the plan) was $123.3 million, and the ratio of the UAAL to the covered payroll was 119.8 percent.

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, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer 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, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. 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.

Valuation date	07/01/2012
Actuarial cost method	Projected Unit Credit
Amortization method	Level dollar, open
Remaining amortization period	30 years
Healthcare Cost trend rate - medical	8.5% initial (2012)
	4.5% ultimate (2021)
Inflation rate	3.00%

Supplemental Death Benefits Plan

Plan Description. The City of Arlington contributes to the Supplemental Death Benefit Fund (SDBF), a cost-sharing multiple-employer defined benefit group term life insurance plan operated by TMRS. This is a separate trust administered by the TMRS Board of Trustees. SDBF provides a death benefit of $7,500 for retirees. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for SDBF. That report may be obtained from the TMRS website at www.TMRS.com.

Funding Policy. Contribution requirements of the participating employers are established and may be amended by the TMRS Board of Trustees. The City is required to contribute at a rate assessed each year by the TMRS Board of Trustees, currently .14 percent of covered payroll. The TMRS Board of Trustees sets the employer contribution rate based on the mortality and service experience of all employees covered by the plan and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. Contributions are made monthly based on covered payroll of employee members of the City. Contributions are utilized to fund active member deaths on a pay-as-you-go basis. Any excess contributions over payments then become net assets available for OPEB. The City's contributions to SDBF for the years ended September 30, 2012, 2011, and 2010, were $209,933, $201,409, and $257,104, respectively, which equaled the required contributions each year.