

## Research Update:

# Lockhart, TX's Series 2025 Combination Tax And Revenue Certificates Of Obligation Assigned 'AA-' Rating

July 1, 2025

## Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to [Lockhart](#), Texas' proposed \$20 million series 2025 combination tax and revenue certificates of obligation.
- At the same time, we affirmed our 'AA-' long-term rating and underlying rating on the city's general obligation (GO) debt outstanding.
- The outlook is stable.
- The rating is based on the application of our "[Methodology For Rating U.S. Governments](#)," Sept. 9, 2024, on RatingsDirect.

## Rationale

### Security

The series 2025 certificates and the GO bonds and certificates outstanding are direct obligations of the city, payable from revenue from a continuing ad valorem tax, levied annually within the limits prescribed by law on all taxable property within its boundaries. Home-rule cities are statutorily limited to a maximum ad valorem tax rate of \$2.50 per \$100 of taxable assessed valuation (AV) for all purposes. Administratively, as much as \$1.50 of the maximum tax rate can be dedicated for debt service, as calculated at the time of issuance. For fiscal 2025, Lockhart is levying a total tax rate of 50.93 cents per \$100 of AV, with 10.26 cents for debt service. We do not differentiate between the city's limited-tax debt and its general creditworthiness because the ad valorem taxing base is coterminous with the boundaries of the city, and there are no limitations on fungibility of resources, supporting our view of the city's overall ability and willingness to make debt service payments. Surplus net revenue of the city's water and wastewater system, not to exceed \$1,000, additionally secures the certificates. Given the limited nature of the revenue pledge, we base our ratings on these obligations on the city's ad valorem tax pledge.

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We understand that certificate proceeds will fund construction of an aquatics center, land acquisitions for the renovation of a recreation center and a future public safety facility, and park improvements.

## **Credit highlights**

The rating reflects our view of Lockhart's balanced operating performance, including recurring transfers from the enterprise funds, and sizable reserve position, which is expected to be maintained despite a planned one-time use of fund balance for the downtown revitalization project. In addition, we consider the expanding local economy and consistent revenue growth credit strengths. Somewhat offsetting these strengths, in our view, are the deficit operations and unrestricted net position in the water fund, lack of formalized long-term planning, slightly elevated economic concentration in volatile industries, and lower incomes relative to those of higher-rated peers.

Despite reliance on interfund transfers, primarily from the city's electric fund, general fund performance has historically been balanced; the city maintains healthy cash flow and available reserves in the funds that primarily make recurring transfers to the general fund (electric, wastewater, and nonmajor enterprise). For fiscal 2025, the city adopted a roughly 1% surplus budget; this fiscal year to date, revenue is trending above budget and expenditures remain within budget. The city budgeted for a one-time \$4 million use of general fund balance to support a downtown revitalization project in fiscal 2025. Even with the projected use of fund balance, we expect reserves to remain robust as a percentage of the operating budget and healthy on a nominal basis. We note that the water fund's deficit operations and unrestricted net position, which are primarily attributed to inadequate rate adjustments in recent years, somewhat worsen our view of financial performance and reserves and liquidity. The city conducted a water rate study to inform rate adjustments for fiscal years 2025 and 2026, culminating in a 35% rate increase for fiscal 2025 and a 20% increase expected in fiscal 2026. Rate adjustments are projected to generate surplus operating revenue by fiscal 2026. The city's midyear financial report for fiscal 2025 (March 31) indicates that, year to date, water rate adjustments are producing approximately 19.6% higher revenue compared with the prior-year period. We note that the general fund does not rely on interfund transfers from the water fund to support operations, although we expect the city to maintain sufficient rates to generate balanced operating results and restore unrestricted net position fund to positive levels, as the water fund also supports debt service on the city's certificates of obligation.

The 'AA-' rating further reflects our view of the city's:

- Growing, primarily residential tax base located along State Highway 130 between Austin and San Antonio, with rapid population growth and consistent tax base expansion albeit with below-average incomes relative to national levels;
- Consistent general fund operating performance, including recurring enterprise fund transfers, with sizable reserves that have been maintained above 50% of operating revenue since fiscal 2016. We do not expect a planned one-time use of fund balance in fiscal 2025 to worsen our view of reserves and liquidity. However, the weak performing water fund, which had a negative unrestricted net position as of fiscal 2024, somewhat worsens our view of financial performance. Rate increases implemented in fiscal 2025 are expected to generate surplus operating revenue in the water fund by fiscal 2026;
- Financial policies and practices that include the use of conservative budget assumptions based on historical trend analysis and use of outside sources such as demographic reports and utility rate studies to inform projections. Management provides semiannual budget

reports to the council at midyear and fiscal year-end, but management monitors the budget and escalates material to the council as needed. The city maintains a formal investment policy that mirrors state guidelines, and the council reviews quarterly reports. Formalized policies also stipulate minimum reserves (25% of operating expenditures in the general fund; 33% in the combined enterprise funds) and provide basic debt management guidelines, including quantitative restrictions for maximum maturities, maximum debt service to general fund revenue, and a minimum of 5% net present value savings for refunding issuances. The city does not utilize long-term financial projections or maintain a rolling capital improvement plan. We note that the city's cybersecurity policies and practices are in line with the sector standard.

- Manageable debt service carrying charges that are not expected to increase materially with the current issuance given our expectation that the water and wastewater funds' historical self-support will continue. In addition, we expect that recent water rate increases will generate sufficient surplus net revenue to continue supporting debt service payments during the outlook horizon. The city has no definitive plans for additional debt issuance in the next two to three years. Following the current issuance, Lockhart will have approximately \$38.5 million in net direct debt outstanding, including tax-supported debt funded with enterprise revenue.
- For more information about our institutional framework assessment for Texas municipalities, see "[Institutional Framework Assessment: Texas Local Governments](#)," Sept. 9, 2024.

## Environmental, social, and governance

We view environmental, social, and governance factors as neutral in our credit analysis. We note that the city is exposed to elevated physical risks compared with the nation from water stress and wildfire. The city maintains water conservation and drought protection plans, as mandated by the state, somewhat mitigating our view of these elevated physical risk factors.

## Outlook

The stable outlook reflects our expectation that Lockhart will maintain balanced operations and reserves in line with its formal policy level, despite a planned \$4 million draw in fiscal 2025. We also expect that recently implemented and additional proposed rate increases will contribute to improved operating performance and reserves in the water fund, and that this fund will continue to support a portion of debt service payments on the city's GO debt outstanding.

## Downside scenario

We could lower the rating if a trend of operating deficits, whether as a result of disruption of enterprise fund support, increasing operating costs, or otherwise, results in maintenance of reserves below the minimum policy level of 25% of expenditures with no credible plan to restore reserves to this level in a timely fashion.

## Upside scenario

We could raise the rating if economic expansion and diversification contribute to sustained improvement in per capita income and economic output metrics, along with improvement in operating performance and maintenance of positive unrestricted net position in the water fund.

**Lockhart, Texas--Credit summary**

Institutional framework (IF)	1
Individual credit profile (ICP)	2.89
Economy	5.0
Financial performance	2
Reserves and liquidity	2
Management	2.70
Debt and liabilities	2.75

**Lockhart, Texas--Key credit metrics**

	Most recent	2024	2023	2022
<b>Economy</b>				
Real GCP per capita as % of U.S.	32	--	32	33
County PCPI as % of U.S.	63	--	63	64
Market value (\$000s)	1,696,468	1,464,220	1,246,509	1,225,108
Market value per capita (\$)	115,226	99,451	84,664	85,870
Top 10 taxpayers as % of taxable value	6.4	7.4	7.5	6.6
County unemployment rate (%)	3.7	3.6	3.5	3.5
Local median household EBI as % of U.S.	97	--	97	92
Local per capita EBI as % of U.S.	76	--	76	73
Local population	14,723	--	14,723	14,267
<b>Financial performance</b>				
Operating fund revenue (\$000s)	--	12,469	11,280	9,246
Operating fund expenditures (\$000s)	--	15,056	14,078	11,952
Net transfers and other adjustments (\$000s)	--	4,605	4,325	5,908
Operating result (\$000s)	--	2,018	1,527	3,202
Operating result as % of revenue	--	16.2	13.5	34.6
Operating result three-year average %	--	21.5	19.1	20.0
<b>Reserves and liquidity</b>				
Available reserves as % of operating revenue	--	88.7	81.0	84.8
Available reserves (\$000s)	--	11,066	9,138	7,838
<b>Debt and liabilities</b>				
Debt service cost as % of revenue	--	11.4	12.0	10.4
Net direct debt per capita (\$)	2,615	1,295	1,435	1,630
Net direct debt (\$000s)	38,507	19,072	21,124	23,251
Direct debt 10-year amortization (%)	52	52	--	--
Pension and OPEB cost as % of revenue	--	7	6	7
NPLs per capita (\$)	--	327	479	132
Combined NPLs (\$000s)	--	4,816	7,057	1,886

Financial data may reflect analytical adjustments and is sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. EBI--Effective buying income. GCP--Gross county product. OPEB--Other postemployment benefits. NPL--Net pension liability. PCPI--Per capita personal income.

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Ratings List

New Issue Ratings

US\$20.0 mil comb tax and rev certs of oblig ser 2025 dtd 08/07/2025 due 08/01/2055

Long Term Rating AA-/Stable

Ratings Affirmed

Local Government

Lockhart, TX Limited Tax General Operating Pledge AA-/Stable

Lockhart, TX Limited Tax General Operating Pledge and Water and Sewer System Subordinate Lien AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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