

Research Update:

Royse City, TX Series 2025 Combination Tax And Revenue Certificates Of Obligation Rated 'AA-'

July 31, 2025

Overview

- S&P Global Ratings assigned is 'AA-' long-term rating to [Royse City](#), Texas' \$30 million series 2025 combination tax and revenue certificates of obligation (COs).
- At the same time S&P Global Ratings affirmed its 'AA-' long-term rating on the city's outstanding general obligation (GO) and CO debt.
- The outlook is stable.
- The rating is based on the application of our "[Methodology For Rating U.S. Governments](#)," Sept. 9, 2024.

Rationale

Security

The COs are payable from revenue from an ad valorem tax levied within the limits prescribed by law on all taxable property within the city. The certificates are additionally secured by a limited pledge of surplus net revenues, not to exceed \$1,000 of the city's waterworks and sewer system. We do not differentiate between the city's limited-tax GO debt and its general creditworthiness given that the ad valorem tax is not derived from a measurably narrower tax base and there are no limits on the fungibility of resources. We rate the COs to the strength of the GO pledge, given the de minimis utility pledge.

The city's home rule charter authorizes the constitutional maximum ad valorem tax rate of \$2.50 per \$100 of assessed valuation (AV) for all city purposes and \$1.50 of the \$2.50 maximum tax rate for all GO debt service. The city's current total tax rate is 57.80 cents, with 24.27 cents dedicated to debt service, both well below the maximum permitted.

Proceeds from the COs will be utilized for the construction of a new fire station, land acquisition, and road and facility projects.

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Credit highlights

The rating reflects our view of the city's historically positive operating performance and growing economy. However, its elevated debt burden constrains the rating at its current level. Located to the east of Dallas, its proximity has supported significant growth in both residential and commercial development. Multiple retailers were reported as under construction within the city, with more on the way as zoning for future retail sites is finalized. Alongside the residential developments (700 permits issued in 2025), population growth continues. Assessed valuation (AV) has grown year over year, a trend the city expects to continue, with management projecting a 12% increase in the coming year due to both appreciation of property and new value from construction.

Financial performance has remained positive with year over year surpluses. Management expects this trend to continue for fiscal 2025, with revenues currently trending ahead of expenditures and exceeding its original budgeted amount. Officials state they plan to continue to budget conservatively and remain in adherence with their formal fund balance policy of at least 90 days of expenditures in available reserves. While maintaining its fund balance above this minimum, the city utilizes additional surplus to cash fund capital projects and purchases. Management plans to adopt a break-even budget for fiscal 2026, and in our view, given the city's conservative budgeting measures and track record of positive operating performances, we expect operations to remain positive and reserves to remain healthy through the near future.

In our view, the city's debt burden is elevated and we expect it to remain at current levels as the city continues to issue to support growth-related needs. While there are no definitive near-term debt plans, management will continue to review its debt capacity to determine future issues. While Royse City's debt and costs are elevated compared with similarly rated and higher rated peers, we believe that it will remain manageable due to the city's history of healthy operations and revenue from tax base growth supporting debt.

The rating further reflects our view of Royse City's:

- Local per capita incomes, which do not compare with peers but are slightly offset by the city's rapid economic growth.
- Positive operations with historical surpluses, which allow the city to cash fund capital projects and purchases, while maintaining its healthy fund balance above its formal policy of 90 days and its informal target of 120 days of expenditures.
- Financial policies and practices, which include utilization of three years of historical data for revenue and expenditure assumptions with regular budget to actual reporting and as needed budget amendments, a formalized investment policy with regular reporting to the council, a water/wastewater capital plan and a street capital plan. Officials note that the city is considering establishing a formalized debt policy. Additionally, management is taking measures to mitigate its cyber risk.
- Net direct debt per capita and costs we consider elevated compared with similarly rated and higher rated peers. Approximately 44% of the city's debt is expected to mature over the next 10 years.
- The city participates in the Texas Municipal Retirement System (TMRS), and we consider its pension and other postemployment benefit liabilities as manageable.
- For more information on our institutional framework assessment for Texas municipalities, see "[Institutional Framework Assessment: Texas Local Governments](#)," Sept. 9, 2024.

Environmental, social, and governance

We consider Royse City’s environmental, social, and governance factors as neutral in our analysis.

Outlook

The stable outlook reflects our view that the city will continue to manage its growth-related debt needs and sustain its positive operating performance and reserves through our outlook horizon.

Downside scenario

If financial operations were to deteriorate or its debt outpaces revenue growth, pressuring finances and leading to material drawdowns in its reserve position, we could consider lowering the rating.

Upside scenario

We could consider raising the rating if the city was to formalize its long-term forecasting practices and policies alongside moderation of its debt burden.

Royse City, Texas--credit summary

| | |
|---------------------------------|------|
| Institutional framework (IF) | 1 |
| Individual credit profile (ICP) | 2.49 |
| Economy | 3.5 |
| Financial performance | 1 |
| Reserves and liquidity | 1 |
| Management | 2.70 |
| Debt and liabilities | 4.25 |

Royse City, Texas--key credit metrics

| | Most recent | 2024 | 2023 | 2022 |
|--|-------------|-----------|-----------|-----------|
| Economy | | | | |
| Real GCP per capita % of U.S. | 64 | -- | 64 | 64 |
| County PCPI % of U.S. | 111 | -- | 111 | 109 |
| Market value (\$000s) | 2,662,884 | 2,388,976 | 1,852,789 | 1,320,034 |
| Market value per capita (\$) | 175,780 | 157,699 | 122,304 | 85,037 |
| Top 10 taxpayers % of taxable value | 4.2 | 4.8 | 5.8 | 7.5 |
| County unemployment rate (%) | 3.6 | 3.5 | 3.4 | 3.3 |
| Local median household EBI % of U.S. | 129 | -- | 129 | 129 |
| Local per capita EBI % of U.S. | 91 | -- | 91 | 92 |
| Local population | 15,149 | -- | 15,149 | 15,523 |
| Financial performance | | | | |
| Operating fund revenues (\$000s) | -- | 19,322 | 17,091 | 15,824 |
| Operating fund expenditures (\$000s) | -- | 17,631 | 15,333 | 12,175 |
| Net transfers and other adjustments (\$000s) | -- | (889) | (823) | (3,091) |
| Operating result (\$000s) | -- | 802 | 935 | 558 |
| Operating result % of revenues | -- | 4.2 | 5.5 | 3.5 |

Royse City, Texas--key credit metrics

| | Most recent | 2024 | 2023 | 2022 |
|--|-------------|--------|--------|--------|
| Operating result three-year average % | -- | 4.4 | 4.3 | 2.8 |
| Reserves and liquidity | | | | |
| Available reserves % of operating revenues | -- | 38.3 | 38.6 | 35.8 |
| Available reserves (\$000s) | -- | 7,404 | 6,601 | 5,666 |
| Debt and liabilities | | | | |
| Debt service cost % of revenues | -- | 19.4 | 18.2 | 12.3 |
| Net direct debt per capita (\$) | 7,862 | 5,887 | 3,303 | 3,446 |
| Net direct debt (\$000s) | 119,107 | 89,182 | 50,044 | 53,490 |
| Direct debt 10-year amortization (%) | 44 | 50 | -- | -- |
| Pension and OPEB cost % of revenues | -- | 5.0 | 5.0 | 4.0 |
| NPLs per capita (\$) | -- | 229 | 250 | 101 |
| Combined NPLs (\$000s) | -- | 3,474 | 3,785 | 1,567 |

Financial data may reflect analytical adjustments and are 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. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List

New Issue Ratings

US\$30.0 mil comb tax and rev certs of oblig ser 2025 dtd 08/01/2025 due 08/15/2045

Long Term Rating AA-/Stable

Ratings Affirmed

Local Government

Royse City, TX Limited Tax General Operating Pledge AA-/Stable

Royse City, 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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