

Research Update:

Sherman, TX's Series 2026 Limited Tax Notes Assigned 'AA' Rating

November 24, 2025

Overview

- S&P Global Ratings assigned its 'AA' long-term rating to [Sherman](#), Texas' approximately \$4.6 million series 2026 limited tax notes.
- The outlook is stable.

Rationale

Security

The notes constitute a direct obligation of the city, payable from the proceeds of a continuing, direct annual ad valorem tax, levied within the limits prescribed by law, on all taxable property within its borders. The maximum allowable ad valorem tax rate in Texas is \$2.50 per \$100 of assessed value (AV) for all purposes, with the portion dedicated to debt service limited to \$1.50. For fiscal 2025, the city's total tax rate is well below the maximum, at 50.80 cents per \$100 of AV, of which 24.96 cents is dedicated to debt service. We rate the limited-tax pledge on par with the issuer credit rating, which is based on the city's general creditworthiness. The city does not levy ad valorem taxes on a narrower or distinctly different tax base, and there are no limitations on the fungibility of resources available for the payment of debt service. Given the limited nature of the revenue pledge, we rate these obligations based on the city's GO pledge.

The city's certificates constitute a limited pledge, not to exceed \$1,000, of the net revenue of the city's waterworks and sewer system. Given the limited nature of the revenue pledge, we also rate these obligations based on the city's GO pledge.

Net revenue from the city's waterworks and sewer system funds and drainage fund additionally secures the city's series 2017A certificates of obligation. We base our rating on this obligation on the city's GO pledge, given the lack of security features associated with the revenue pledge.

The series 2026 notes will fund the purchase of five solid waste trucks, asphalt for use by city crews to improve existing streets, a dump truck and sign-shop building renovation for the street department, and multiple other capital-related needs.

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Credit highlights

The rating reflects our view of Sherman's rapidly growing tax base, healthy reserves, and strong financial management. The GO rating further reflects our view of the city's below-average wealth and income indicators, elevated debt burden with escalating debt service payments, and additional issuance plans, which, in our view, are credit constraints.

Sherman continues to experience robust AV growth, with a 68% increase from fiscal 2024 (\$5.8 billion) to fiscal 2025 (\$8.5 billion), driven primarily by the addition of Texas Instruments (TI) and Global Wafers (GW) to the tax rolls, along with ongoing residential and commercial development. Phase I of the \$30 billion semiconductor manufacturing facility has been completed and is now operational. However, for fiscal 2026, AV is projected to remain flat or slightly decrease due to the commencement of tax abatements for TI and GW. Looking ahead, phase II of the project is expected to begin in fiscal 2027, and management anticipates a return to 6% annual AV growth annually thereafter.

The city has demonstrated consistent positive operating performance, recording five consecutive years of operating surpluses despite increasing service demands and infrastructure needs. For fiscal 2024, the city reported a \$1.6 million surplus, equivalent to 2.6% of general fund revenues, attributed to one-time sales tax revenues and interfund support from the utility fund. Although a \$2.1 million deficit is anticipated for fiscal 2025 as a result of a one-time transfer out for either utility fund support until revenue is sufficient to cover expenses or for capital projects, we expect the city to maintain reserves above its formal policy of 60 days of operating revenue.

The city's general fund has historically received transfers in from the waterworks and sewer system, averaging approximately 7% of system revenues. However, with significant capital expenditures anticipated in the outer years, the city is projecting a revenue shortfall in the waterworks and sewer system funds during fiscal years 2027 to 2030, primarily driven by increasing debt service obligations. In response, the city has approved rate adjustments, specifically a 3% increase to water rates and a 7% increase in sewer rates effective in 2026, to mitigate the projected funding gap. To further manage potential revenue insufficiencies that might affect both debt service coverage and planned pay-as-go capital outlays, the city maintains a risk contingency reserve of \$8.3 million, serving as a dedicated backstop for utility revenue bond debt requirements. For more information, see [our utility report on Sherman](#), July 31, 2025.

Additional rating factors include our view of the city's:

- Growing, slightly concentrated tax base and below-average gross county product and per-capita personal income compared with those of county and national peers.
- Positive operations in the last five fiscal years, with a surplus of roughly \$1.6 million for fiscal 2024. For fiscal 2025, the city expects a deficit of \$2.1 million, attributable to a transfer out of \$8.3 million to the risk contingency fund and increased personnel costs of just over \$3 million.
- Reserves supported by a formal reserve policy of maintaining 60 days (16.7%) of general fund revenue, which it is currently well above and which we expect will be maintained over the outlook horizon.
- Elevated, but manageable, debt burden, which we expect to remain elevated over the next few years given additional debt plans.
- Conservative policies and practices, including use of comprehensive long-term financial and capital planning, budget assumptions based on historical data, regular budget and investment

- reports to council, and formal debt management, fund balance, and investment policies. Management is also taking measures to mitigate cyber risk.
- 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 view environmental, social, and governance factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our expectation that Sherman will maintain stable financial performance and sustain healthy reserves above its formal policy threshold, supported by ongoing economic growth and prudent financial management over the two-year outlook horizon. This expectation holds, despite potential pressure from rising enterprise revenue debt service obligations projected for fiscal years 2027 through 2030.

Downside scenario

If the city's financial performance deteriorates, resulting in material draws on fund balance with no plan for replenishment, if additional debt issuances outpace tax base growth, or, particularly, if the various economic development projects within the city are scaled back significantly, we could take a negative rating action.

Upside scenario

We could raise the rating if the city's ongoing economic expansion results in sustained improvement in its income and economic output metrics to levels comparable with those of higher-rated peers, accompanied by a material moderation of the debt burden and improved debt service coverage in the enterprise funds.

Sherman, Texas--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.82
Economy	5.0
Financial performance	2
Reserves and liquidity	1
Management	1.35
Debt and liabilities	4.75

Sherman, Texas--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita as % of U.S.	59	--	59	58
County PCPI as % of U.S.	80	--	80	80
Market value (\$000s)	8,452,195	5,778,423	4,918,172	4,123,949
Market value per capita (\$)	188,556	128,908	109,717	95,971

Sherman, Texas--key credit metrics

	Most recent	2024	2023	2022
Top 10 taxpayers as % of taxable value	32.4	10.8	10.6	12.0
County unemployment rate (%)	3.8	3.8	3.7	3.7
Local median household EBI as % of U.S.	75	--	75	77
Local per capita EBI as % of U.S.	72	--	72	75
Local population	44,826	--	44,826	42,971
Financial performance				
Operating fund revenue (\$000s)	--	61,004	55,754	46,005
Operating fund expenditures (\$000s)	--	63,447	55,183	46,490
Net transfers and other adjustments (\$000s)	--	4,005	3,853	1,960
Operating result (\$000s)	--	1,562	4,424	1,475
Operating result as % of revenue	--	2.6	7.9	3.2
Operating result three-year average %	--	4.6	6.9	5.5
Reserves and liquidity				
Available reserves as % of operating revenue	--	39.9	40.8	39.9
Available reserves (\$000s)	--	24,311	22,773	18,369
Debt and liabilities				
Debt service cost as % of revenue	--	14.4	10.4	12.5
Net direct debt per capita (\$)	4,825	3,706	3,803	2,312
Net direct debt (\$000s)	216,298	166,128	170,466	99,366
Direct debt 10-year amortization (%)	37	36	--	--
Pension and OPEB cost as % of revenue	--	7.0	8.0	9.0
NPLs per capita (\$)	--	461	610	90
Combined NPLs (\$000s)	--	20,649	27,344	3,851

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. EBI--Effective buying income. GCP--Gross county product. NPL--Net pension liability. OPEB--Other postemployment benefits. PCPI--Per capita personal income.

Ratings List

New Issue Ratings

US\$4,565,000 City of Sherman, Texas, Limited Tax Notes, (A Political Subdivision of the State of Texas Located in Grayson County), Series 2026, dated: January 15, 2026, due: August 15, 2031

Long Term Rating AA/Stable

Sherman, TX's Series 2026 Limited Tax Notes Assigned 'AA' Rating

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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