

Research Update:

Tyler, TX Series 2026 Revenue Refunding And Improvement Bonds Assigned 'AA' Rating; Outlook Stable

March 18, 2026

Overview

- S&P Global Ratings assigned its 'AA' rating to the City of [Tyler](#), Texas' \$72.3 million series 2026 water and sewer system revenue refunding and improvement bonds.
- At the same time, we affirmed our 'AA' rating on the city's water and sewer revenue bonds outstanding.
- The outlook is stable.

Rationale

Security

Net revenues of the water and sewer systems secure the bonds. We view as credit-neutral the bond provisions, which include a rate covenant equal to 1.1x annual debt service and an additional bonds test equal to 1.25x average annual debt service. There is no debt service reserve fund, although this is largely offset by a surcharge on each monthly bill that is considered part of total pledged revenues and that is intended to cover both the cost of a consent decree the city is currently addressing (see below) as well as annual debt service requirements.

Credit highlights

Tyler's conservative management team maintains fiscally sound policies and procedures that ensure rating stability as the city progresses through a significant capital-intensive period. In addition, the city's extremely strong debt service coverage and liquidity levels should enable the system to handle the increasing debt burden. Management's historical willingness to adjust rates has enabled the system to maintain its strong financial metrics. Future rate increases will support projects related to the ongoing consent decree and any additional debt.

Additional factors within our economic profile include:

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- Mostly residential customer base characterized by a median household effective buying income (MHHEBI) at about 88% of the national average; and
- Monthly utility bill that represents about 2% of MHHEBI based on average demand of 5,000 gallons and includes a regulatory compliance fee to support consent decree expenses.

Environmental, social, and governance

The city's current main vulnerability, in our view, among the environmental factors we assess is the consent decree related to its wastewater system, which has a final regulatory deadline of April 2027. The corrective action plan is almost entirely to address sanitary sewer overflows in the collection system, and the city is progressing through the plan in a timely manner, in our view. We view social risks as neutral in our analysis given the current affordability of rates. We view the management and governance team positively.

Outlook

The stable outlook reflects our view of the city's ability to manage its upcoming capital improvement plan (CIP) without significant pressures to the financial profile despite the significant anticipated debt. The healthy service area economy and access to the broad and diverse metropolitan statistical area provide additional stability. We view favorably the city's recent rate study, which provides support for additional debt plans and aligns with our projections.

Downside scenario

We could lower the rating should the city's financial metrics deteriorate beyond management's projections whether due to the CIP, increasing operating expenses, or unplanned additional debt. In addition, we could lower the rating if the service area's economic indicators weaken or there is a material decline in customer accounts.

Upside scenario

Should financial results significantly outperform management's expectations as the city progresses through its CIP, and absent deterioration in the economic profile, we could raise the rating.

Tyler, Texas--economic and financial data

	Most recent	Fiscal year-end			Median (AA)
		2024	2023	2022	
Economic data					
MHHEBI of the service area as % of the U.S.	88.0				110.0
Unemployment rate (%)	3.3				3.6
Poverty rate (%)	13.2				10.0
Water rate (6,000 gallons or actual) (\$)	37.0				36.5
Sewer rate (6,000 gallons or actual) (\$)	63.6				41.0
Annual utility bill as % of MHHEBI	2.0				1.1
Operational management assessment	Good				Good

Tyler, Texas--economic and financial data

	Most recent	Fiscal year-end			Median (AA)
		2024	2023	2022	
Financial data					
Total operating revenues (\$000s)		69,343	59,424	51,996	24,286
Total operating expenses less depreciation (\$000s)		44,770	40,992	33,134	17,090
Net revenues available for debt service (\$000s)		28,547	19,620	19,499	--
Debt service (\$000s)		10,770	8,275	8,786	--
S&P Global Ratings-adjusted all-in DSC (x)		2.7	2.4	2.2	2.2
Unrestricted cash (\$000s)		13,719	17,756	16,497	24,667
Days' cash of operating expenses		112	158	182	631
Total on-balance-sheet debt (\$000s)		305,098	134,491	140,811	39,844
Debt-to-capitalization ratio (%)		63.5	45.1	47.1	27.0
Financial management assessment	Strong	--	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Ratings List

New Issue Ratings

US\$72,340,000 City of Tyler, Texas, (Smith County), Water and Sewer System Revenue Refunding and Improvement Bonds, Series 2026, dated: March 1, 2026, due: September 1, 2056

Long Term Rating AA/Stable

Ratings Affirmed

Water & Sewer

Tyler, TX Water and Sewer System 2nd 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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