

Research Update:

# San Marcos, TX Series 2026 Combination Tax And Revenue Certificates Of Obligation Assigned 'AA' Rating

April 3, 2026

## Overview

- S&P Global Ratings assigned its 'AA' long-term rating to [San Marcos](#), Texas' \$15.255 million series 2026 combination tax and revenue certificates of obligation (COs).
- At the same time, we affirmed our 'AA' long-term rating on the city's outstanding general obligation (GO) debt and COs.
- The outlook is stable.

## Rationale

### Security

San Marcos' GO bonds and COs are direct obligations of the city, payable from the proceeds of a continuing, direct, annual ad valorem tax, within the limits prescribed by law on all taxable property within the city. The city's home rule charter adopts the authorized maximum tax rate of \$2.50 per \$100 of taxable assessed valuation (AV). The tax rate is well below the maximum at 65.15 cents with 16.47 cents for debt service.

In addition, a limited surplus revenue pledge of the city's water and wastewater system, not to exceed \$1,000 secures the city's 2026 COs and existing CO debt. However, we rate the COs based on the ad valorem tax pledge due to the limited nature of the additional revenue pledge. Furthermore, we do not differentiate between the city's limited-tax GO and CO debt because the ad valorem tax is not derived from a measurably narrower property tax base and because there are no limits on the fungibility of the city's resources.

Proceeds from the COs will be used for road improvements, fire facility projects, drainage improvements, and reconductor projects.

### Credit highlights

The rating reflects our view of the city's stable financial performance, supported by its adherence to its robust financial policies and practices, and its growing economy.

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San Marcos' tax base is expanding, supported by its location between Austin and San Antonio, its access to Interstate 35, and the presence of Texas State University in San Marcos, which we view as a stabilizing presence in the city. Development projects of note include three residential master planned communities, which management reports are in the building phase. A Buc-ees center is planned to open in the summer of 2026, a third HEB store is planned to open in December 2026, and a \$70 million project to construct a full-service boutique hotel has been approved by Texas State University's board of regents. Additionally, Texas State University has joined the Pac-12 conference beginning June 2026. Officials expect larger crowds visiting San Marcos due to the conference switch, and given the expected influx, they are anticipating an increase to both sales and hotel tax revenues. However, in terms of AV growth, the city is estimating an approximate 1.1% average annual growth rate over the next four years for budgeting purposes.

Historically, San Marcos has maintained stable to positive operating performances. Fiscal 2025's deficit was due to intentional drawdowns for nonrecurring capital expenditures. With an approximately \$10 million deficit originally budgeted, personnel savings, contracted services savings, and higher interest income mitigated the year-end deficit. As part of its reserve policy, the city allocates excess fund balance (over its minimum 25% of operating expenditures) toward one-time capital expenditures. Per the policy, the city plans for the use of \$3 million for one-time expenditures in fiscal 2026, which management states is currently on target, per year-to-date performance. Through the near future, the city has no plans to change its current financial practices and intends to maintain structural balance while allocating excess fund balance to one-time capital expenditures.

Following its capital improvement plan, the city expects to continue its practice of annual issuances to accommodate future growth. Additionally, the city plans to issue a GO refunding of approximately \$17.5 million later in 2026. Despite future debt plans, we do not anticipate pressures arising from the continued issuances given the city's healthy tax base and healthy financial policies and practices.

The rating further reflects our view of the following:

- Local income metrics are lower than those of similarly rated peers but are offset by tax base growth and the stabilizing presence of Texas State University.
- Healthy reserves provide budgetary flexibility to cover unexpected costs, should the need arise.
- Financial policies and practices are comparable with those of peers and reflect the city's stable operations, including historical trend analysis for revenue and expenditure assumptions, long-term planning such as multiyear financial forecasting and a 10-year rolling capital improvement plan, and formalized policies for debt management, investments, and reserves. Additionally, we note the city takes measures to mitigate its cybersecurity risk.
- Net direct debt per capita is elevated and is not comparable with that of similarly rated peers, in our opinion. We anticipate debt will remain elevated given future planned issuances due to continued growth and infrastructure needs.
- We consider pension and other postemployment benefits liabilities flexible and not an immediate credit risk. The city participates in the Texas Municipal Retirement System.
- 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

San Marcos has identified exposure to flooding and hailstorms as a potential environmental risk. However, the city takes measures to improve stormwater infrastructure. In addition, the city has ample reserves that provide budgetary flexibility, if needed, alongside insurance.

We view the city's social and governance factors as neutral in our analysis.

## Outlook

The stable outlook reflects our view that the city will maintain its stable operations and healthy reserves while managing its elevated debt burden.

### Downside scenario

If the city were to experience sustained structural imbalance, leading to a material weakening of its reserve position, we could consider lowering the rating.

### Upside scenario

If the city's debt improves, decreasing to levels comparable with those of higher-rated peers, or if local income metrics improve to levels comparable with those of higher-rated peers, we could consider raising the rating.

### San Marcos, Texas--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.40
Economy	4.0
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	4.00

### San Marcos, Texas--key credit metrics

	Most recent	2025	2024	2023
<b>Economy</b>				
Real GCP per capita % of U.S.	59	--	59	58
County PCPI % of U.S.	92	--	92	92
Market value (\$000s)	9,725,375	10,148,049	9,431,344	7,891,417
Market value per capita (\$)	120,475	125,711	116,833	103,394
Top 10 taxpayers % of taxable value	9.6	10.5	13.7	13.0
County unemployment rate (%)	3.2	3.2	3.4	3.3
Local median household EBI % of U.S.	60	--	60	70
Local per capita EBI % of U.S.	65	--	65	70
Local population	80,725	--	80,725	76,324
<b>Financial performance</b>				
Operating fund revenues (\$000s)	--	115,708	110,224	101,747

**San Marcos, Texas--key credit metrics**

	Most recent	2025	2024	2023
Operating fund expenditures (\$000s)	--	113,827	106,895	94,986
Net transfers and other adjustments (\$000s)	--	(4,366)	(2,647)	(5,806)
Operating result (\$000s)	--	(2,485)	682	955
Operating result % of revenues	--	(2.1)	0.6	0.9
Operating result three-year average %	--	(0.2)	3.6	6.2
<b>Reserves and liquidity</b>				
Available reserves % of operating revenues	--	35.0	39.0	41.5
Available reserves (\$000s)	--	40,529	42,958	42,274
<b>Debt and liabilities</b>				
Debt service cost % of revenues	--	13.5	13.1	15.5
Net direct debt per capita (\$)	5,508	6,462	5,976	6,212
Net direct debt (\$000s)	444,610	521,609	482,390	474,133
Direct debt 10-year amortization (%)	65	63	64	--
Pension and OPEB cost % of revenues	--	8.0	7.0	8.0
NPLs per capita (\$)	--	577	653	833
Combined NPLs (\$000s)	--	46,583	52,724	63,612

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\$15,255,000 City of San Marcos, (A political subdivision of the State of Texas located in Hays, Caldwell and Guadalupe Counties), Combination Tax and Revenue Certificates of Obligation, Series 2026, dated: May 13, 2026, due: August 15, 2045

Long Term Rating AA/Stable

**Ratings Affirmed**

**Local Government**

San Marcos, TX Limited Tax General Operating Pledge AA/Stable

San Marcos, 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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## San Marcos, TX Series 2026 Combination Tax And Revenue Certificates Of Obligation Assigned 'AA' Rating

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