

Research Update:

Lockhart, TX Series 2026 Combination Tax And Revenue Certificates Of Obligation Assigned 'AA-' Rating

June 22, 2026

Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to Lockhart, Texas' proposed \$15 million series 2026 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.

Rationale

Security

The series 2026 certificates and the GO bonds and certificates outstanding are direct obligations of the city, payable 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 to debt service, as calculated at the time of issuance. For fiscal 2026, Lockhart is levying a total tax rate of 55.41 cents per \$100 of AV, with 14.28 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.

Bond proceeds will finance construction of a recreation center as well as drainage improvements.

Credit highlights

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The 'AA-' rating reflects Lockhart's balanced financial performance across governmental funds, supporting maintenance of substantial reserves and liquidity. Offsetting factors include the city's elevated costs for debt and liabilities, increasing debt burden, and lack of formalized long-term financial or capital planning. Lockhart continues to experience rapid economic expansion, fueled by outgrowth of the Austin metropolitan statistical area, which we view positively. According to the city's estimates, current population is roughly 18,500. While personal income and economic output metrics have demonstrated modest improvement in the last decade, these figures remain below average compared to those of peers and in our assessment are limitations of the local economy.

Despite reliance on interfund transfers, general fund performance has historically been balanced; the city maintains positive operations and strong reserves in the funds that primarily make recurring transfers to the general fund (electric, wastewater, and nonmajor enterprise), though we note the water fund produced deficit results in recent historical years, attributed to lack of rate increases. The city conducted a utility rate study that recommended substantial water rate increases in fiscals 2025 and 2026 to offset increasing operating costs. We understand that the city implemented the recommended rate increases, which contributed to positive water fund operations in fiscal 2025, with fiscal 2026 operations trending toward a modest surplus. Although the general fund does not rely on significant operating transfers from the water fund, but we expect the city to maintain rates at sufficient levels to maintain balanced-to-positive operations and healthy reserves, as net surplus water fund revenue is pledged for payment of 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, supporting rapid population and tax base expansion, though income and economic output metrics remain substantially below national levels.
- Consistently balanced general fund operations, including recurring transfers from the enterprise funds, with sizable reserves that remain above 50% of revenue following the use of reserves for one-time capital projects in fiscal 2025. We note that water rate increases implemented in fiscal 2025 contributed to balanced operations in this fund for the first time in at least four fiscal years. We expect the city to continue to monitor utility rates and make sufficient adjustments to maintain balanced-to-positive enterprise operations.
- 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 (CIP), although the city is currently developing a long-term CIP. We view the issuer's cyber-risk mitigation measures as consistent with our view of its credit fundamentals.
- Leveraged direct debt profile, with elevated debt service carrying charges. However, we do not expect that increasing costs for debt service will pressure the city's operations, given the proposed 0.074 cent increase to the debt service tax rate, along with continued growth in total

governmental revenue. Officials plan to approach voters for additional GO debt authorization in the next two to three years to construct a police station. Thus, we expect that direct debt will remain elevated for the near-to-medium term.

- 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 Lockhart has elevated exposure to water stress and wildfire compared to the nation. The city maintains water conservation and drought protection plans, as mandated by the state, as well as substantial reserves, somewhat mitigating our view of these elevated physical risk factors.

Outlook

The stable outlook reflects our expectation that the city will maintain balanced operations and reserves in line with its formal policy level. We also expect that ongoing utility rate adjustments will contribute to maintenance of at least balanced operating performance and improving reserves in the water fund.

Downside scenario

We could lower the rating if a trend of operating deficits 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

All other rating factors equal, we could raise the rating if economic expansion and diversification contribute to sustained improvement in per capita income and economic output metrics and the city adopts more formalized policies and practices for long-term planning.

Lockhart, Texas--Credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.79
Economy	5.0
Financial performance	2
Reserves and liquidity	1
Management	2.70
Debt and liabilities	3.25

Lockhart, Texas--Key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	34	--	34	35
County PCPI % of U.S.	63	--	63	64

Lockhart, Texas--Key credit metrics

	Most recent	2025	2024	2023
Market value (\$000s)	1,927,573	1,696,468	1,464,220	1,246,509
Market value per capita (\$)	128,069	112,715	97,284	84,664
Top 10 taxpayers % of taxable value	8.9	6.4	7.4	7.5
County unemployment rate (%)	3.4	3.6	3.6	3.4
Local median household EBI % of U.S.	105	--	105	97
Local per capita EBI % of U.S.	78	--	78	76
Local population	15,051	--	15,051	14,723
Financial performance				
Operating fund revenues (\$000s)	--	12,278	12,469	11,280
Operating fund expenditures (\$000s)	--	22,504	15,056	14,078
Net transfers and other adjustments (\$000s)	--	4,728	4,605	4,325
Operating result (\$000s)	--	(5,498)	2,018	1,527
Operating result % of revenues	--	(44.8)	16.2	13.5
Operating result three-year average %	--	(5.0)	21.5	19.1
Reserves and liquidity				
Available reserves % of operating revenues	--	55.7	88.7	81.0
Available reserves (\$000s)	--	6,844	11,066	9,138
Debt and liabilities				
Debt service cost % of revenues	--	11.9	11.4	12.0
Net direct debt per capita (\$)	3,341	2,382	1,267	1,435
Net direct debt (\$000s)	50,281	35,846	19,072	21,124
Direct debt 10-year amortization (%)	53	43	52	--
Pension and OPEB cost % of revenues	--	8.0	7.0	6.0
NPLs per capita (\$)	--	255	320	479
Combined NPLs (\$000s)	--	3,832	4,816	7,057

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\$15.000 mil comb tax and rev certs of oblig ser 2026 dtd 07/30/2026 due 08/01/2046

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

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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.

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.

Lockhart, TX Series 2026 Combination Tax And Revenue Certificates Of Obligation Assigned 'AA-' Rating

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