

Research Update:

Bastrop, TX GO Certificates Of Obligation Rating Lowered To 'AA-' From 'AA' On Weakened Financial Resources

July 1, 2026

Overview

- S&P Global Ratings lowered its long-term rating and underlying rating on **Bastrop**, Texas' general obligation (GO) certificates of obligation (COs) outstanding to 'AA-' from 'AA'.
- At the same time, S&P Global Ratings assigned its 'AA-' long-term to the city's proposed \$11 million series 2026 combination tax and revenue COs.
- The outlook is stable.
- The downgrade reflects the city's reduced available reserves and liquidity, as well as further declines in the utility fund's self-support coverage.

Rationale

Security

The bonds and COs are direct obligations of Bastrop, 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's borders.

A limited water and sewer surplus revenue pledge, in an amount not to exceed \$1,000, also secures the COs. Due to the additional pledge's limited nature, we rate the COs based on the city's ad valorem tax pledge.

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. The total tax rate is well below the maximum for fiscal 2026 at 51.79 cents, 18.52 cents of which is for debt service.

Despite state statutory tax-rate limitations, we view the limited-tax GO pledge to be on par with the city's general creditworthiness. Ad valorem taxes are not levied on a narrower or distinctly different property tax base, and there are no limitations on the fungibility of resources available for debt service payments.

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Proceeds from the certificates will fund equipping and improvement of the city's water and wastewater system, including its Wastewater Plant No. 3. City officials expect debt service for the certificates will be self-supported by the city's water and wastewater system.

Credit highlights

The downgrade reflects Bastrop's weakened financial resources to respond to economic headwinds or exogenous pressures, alongside ongoing growth-related pressures on its utility fund. While rapid economic growth is expected to support future financial performance, consecutive general fund deficits have reduced available reserves to the city's fund balance policy minimum of 25% of operating expenditures. Furthermore, declining debt service coverage (DSC) in the water and wastewater utility fund increases the risk that the general fund will need to provide financial assistance through interfund transfers or by absorbing a larger share of infrastructure costs.

A growing suburb of Austin, Bastrop has realized substantial tax base and population growth recently, precipitating the need for large debt issuances for infrastructure needs. Its significant capital needs are primarily utility infrastructure, and the city does not anticipate issuing additional tax-secured governmental debt over the next two years. Bastrop's high debt is largely self-supported by the utility fund, keeping fixed costs manageable for the city's governmental funds. Although the city has raised water rates and impact fees, the utility's all-in DSC deteriorated to 1.09x in fiscal 2025 from 1.30x in fiscal 2023, and liquidity has stagnated at approximately \$4.7 million. While city officials expect the utility's DSC will remain around 1.1x, further deterioration could necessitate general fund support, and, therefore, weaken general fund performance.

Concurrently, general fund reserves declined 53% over the past two fiscal years, reducing the city's fiscal capacity to manage utility fund pressures or other budgetary stresses. The fiscal 2024 deficit was propelled largely by capital outlays, while a \$620,000 loan to the cemetery fund (which the city anticipates will be quickly repaid to the general fund) and \$1.4 million in police equipment and new hires contributed to the deficit in fiscal 2025.. For fiscal 2026, the city expects a general fund surplus of approximately \$2 million. Actual results through May show revenue and expenditures trending 8% and 10% above and below the city's forecast, respectively.

If these trends hold, general fund reserves would increase to approximately 32% of revenue. While an improvement, this remains below the 42% average maintained between fiscal years 2015 and 2024, as well as below state peers (see, "[U.S. Local Governments Credit Brief: Texas Counties And Municipalities Means And Medians](#)," April 20, 2026). In addition, while we expect the budget will benefit from increased tax revenue, any deceleration in growth, or growth that is outpaced by staffing and capital needs, could hinder the city's ability to generate the surpluses required to maintain reserves relative to its growing budget.

Credit fundamentals supporting the rating include:

- Bastrop's growing economy, with ongoing residential and commercial development, bolstered by access to the Austin-Round Rock metropolitan statistical area, with these strengths not fully captured by the county's income or gross county product metrics, in our view. While the city's assessed value declined in fiscal 2026, this was reflective of a state-legislated increase to the business personal property exemption, rather than a deceleration in economic growth and activity.
- General fund performance is expected to rebound in fiscal 2026, following two large consecutive deficits. The city's general fund is aided by rapid sales tax growth, which has

averaged 17% annual growth over the past five years and is on pace for 10% year-over-year growth in fiscal 2026.

- Available reserves that have declined to the city's fund balance policy minimum of 25% of operating expenditures but are expected to partially rebound in fiscal 2026. Bastrop has several privately placed debt obligations outstanding, comprising less than 2% of total direct debt, but they do not contain any nonstandard events of default or acceleration provisions, and we do not consider them to be contingent liquidity risks.
- Budgeting practices that incorporate capital planning that, in conjunction with regular budget monitoring, have historically led to generally better-than-budgeted results, but fiscal years 2024 and 2025 were deviations from that trend. Bastrop maintains a five-year capital improvement plan that is incorporated in its annual budget document. Although it does not maintain a formal long-term financial forecast, financial forecasting is done informally, as part of the city's budgeting process. In addition to a formal reserve policy, Bastrop maintains basic investment and debt management policies. We view the city's cyberrisk-mitigation measures as consistent with our view of its credit fundamentals.
- High debt burden, but with manageable governmental fixed costs, as about 75% of the city's tax-secured debt is self-supported by Bastrop's utility fund. While the city expects to issue an additional \$45 million in COs, that issuance is also expected to be self-supported by the utility fund.
- Pension and other postemployment benefits (OPEB) are not a credit pressure due to adequate pension funding status and a limited OPEB liability. For more information, see "[Pension Spotlight: Texas](#)," April 4, 2023.
- Bastrop's location along the Colorado River exposes it to somewhat elevated environmental risk, including severe weather and flooding; to mitigate this risk, the city maintains insurance coverage while holding very strong fund balances to support its ability to absorb one-time expenditures or revenue shortfalls.
- For information on our institutional framework assessment for Texas municipalities, see "[Institutional Framework Assessment: Texas Local Governments](#)," Sept. 9, 2024.

Outlook

The stable outlook reflects our expectation that the city will return to positive general fund operations, benefiting from ongoing economic expansion, and that the city's utility fund will not require significant general fund support.

Downside scenario

We could lower the rating if the city's operating performance and available reserves significantly deteriorate, particularly if necessitated by financial support of the utility fund, or if Bastrop's debt profile significantly weakens because of additional debt that outpaces tax base growth.

Upside scenario

We could raise the rating if the city consistently achieves balanced-to-positive operations, significantly increasing its available reserves, and if the utility fund's coverage is maintained at improved levels.

Bastrop, Texas--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.72
Economy	4.0
Financial performance	3
Reserves and liquidity	1
Management	2.35
Debt and liabilities	3.25

Bastrop, Texas--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	43	--	43	43
County PCPI % of U.S.	68	--	68	68
Market value (\$000s)	1,898,090	1,904,182	1,827,955	1,593,450
Market value per capita (\$)	167,572	168,110	161,380	149,255
Top 10 taxpayers % of taxable value	10.1	10.0	10.7	12.6
County unemployment rate (%)	3.4	3.7	3.7	3.6
Local median household EBI % of U.S.	103	--	103	68
Local per capita EBI % of U.S.	96	--	96	72
Local population	11,327	--	11,327	10,676
Financial performance				
Operating fund revenues (\$000s)	--	17,461	17,222	19,826
Operating fund expenditures (\$000s)	--	20,961	19,564	17,833
Net transfers and other adjustments (\$000s)	--	484	554	(1,016)
Operating result (\$000s)	--	(3,016)	(1,788)	977
Operating result % of revenues	--	(17.3)	(10.4)	4.9
Operating result three-year average %	--	(7.6)	0.2	9.8
Reserves and liquidity				
Available reserves % of operating revenues	--	24.1	41.4	45.0
Available reserves (\$000s)	--	4,200	7,138	8,921
Debt and liabilities				
Debt service cost % of revenues	--	11.9	11.9	13.0
Net direct debt per capita (\$)	14,052	11,778	12,232	10,003
Net direct debt (\$000s)	159,172	133,408	138,555	106,795
Direct debt 10-year amortization (%)	37	40	39	43
Pension and OPEB cost % of revenues	--	5.0	4.0	10.0
NPLs per capita (\$)	--	244	369	326
Combined NPLs (\$000s)	--	2,766	4,177	3,482

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.

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Ratings List

New Issue Ratings

US\$11.000 mil comb tax and rev certs of oblig ser 2026 dtd 08/04/2026 due 08/01/2056

Long Term Rating	AA- /Stable
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Downgraded;Outlook Action

	To	From
Local Government		
Bastrop, TX Limited Tax General Operating Pledge	AA- /Stable	AA/Negative
Bastrop, TX Limited Tax General Operating Pledge and Water and Sewer System Subordinate Lien	AA- /Stable	AA/Negative

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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