S&P Global
Ratings

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Research Update:

Temple, TX Series 2026 Combination Tax And Revenue Certificates Of Obligation, Limited Tax Notes Assigned 'AA' Rating

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Overview

- S&P Global Ratings assigned its 'AA' long-term rating to Temple, Texas' approximately $17.5 million series 2026 combination tax and revenue certificates of obligation (COs), and $4.8 million series 2026 limited-tax notes.
- At the same time, we affirmed our 'AA' long-term rating on the city's outstanding general obligation debt.
- The outlook is stable.

Rationale

Security

The notes and certificates 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 its borders. A limited pledge of the net revenue, not to exceed $10,000, derived from the combined waterworks and sewer system, additionally secures the certificates. Due to the revenue pledge's limited nature, we rate the certificates based on the city's ad valorem pledge.

The maximum allowable ad valorem tax rate for municipalities that operate under a home-rule charter 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. However, the city's home-rule charter limits its tax rate to $1.20 for all purposes, including debt service. Temple's fiscal 2026 total tax rate is well below its maximum at 69.99 cents, of which 37.54 cents is dedicated to debt service. The city does not levy ad valorem taxes on a narrower or distinctly different property tax base, and there are no limitations on the fungibility of resources available for debt service payments. Therefore, we view the limited-tax pledge to be on par with the issuer credit rating (ICR), reflecting the city's general creditworthiness.

CO proceeds will be used to finance a landfill expansion, as well as to purchase land adjacent to an animal shelter for future expansion. Note proceeds will be used to fund equipment and vehicle purchases, public safety radio replacements, and IT servers and storage for the police department.

Credit highlights

Temple's rating is supported by rapid tax base growth, a healthy general fund balance, and a history of positive budgetary performance, which is managed carefully by a prudent management team with comprehensive planning. These strengths are partially offset by the city's economic profile, characterized by income indicators that trail national averages, and an outsize debt burden relative to similarly rated peers.

The city is part of the Killeen-Temple metropolitan statistical area (MSA) and benefits from the presence of the Fort Hood military base, has experienced substantial growth during the last five years, with its tax base increasing roughly 76% and its population rising 14%. Although its income levels are below those of the nation and similarly rated peers, the city's local economy continues to expand, with notable developments including the construction of three new data centers.

Following an operating surplus in fiscal 2024, the city posted a $482,833 operating surplus in the general fund after transfers in fiscal 2025. This result was attributable to positive variances in revenue growth in sales and property taxes, and significant underspending across multiple expenditure categories, largely due to hiring delays. For fiscal 2026, while sales tax revenues are currently trending below projections due to slow downs in the pace of building, expenditures related to staffing are trending significantly under budget. As a result, management expects to end fiscal 2026 with a $2.9 million surplus. The proposed fiscal 2027 budget is structured with a $1.7 million operating deficit, as per the city's typical budgeting practices, largely owing to the appropriation of its fund balance for annual capital improvements and equipment replacements. While the city's fiscal 2027 budget also includes increases for public safety salary adjustments and assumes full staffing, the city historically realizes positive variances related to staffing vacancies throughout the year. As a result, we expect these positive variances will enable the city to realize at least breakeven operations.

The rating reflects our view of the city's:

- Below-average economic indicators, including gross county product per capita and county per capita personal income that are only 75.1% and 75.3%% of the U.S. average, respectively. However, this is partially offset by ongoing and significant economic development, generating substantial and rapid tax base and population growth in recent years, benefiting from its participation in the Killeen-Temple MSA, with additional access to the larger and more diverse Austin MSA.
- Operating performance that has been generally positive in recent years, highlighted by an operating surplus in fiscal 2025. Management expects to end fiscal 2026 with a surplus in the general fund, attributable to positive budget variances related to building permits and licensing fees, as well as cost savings from staff vacancies. The proposed fiscal 2027 budget is structured with a $1.7 million operating deficit, but we expect the city will realize at least breakeven operations given its conservative revenue assumptions and history of positive expenditure variances related to staffing levels.
- Healthy available general fund reserves and the city is meeting its formal fund balance policy, which calls for maintaining reserves at 33% of operating expenditures. The city has historically

exceeded this minimum, and management does not expect to draw down available reserves during the outlook horizon.

- Management team with a proven record of maintaining fiscal stability by budgeting conservatively and planning comprehensively, with quarterly budget-to-actual reports shared with the city council. The city maintains a formal six-year long-term financial plan, as well as a rolling six-year capital improvement plan, both of which are updated annually. The city also maintains formal debt management, investment, and reserve policies. The city has taken steps to mitigate cyber risk.
- Elevated debt and additional issuance plans of approximately $59 million during the next three years, in line with its capital improvement plan, though we do not expect its debt costs to materially worsen, and manageable pension costs.
- Although physical risks are relevant for the local government sector, we consider the city of Temple's exposure to natural hazards, including flooding and extreme weather, low compared with its national peers and in a nominal sense, and therefore not a material factor in our credit analysis.
- For more information on our institutional framework assessment for Texas municipalities, see "Institutional Framework Assessment: Texas Local Governments," published Sept. 9, 2024.

Outlook

The stable outlook reflects our expectation that Temple's economy will continue to realize strong growth and that the city's financial profile will remain healthy and supported by robust management practices, despite its elevated debt burden.

Downside scenario

We could lower the rating if the city's financial position weakens, leading to sustained and significant draws on reserves to levels below its formal policy, or if its debt and liabilities burden increases beyond our expectations and places significant financial pressure on the city.

Upside scenario

We could raise the rating if the city's key economic indicators improve substantially to levels comparable with those of its higher-rated peers, its local economy continues to expand and diversify while being resilient to macroeconomic risks, and if the city's debt and liabilities burden moderates to levels commensurate with its higher-rated peers.

Temple, Texas--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.5
Economy	4
Financial performance	2
Reserves and liquidity	1
Management	1
Debt and liabilities	4.5

Temple, Texas--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	75	--	75	74
County PCPI % of U.S.	75	--	75	75
Market value ($000s)	11,800,631	10,724,473	9,745,329	8,240,419
Market value per capita ($)	133,591	121,408	110,324	95,148
Top 10 taxpayers % of taxable value	13.8	11.8	11.1	11.9
County unemployment rate (%)	4.6	4.6	4.4	4.3
Local median household EBI % of U.S.	84	--	84	84
Local per capita EBI % of U.S.	80	--	80	80
Local population	88,334	--	88,334	86,606
Financial performance				
Operating fund revenues ($000s)	--	134,886	133,096	111,238
Operating fund expenditures ($000s)	--	130,925	132,072	101,638
Net transfers and other adjustments ($000s)	--	-3,479	3,947	-5,185
Operating result ($000s)	--	482	4,971	4,415
Operating result % of revenues	--	0.4	3.7	4
Operating result three-year average %	--	2.7	4.4	5.5
Reserves and liquidity				
Available reserves % of operating revenues	--	38.3	38.9	42.4
Available reserves ($000s)	--	51,603	51,785	47,173
Debt and liabilities				
Debt service cost % of revenues	--	18.5	16.4	17.4
Net direct debt per capita ($)	5,866	4,429	4,070	3,596
Net direct debt ($000s)	518,162	391,242	359,558	311,465
Direct debt 10-year amortization (%)	57	59	30	--
Pension and OPEB cost % of revenues	--	7	6	7
NPLs per capita ($)	--	653	716	840
Combined NPLs ($000s)	--	57,644	63,221	72,786

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$17.500 mil comb tax and rev cert of oblig ser 2026 dtd 8/26/2026 due 8/1/2046	
Long Term Rating	AA/Stable
US$4.800 mil ltd tax nts ser 2026 dtd 08/26/2026 due 8/1/2033	
Long Term Rating	AA/Stable
Ratings Affirmed	
Local Government	
Temple, TX Limited Tax General Operating Pledge	AA/Stable

Ratings List	
Temple, 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.