S&P Global Ratings

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Research Update:

Universal City, TX Series 2026 GO Bonds Assigned 'AA+' Rating

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Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to Universal City, Texas' approximately $6 million series 2026 general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the city's GO bonds and certificates of obligation (COs).
- The outlook is stable.

Rationale

Security

A limited ad valorem tax, levied on all taxable property within the city, secures Universal City's GO bonds and COs. Texas statutes limit the ad valorem tax rate for home rule cities to $2.50 per $100 of taxable assessed valuation (AV) for all city purposes. The Texas attorney general permits the allocation of $1.50 of the $2.50 maximum tax rate for ad valorem tax debt service. Despite state statutory tax rate limitations, we do not differentiate between the city's limited-tax debt and its general creditworthiness since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources, which supports our view of the city's overall ability and willingness to pay debt service.

The city's series 2014, 2015, and 2017 COs are further secured by a limited pledge of surplus revenues of the city's waterworks and sewer system. Given the limited nature of the additional pledged revenues, we base our ratings on these obligations on Universal City's limited-tax GO pledge. Proceeds will be used to address road and street improvements.

Credit highlights

The rating reflects the city's history of robust reserve position and stable local economy anchored in the San Antonio metro area, manageable debt burden, and diligent financial management policies and practices. Upward rating pressure is limited by local economic metrics, which are below average compared to those of higher-rated peers.

Universal City, a predominantly residential community, benefits from its location approximately 19 miles northeast of downtown San Antonio along State Highway 1604 and close to Interstate 35, giving residents easy access to employment opportunities throughout the broad and diverse metropolitan statistical area (MSA). The city is adjacent to Randolph Air Force Base, which serves as headquarters for multiple Air Force centers. We believe the city's strong tax base growth will continue as a result of ongoing residential and commercial activity.

Robust revenue growth and controlled spending contributed to stable financial performance, with recent deficits due to planned capital spending. Management monitors the budget regularly throughout the year and results are often better than budgeted. Management is expecting a $300,000 surplus in fiscal year 2026, with just a month to go in the year. The budgeting process for fiscal 2027 is currently underway and officials project the use of approximately $1 million for the purchase of two fire trucks. We expect that the city's extraordinarily strong reserves will be maintained.

The rating reflects our assessment of the following credit characteristics:

- Expanding economy that we expect will continue to grow due to outward expansion from nearby San Antonio.
- Mixed operating results recently due to planned use of robust cash reserves. Financial performance buoyed by strong revenue growth, which has supported maintenance of extraordinarily strong reserves.
- In the past few years, the city has formalized many of its financial management policies and practices, including its reserve policy, and is currently working to formalize a debt management policy. We view this as prudent management. The city has a rolling five-year capital plan that addresses key areas of the city's budget (golf course, utilities, etc.) and also informally maintains a multi-year financial plan.
- Manageable debt profile with additional debt plans through 2034. Retiree benefits that we do not view as an immediate budget pressure; for more information on the Texas Municipal Retirement System, which the city participates in, see "Pension Spotlight: Texas," April 4, 2023 on RatingsDirect.
- Although physical risks are relevant for the local government sector, we consider Universal City's exposure to natural hazards low compared with that of national peers 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," Sept. 9, 2024.

Outlook

The stable outlook reflects our view that the city's economy will remain stable and that its current financial flexibility, which we view as a strength, will be maintained.

Downside scenario

We could lower the rating if reserves were to decline materially due to operating pressures or one-time items.

Upside scenario

Although we view this as unlikely, we could raise the rating if continued economic expansion and diversification results in improved economic output and income indicators commensurate with those of higher-rated peers, while all else remains equal.

Universal City, Texas--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	1.85
Economy	3.0
Financial performance	1
Reserves and liquidity	1
Management	2.00
Debt and liabilities	2.25

Universal City, Texas--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	88	--	88	88
County PCPI % of U.S.	83	--	83	84
Market value ($000s)	2,047,424	2,078,133	1,950,709	1,720,767
Market value per capita ($)	103,636	105,190	97,307	86,133
Top 10 taxpayers % of taxable value	11.6	12.0	13.6	12.6
County unemployment rate (%)	3.9	4.0	3.9	3.8
Local median household EBI % of U.S.	94	94	93	93
Local per capita EBI % of U.S.	91	91	91	89
Local population	19,756	19,756	20,047	19,978
Financial performance				
Operating fund revenues ($000s)	--	21,169	18,592	18,988
Operating fund expenditures ($000s)	--	18,688	18,261	17,265
Net transfers and other adjustments ($000s)	--	173	(1,073)	(159)
Operating result ($000s)	--	2,654	(742)	1,564
Operating result % of revenues	--	12.5	(4.0)	8.2
Operating result three-year average %	--	5.6	1.0	7.9
Reserves and liquidity				
Available reserves % of operating revenues	--	92.5	93.2	88.4
Available reserves ($000s)	--	19,576	17,335	16,786
Debt and liabilities				
Debt service cost % of revenues	--	8.6	8.4	10.2
Net direct debt per capita ($)	1,373	1,070	1,144	1,235
Net direct debt ($000s)	27,135	21,135	22,942	24,671
Direct debt 10-year amortization (%)	64	58	55	--
Pension and OPEB cost % of revenues	--	8.0	8.0	8.0
NPLs per capita ($)	--	501	567	670
Combined NPLs ($000s)	--	9,891	11,357	13,393

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$6.000 mil GO bnds ser 2026 dtd 9/17/2026 due 8/15/2046	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Local Government	
Universal City, TX Limited Tax General Operating Pledge	AA+/Stable
Universal City, 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.

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.