Research Update:

Cedar Park, TX Series 2026 General Obligation Bonds Assigned 'AAA' Rating

November 5, 2026

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Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the city of Cedar Park, Texas' approximately $30.99 million series 2026 general obligation (GO) bonds.
- At the same time, we affirmed our 'AAA' long-term rating on the city's GO debt and certificates of obligation (COs) outstanding.
- The outlook is stable.

Rationale

Security

The GOs and COs are secured by a limited ad valorem tax, levied on all taxable property within the city. State 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 will permit the allocation of $1.50 of the $2.50 maximum tax rate for ad valorem tax debt service. The city's adopted tax rate in fiscal 2027 is well below the maximum at 37.793 cents per $100 of AV, 16.6446 cents of which is dedicated to debt service. We do not differentiate between the city's limited-tax GO debt and its general creditworthiness given that the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources.

The existing COs are also payable from, and secured by, a limited pledge of the city's water and sewer system in an amount not to exceed $1,000; due to the pledge's limited nature, we rate the COs to the strength of the ad valorem-tax pledge.

The city's series 2014 passthrough toll revenue and limited-tax bonds are secured by the city's levy of a direct and continuing ad valorem tax, within the limits prescribed by law, and by revenue from a passthrough toll agreement with the Texas Department of Transportation. We rate the bonds based on the limited-tax pledge because we view it as the stronger of the two pledges.

Proceeds from the bonds will be used for various transportation and parks and recreation capital projects.

Credit highlights

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The rating reflects our view of Cedar Park's above-average incomes, continued tax base growth, budgetary practices and policies, and maintenance of healthy reserves. Given the city's growth, we expect it to continue issuing debt to address needs, and therefore we expect its debt to remain elevated, although manageable given continued revenue growth.

Located approximately 25 miles north of downtown Austin, the city continues to experience population and economic growth. Notable developments include Cedar View, a mixed-use development that will include a Nebraska Furniture Mart (slated to open in spring of 2027), a Scheels (opened in August 2026), and a Marriot Hotel and Convention Center (anticipated to open in the first quarter of 2027), with more developments to follow and additional retail and residential space planned for 2028. Aerospace and defense and semiconductor projects are underway as well, further bolstering the city's tax base. Fiscal 2026 saw a decline in taxable values, which management attributes to regional market conditions, softening of property values, and legislative changes. Looking forward, management is conservatively assuming flat or moderately declining taxable AV. We do not foresee material declines in the city's economy through the near future despite economic pressures given the continued developments in the area, which we expect to help offset potential declines.

The city has historically adopted balanced budgets outside of drawdowns for one-time capital projects. Management reports that fiscal 2026 has outperformed its budgeted revenue and expenditure figures, leading to a general fund year-end balance $1.3 million higher than originally budgeted ($28 million vs. $27 million). The city has adopted a balanced budget for fiscal 2027, although it will include capital expenditures of $417,000 and $689,000, leading to an estimated year-end general fund balance of just under $27 million, still in line with the city's formal reserve policy to maintain 25% to 50% of general fund expenditures in reserves.

We expect that the city's debt burden will remain elevated, with the city planning to take a new bond program to voters in May 2027. The projects in the bond program are currently estimated to total between $180 million and $240 million. We believe the city will continue to manage its elevated carrying charges and has the capacity to issue additional debt while staying in compliance with its formal debt management policy given its rate of tax base growth.

The rating further reflects our view of the city's :

- Growing local economy, supported by its proximity to Austin, with local income metrics that are comparable to those of similarly rated peers. Gross county product per capita is below that of peers, but significant developments underway within the city will further support the economy.
- History of positive financial performance, with fiscal 2025's surplus being driven by sales tax growth. We expect balanced operations (outside of one-time capital expenditures) to continue through the near future and for reserves to remain in compliance with the city's policy.
- Management policies and practices that are in line with those of peers and are reflected in the city's positive operations, including comprehensive budgeting practices and robust monitoring; long-term financial and capital plans; and formalized policies related to investment management, debt management, and reserves and liquidity. The city's cyber risk posture helps mitigate risk, in our view, and is consistent with its overall management and governance.
- Although physical risks are relevant to the local government sector, we consider Cedar Park's exposure to natural hazards, including wildfires and water stress, as not materially elevated compared with that of national peers and therefore not a material factor in our credit analysis.

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- Debt has been spurred by growth, and we expect that additional issuances will maintain current debt levels given similar amortization. We do not view pension and other postemployment benefit liabilities as an immediate credit pressure.
- For more information on our institutional framework assessment for Texas municipalities, see: "Institutional Framework Assessment: Texas Local Governments," Sept. 9, 2024.

Rating above the sovereign

We rate Cedar Park's GO bonds and COs above the sovereign because we believe the city could maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," Nov. 19, 2013, U.S. local governments are considered to have moderate sensitivity to country risk.

Outlook

The stable outlook reflects our expectation that the city's financial performance and reserves will remain healthy and that its debt burden will remain manageable, supported by developments and revenue growth.

Downside scenario

If structural deterioration led to reserve levels declining to levels no longer comparable to those of peers, or if the city's debt outpaces its growth, we could consider lowering the rating.

Cedar Park, Texas--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	1.85
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	4.25

Cedar Park, Texas--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita as % of U.S.	--	--	71	70
County PCPI as % of U.S.	--	--	104	103
Market value ($000s)	16,760,905	16,462,445	15,907,053	14,647,996
Market value per capita ($)	190,888	187,489	182,955	174,346
Top 10 taxpayers as % of taxable value	5.7	5.3	5.8	5.9
County unemployment rate (%)	3.4	3.5	3.6	3.5
Local median household EBI as % of U.S.	--	155	152	157
Local per capita EBI as % of U.S.	--	143	136	132
Local population	--	87,805	86,945	84,017
Financial performance				

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Cedar Park, Texas--key credit metrics				
Operating fund revenue ($000s)	--	75,837	74,957	70,399
Operating fund expenditures ($000s)	--	81,394	80,955	75,499
Net transfers and other adjustments ($000s)	--	6,498	10,993	5,527
Operating result ($000s)	--	941	4,995	427
Operating result as % of revenue	--	1.2	6.7	0.6
Operating result three-year average %	--	2.8	2.2	3.8
Reserves and liquidity				
Available reserves as % of operating revenue	--	50.8	48.9	46.6
Available reserves ($000s)	--	38,515	36,640	32,833
Debt and liabilities				
Debt service cost as % of revenue	--	22.9	22.2	25.1
Net direct debt per capita ($)	3,300	2,890	2,551	2,813
Net direct debt ($000s)	289,779	253,722	221,824	236,378
Direct debt 10-year amortization (%)	60	65	70	--
Pension and OPEB cost as % of revenue	--	6.4	5.8	4.9
NPLs per capita ($)	--	419	445	498
Combined NPLs ($000s)	--	36,809	38,660	41,820

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$30.990 mil GO bnds ser 2026 dtd 12/10/2026 due 2/15/2046	
Long Term Rating	AAA/Stable
Ratings Affirmed	
Local Government	
Cedar Park, TX Limited Tax General Operating Pledge	AAA/Stable
Cedar Park, TX Limited Tax General Operating Pledge and TX DOT Passthrough Toll Revenues	AAA/Stable
Cedar Park, TX Limited Tax General Operating Pledge and Water and Sewer System Subordinate Lien	AAA/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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