

## Research Update:

# Killeen, TX Waterworks And Sewer System Revenue Bonds Assigned 'AA' Rating; Outlook Is Stable

June 6, 2025

## Overview

- S&P Global Ratings assigned its 'AA' long-term rating to [Killeen](#), Texas' anticipated \$37.5 million series 2025 waterworks and sewer system revenue bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' rating on the city's outstanding waterworks and sewer system revenue bonds.
- The outlook is stable.

## Rationale

### Security

Bonds are secured by a senior-lien net systems' revenue pledge. We view the bond provisions as credit neutral. Officials will use the series 2025 bond proceeds to fund system improvements. Inclusive of the current transaction, the system has \$76.0 million in waterworks and sewer system revenue bonds outstanding as of fiscal year 2024.

### Credit highlights

The rating is anchored by the system's stable customer base combined with its healthy coverage and liquidity metrics. Killeen, which is in central Texas, is home to Fort Cavazos, the U.S. Army's largest base, and a growing and diversifying local economy. The system's five-year capital improvement plan totals \$54.5 million, inclusive of projects to be financed by the series 2025 bond proceeds. The remainder of projects will be funded on a pay-go basis, which we consider manageable for the system. The system's CIP is focused on the rehabilitation and replacement of water and sewer lines to address its aging infrastructure. The system is collection and distribution-only, with supply and treatment provided by the Bell County Water Control and Improvement District No. 1 (BCWCID). Debt service coverage has been stable for the past three years, supported by improved rate setting practices, particularly for passing through wholesaler costs. As of fiscal year 2024, all-in coverage was 1.8x and senior-lien coverage was 3.5x. Our all-in coverage calculation includes imputed fixed costs based on BCWCID's debt

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service costs. The Killeen's debt service costs are projected to rise to \$6.9 million in fiscal year 2026, once the series 2025 debt service begins. We expect the system's planned annual rate adjustments will support stable debt service coverage. We consider the system's healthy cash position as a key credit strength, reported at \$33.1 million, or 336 days' cash on hand (DCOH), as of fiscal year 2024.

The city conducts formal rate studies every five to seven years, with the next study scheduled to be completed in 2027. Presently, the city does not automatically pass through rate increases from BCWCID, but it annually reviews rates and incorporates wholesaler costs into its rate structure and rate adjustments.

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

- Residential customer base and position as a major regional economic center in central Texas, anchored by Fort Cavazos, the largest single-site employer in the state;
- What we view as affordable rates when benchmarked against the city's income levels and Bell County's 11.5% poverty rate;
- Good operational management practices and policies, which include sufficient contract supply and treatment capacity for long-term demand;
- Moderately low leverage position based on a debt-to-capitalization ratio of about 31% and no additional near-term debt plans; and
- Financial policies we view as good, with quarterly budget updates to the city council, long-term financial and capital plans, and formalized liquidity and debt policies.

## **Environmental, social, and governance**

In our opinion, the city's environmental risks do not present an elevated risk and are in line with regional peers'. The city's contractual relationship with Bell County Water Control & Improvement District No. 1's and the Brazos River Authority in our view not only mitigate operating risks to the city but also enhance and diversify raw water supply in a part of the state that is generally more prone to drought conditions. The city reports that it is in compliance with environmental and regulatory standards. We consider social factors credit neutral given the affordability of its water and sewer rates. We also consider governance factors credit neutral. In addition, we view the city's governance factors as credit neutral.

## **Outlook**

The stable outlook reflects our expectation that the system will continue to adjust rates annually to support stable debt service coverage and sufficient liquidity levels.

### **Downside scenario**

We could take a negative rating action if debt service coverage or liquidity metrics weaken due to lack of timely and sufficient rate adjustments.

### **Upside scenario**

Given the inherent stability provided by Ft. Cavazos, before considering raising the rating we would expect the system to demonstrate consistently stronger financial capacity metrics and outperforming its peer 'AA' utilities.

## Killeen, Texas--Economic and financial data

	Most recent	--Fiscal year-end--			Median (AA)
		2024	2023	2022	
Economic data					
MHHEBI of the service area as % of the U.S.	77.0				110.0
Unemployment rate (%)	5.1				3.6
Poverty rate (%)	11.5				10.0
Water rate (6,000 gallons or actual) (\$)	27.6				36.5
Sewer rate (6,000 gallons or actual) (\$)	31.0				41.0
Annual utility bill as % of MHHEBI	1.4				1.1
Operational management assessment	Good				Good
Financial data					
Total operating revenues (\$000s)		50,541	47,096	46,548	24,286
Total operating expenses less depreciation (\$000s)		35,984	36,233	31,767	17,090
Net revenues available for debt service (\$000s)		16,859	12,329	14,776	--
Debt service (\$000s)		4,861	5,649	5,648	--
S&P Global Ratings-adjusted all-in DSC (x)		1.8	1.4	1.6	2.2
Unrestricted cash (\$000s)		33,079	28,240	25,541	24,667
Days' cash of operating expenses		336	284	293	631
Total on-balance-sheet debt (\$000s)		75,951	43,242	47,904	39,844
Debt-to-capitalization ratio (%)		30.9	21.6	24.2	27.0
Financial management assessment	Good	--	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

## Ratings List

## New Issue Ratings

US\$37.5 mil wtrwks and swr sys rev bnds ser 2025 dtd 07/10/2025 due 08/15/2045

Long Term Rating AA/Stable

## Ratings Affirmed

## Water &amp; Sewer

Killeen, TX Water and Sewer System 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.

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