S&P Global Ratings

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Research Update:

Taylor, TX's Series 2025 Combination Tax And Revenue Certificates Of Obligation Assigned 'AA' Rating; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AA' long-term rating to Taylor, Texas' approximately $13 million series 2025 combination tax and revenue certificates of obligation (COs).
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the city's existing general obligation (GO) and CO debt.
- The outlook is stable.

Rationale

Security

A direct ad valorem tax levied on all taxable property within the city, within the limits prescribed by law, secures Taylor's 2025 COs, and its existing GO and CO debt. The city's home-rule charter authorizes the maximum tax rate of $2.50 per $100 taxable assessed valuation (AV), with $1.50 of the $2.50 maximum tax rate permitted for ad valorem tax debt. Taylor's total tax rate is 59.13 cents, with 28.13 cents dedicated to debt service, both well below the maximum permitted.

Additionally, the COs are further secured by a limited pledge of surplus net revenues from the city's water and sewer system, not to exceed $1,000. However, we rate the COs to the ad valorem tax pledge due to the revenue pledge's limited nature. We do not differentiate between the city's limited-tax GO and CO debt because the ad valorem tax is not derived from a measurably narrower property tax base and because there are no limits on the fungibility of the city's general resources.

Proceeds from the series 2025 COs will be used for improvements to sewer, public safety facilities, drainage, and public works facilities.

Credit highlights

The rating reflects Taylor's rapidly growing economy, stable financial performance, and continued compliance with its fund balance target despite planned drawdowns and a slowdown of sales tax revenue growth. Its debt metrics remain elevated due to growth-related needs and constrain the rating.

Taylor is approximately 35 miles northeast of Austin, in Williamson County, and has benefitted from residential, commercial, and industrial development in the area. Notably, the 6 million-square-foot Samsung semiconductor manufacturing facility, still under construction, is targeting 2026 for operations. It will bring at least 1,800 full-time employees along with a potential additional 6,000 part-time employees. The facility's construction resulted in an exponential sales tax increase due to equipment purchases being captured in Taylor. However, sales tax growth has moderated more recently. Additional notable new developments include Soubrain Holdings Co., a phosphoric acid manufacturer; iMarket industrial space; BBP Data Center; and the University of Texas' purchase of a 68-acre tract for a future facility. The city's AV grew approximately 26% from 2023 to 2024, and while management does not expect AV growth to continue at this pace, it anticipates growth in the near future.

Taylor's financial operations remain stable, with a recent history of surpluses, which officials primarily attribute to revenue growth from the rapid increase in sales tax collections due to the Samsung plant. With sales taxes now moderating, fiscal 2025 revenues are currently on track to be under budget. In turn, management has cut expenditures to mitigate its projected deficit. According to the city's fund balance policy, available fund balance beyond its minimum 25% of expenditures can be used for one-time expenditures such as cash-funding capital projects or emergencies. The fiscal 2025 deficit is currently projected to be slightly under $6 million, but approximately $2.15 million when accounting for intended one-time drawdowns. Despite the drawdowns, the city's available fund balance remains healthy and above its minimum required amount. The city's budget for 2026 is break-even but will also include planned one-time drawdowns. In our view, the city's financial performance will remain stable and fund balances will be healthy as the city continues to benefit from its economic expansion.

Taylor's debt burden is elevated as it continues to issue debt to accommodate growth-related needs. Due to this growth, we expect additional debt to be issued in the future, and management states an additional issuance is likely within the next two to three years. Still, we expect revenue from continued growth and the city's stable operations will keep the debt burden manageable.

Credit fundamentals supporting the rating include the following credit factors:

- Local economic growth is rapid, but incomes are low and not comparable with those of higher-rated peers.
- Stable operational performance is supported by revenue growth and healthy available fund balance.
- Financial management policies and practices support the city's operations, including use of historical data for revenue and expenditure assumptions alongside collaboration with the assessor, a formalized capital improvement plan, and a formalized investment policy that is maintained and reviewed annually. The city aims to enhance its fund balance policy to provide a roadmap on cash-funding projects while maintaining its current minimum reserve target. Additionally, officials plan to refine the city's debt management practices with an established formalized debt management policy, adding further specificity beyond what can

currently be found within its financial policy document. Lastly, management has taken measures to mitigate cyber risk.

- Net direct debt and net direct debt per capita metrics do not compare with those of higher-rated or similarly rated peers. Given 42% of the city's debt is maturing over the next 10 years, alongside likely future issuances, we expect debt metrics will remain high.
- We view pension and other postemployment benefit costs as manageable and not an immediate credit pressure given the city's healthy financial position. The city participates in the Texas Municipal Retirement System, a public employee retirement system administered by the state.
- For more information on our institutional framework assessment for Texas municipalities, see Institutional Framework Assessment: Texas Local Governments, Sept. 9, 2024.

Environmental, social, and governance

We view the city's environmental, social, and governance factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view that Taylor will continue to manage its growth and maintain its reserves at healthy levels with continued revenue growth due to upcoming developments.

Downside scenario

Should the city experience sustained deterioration of reserves due to operational imbalance or growth-related needs, or additional debt is not offset by continued revenue growth, we could consider lowering the rating.

Upside scenario

Should the city's economic metrics improve to levels comparable with those of higher-rated peers or, while unlikely, should the city's debt burden moderate significantly, we could consider raising the rating.

Taylor, Texas--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.25
Economy	3.0
Financial performance	2
Reserves and liquidity	1
Management	2
Debt and liabilities	3.25

Taylor, Texas--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	69	--	69	69

Taylor, Texas--key credit metrics

	Most recent	2024	2023	2022
Economy				
County PCPI % of U.S.	104	--	104	102
Market value ($000s)	3,024,286	2,388,802	1,937,474	1,470,133
Market value per capita ($)	175,158	138,353	112,213	80,803
Top 10 taxpayers % of taxable value	24.1	30.0	10.6	13.9
County unemployment rate (%)	3.6	3.6	3.5	2.9
Local median household EBI % of U.S.	94	--	94	90
Local per capita EBI % of U.S.	81	--	81	81
Local population	17,266	--	17,266	18,194
Financial performance				
Operating fund revenues ($000s)	--	38,419	35,820	19,999
Operating fund expenditures ($000s)	--	33,303	31,289	19,277
Net transfers and other adjustments ($000s)	--	639	2,136	1,944
Operating result ($000s)	--	5,755	6,667	2,666
Operating result % of revenues	--	15.0	18.6	13.3
Operating result three-year average %	--	15.6	12.9	9.7
Reserves and liquidity				
Available reserves % of operating revenues	--	56.3	45.2	42.7
Available reserves ($000s)	--	21,625	16,196	8,543
Debt and liabilities				
Debt service cost % of revenues	--	12.5	9.0	12.4
Net direct debt per capita ($)	9,642	8,773	7,421	4,151
Net direct debt ($000s)	166,475	151,475	128,128	75,518
Direct debt 10-year amortization (%)	42	30	--	--
Pension and OPEB cost % of revenues	--	3.0	4.0	5.0
NPLs per capita ($)	--	354	401	115
Combined NPLs ($000s)	--	6,111	6,927	2,099

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$13.0 mil combination tax and rev certs of oblig ser 2025 dtd 07/23/2025 due 08/15/2045	
Long Term Rating	AA/Stable
Ratings Affirmed	
Local Government	
Taylor, TX Limited Tax General Operating Pledge	AA/Stable
Taylor, 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.

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