

RatingsDirect®

Summary:

Terrell, Texas; General Obligation

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Credit Profile		
US\$8.435 mil GO rfdg bnds ser 2025A dtd 03/01/2025 due 02/15/2034		
<i>Long Term Rating</i>	AA/Stable	New
US\$4.25 mil comb tax and wtrwks and swr sys (ltd pledge) rev certs of oblig ser 2025 dtd 03/01/2025 due 08/15/2040		
<i>Long Term Rating</i>	AA/Stable	New
US\$3.615 mil GO rfdg bnds ser 2025B dtd 03/01/2025 due 02/15/2041		
<i>Long Term Rating</i>	AA/Stable	New
Terrell (BAM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on the City of Terrell, Texas' general obligation (GO) and certificate of obligation (CO) debt outstanding to 'AA' from 'AA-'.
- At the same time, we assigned our 'AA' long-term rating to the city's proposed \$4.3 million series 2025 combination tax and waterworks and sewer system (limited pledge) revenue certificates of obligation, \$8.4 million series 2025A GO refunding bonds, and \$3.6 million series 2025B taxable GO refunding bonds.
- The outlook is stable.
- The upgrade reflects the city's growing and transforming local economy that is incorporated into management's proactive and long-term planning that have contributed to stable finances through rapid growth scenario.
- The rating is based on the application of our "Methodology For Rating U.S. Governments" criteria, published Sept. 9, 2024, on RatingsDirect

Security

Terrell's GO bonds and COs are direct obligations of the city, payable from a combination of the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the city. The city's home rule charter limits the maximum ad valorem tax rate to \$2.50 per \$100 taxable assessed valuation (AV) for all city purposes, and \$1.50 of the \$2.50 maximum tax rate is permitted for GO debt service. The COs are additionally secured by a limited pledge (not to exceed \$1,000) of the net revenues from the operations of the city's waterworks and sewer system. Based on the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" criteria (published Nov. 20, 2019), we view the limited-tax GO debt pledge as on par with the city's general creditworthiness. 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 limitations on the fungibility of the city's general resources.

Proceeds from the certificates will be used for public safety upgrades, including the purchase of two fire engines and

communication systems. Bond proceeds from the two refunding series will refinance series 2011A and series 20214 COs outstanding.

Credit overview

The rating reflects a growing local economy in the Dallas Metroplex and robust financial management policies and practices that have contributed to stable financial performance, allowing the city to cash-fund capital projects while managing older debt. The rating is offset by below-average incomes and a smaller reserve position both on a percentage basis and nominally.

The city is 30 miles east of Dallas in Kaufman County, which is currently in the early stages of transitioning from a more rural agricultural county on the outskirts of Dallas to a growing exurb as growth expands from the metroplex. Many cities in the county are experiencing strong growth, with Terrell growing over 50% in the past five years. The city conservatively projects another 5,000 new homes to be built in the next five years, which will contribute to further tax base growth. Additionally, the city is actively in conversations to annex additional land as new development happens--so city boundaries are growing consistently. Terrell serves as a regional retail center, and employment opportunities are expanding in and around the city. The city also has an airport and adjoining business park that are expected to spur additional development.

Management is focused on using excess revenues within each year to address capital needs, which in fiscal 2023 resulted in nearly break-even results. The city is expecting a larger but still modest surplus in 2024, estimated to be about \$265,000. In the current fiscal year, sales taxes are trending better than expected, and some expenditures savings could lead to positive budget variance from the break-even budget that was adopted. The 2025 budget includes increased revenues that are supporting salary adjustments and new positions.

The city's multiyear capital plan details additional capital needs, but the city is planning to transition some projects to cash-funded in an effort to help maintain the city's debt profile. According to the capital plan, ongoing capital needs are largely addressing utility improvements and existing debt is mostly self-supported by the utility funds; approximately 38% of the city's debt is self-supporting from the water and sewer fund. Additionally, the city also seeks opportunities to privately place debt with the Texas Water Development Board, which typically provide lower interest rates.

The rating reflects our opinion of the following credit factors:

- The city is located in the Dallas metroplex, and sustained growth is expected in the near term. However, local incomes and economic output as measured by gross county product per capita are below average compared with peers, which we view as a negative credit factor.
- The management team is proactive, with formal policies for reserves, investments, and debt management. The city has also undertaken extensive long-term planning with multiyear financial plans included in the budget document and an annual 10-year capital improvement plan. The city also reports on budget-to-actuals monthly and has comprehensive budgeting practices. The city is taking steps to mitigate cyber security risks.
- The city's reserve position is healthy and in line with management's formal target to maintain 60 days of expenditures. However, reserves are notably lower nominally and on a percentage basis than similarly rated peers'. At fiscal year-end 2023, the city held a general fund balance of \$6 million, equal to 18% of general fund revenues. The city is actively managing its reserve position and looks to spend excess reserves to address capital needs.

Nominally, reserves have increased in the past three fiscal years, but as both the city's budget and economy continue to grow, the percentage basis has declined.

- The city's debt profile is manageable, and pension and other postemployment benefits liabilities are affordable. Terrell privately placed debt totalling \$32.8 million but there are no unusual bank terms or provisions that we believe will pressure the city's liquidity. Most of the debt was placed with the Texas Water Development Board, which offers additional stability since it is a state agency.
- Terrell participates in Texas Municipal Retirement System, providing pension benefits for employees. An actuary determines the state-administered plan's contribution rates annually. For more information, see "Pension Spotlight: Texas," published April 4, 2023.
- For more information on our institutional framework assessment for Texas Cities, see "Institutional Framework Assessment: Texas Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

We evaluated Terrell's environmental, social, and governance factors relative to the economy, financial, and debt factors, and we believe all are neutral considerations in our credit analysis.

Outlook

The stable outlook reflects the city's growing tax base, improving general fund reserves supported by conservative budgeting and fiscal management policies and practices.

Downside scenario

We could lower the rating if Terrell's budgetary performance or general fund reserves deteriorate materially without plan to replenish them.

Upside scenario

We could raise the rating if the city's underlying economic and debt metrics improve materially to levels we consider comparable with those of higher-rated peers.

Table 1

Terrell, Texas--credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	2.60
Economy	5.0
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	3.00

Table 2**Terrell, Texas--key credit metrics**

	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	40	40	41	43
County PCPI % of U.S.	77	77	75	79
Market value (\$000s)	2,621,466	2,030,157	1,718,503	1,601,768
Market value per capita (\$)	131,679	101,977	89,965	88,633
Top 10 taxpayers % of taxable value	14.5	14.6	14.6	--
County unemployment rate (%)	4.3	4.1	3.8	4.9
Local median household EBI % of U.S.	84	84	81	--
Local per capita EBI % of U.S.	68	68	69	--
Local population	19,908	19,908	19,102	18,072
Financial performance				
Operating fund revenues (\$000s)	--	33,093	28,752	26,631
Operating fund expenditures (\$000s)	--	31,150	28,559	25,522
Net transfers and other adjustments (\$000s)	--	(1,937)	234	(345)
Operating result (\$000s)	--	6	427	764
Operating result % of revenues	--	--	1.5	2.9
Operating result three-year average %	--	1.5	3.4	2.7
Reserves and liquidity				
Available reserves % of operating revenues	--	18.1	20.8	20.9
Available reserves (\$000s)	--	5,990	5,984	5,556
Debt and liabilities				
Debt service cost % of revenues	--	8.0	8.9	8.4
Net direct debt per capita (\$)	5,950	5,983	3,990	4,446
Net direct debt (\$000s)	118,456	119,103	76,223	80,353
Direct debt 10-year amortization (%)	43	--	--	--
Pension and OPEB cost % of revenues	--	5.0	5.0	5.0
NPLs per capita (\$)	--	750	202	366
Combined NPLs (\$000s)	--	14,931	3,860	6,606

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. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings Detail (As Of March 28, 2025)

Terrell comb tax & W/S (ltd pledge) rev certs of oblig

<i>Long Term Rating</i>	AA/Stable	Upgraded
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Terrell comb tax & W/S (ltd pledge) rev certs of oblig (taxable)

<i>Long Term Rating</i>	AA/Stable	Upgraded
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Terrell GO rfdg bnd ser 2021 dtd 08/01/2021 due 02/15/2046

<i>Long Term Rating</i>	AA/Stable	Upgraded
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Many issues are enhanced by bond insurance.

Summary: Terrell, Texas; General Obligation

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 www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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