

Research Update:

Lubbock, TX Series 2026 Improvement And Refunding Bonds Assigned 'AA' Rating; Outlook Stable

March 10, 2026

Overview

- S&P Global Ratings assigned its 'AA' rating to Lubbock, Texas's series 2026 water and wastewater system revenue improvement and refunding bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' rating on the city's outstanding water and wastewater system revenue bonds.
- The outlook is stable.

Rationale

Security

Net revenue of the water and sewer system secures the debt. We view the bond provisions as credit neutral; these include a covenant to maintain a reserve fund equal to not less than maximum annual debt service (MADS) on parity bonds and to produce annual net revenue reasonably estimated to be not less than 1.25x MADS. Series 2026 bonds will fund portions of the system's capital program, primarily the West Lubbock water system expansion.

Credit highlights

The rating is supported by management's conservative and forward-looking planning, with practices that include front-loaded debt and extremely strong coverage targets, which we believe support coverage metrics that we expect will remain stable, if not improve over time. In addition, despite the downward trend in liquidity over recent years, which we understand was to support capital projects and accommodate rising expenses, management's projections anticipate a rebound in reserves. Unaudited fiscal 2025 results indicate reserves climbing above \$20 million to \$23 million and management expects this trend will continue. The rating also reflects our assessment of Lubbock's role as an economic anchor of the Texas Panhandle, which

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we view as supporting continued customer growth, as well as the presence of Texas Tech University, which serves as a stabilizing presence in the city.

The city's five-year capital improvement plan (CIP) totals \$260 million from fiscal years 2026 through 2031 and is primarily focused on supporting expansion and repair and replacements, with no regulatory mandated projects. Although management expects to issue almost \$167 million through fiscal 2031, debt service is projected to remain level, which we expect will support stable coverage metrics. The city does not expect to adjust rates during this five-year period; however, it does project improving coverage levels, which we attribute to customer growth, a levelling in expenses, and level debt service.

All-in coverage is S&P Global Ratings' adjusted debt service coverage (DSC) metric, which treats certain recurring financial obligations as if they were debt. In Lubbock's case, we incorporate the water and sewer portion of the city's general obligation (GO) debt, of which more than \$47.3 million of principal remained outstanding as of fiscal year-end 2026. We also make an adjustment to include transfer payments to the general fund for administrative costs, franchise fees, and payments in lieu of taxes (PILOTs) because we view them as a recurring use of utility revenue and we exclude the transfers for the capitalization of equipping them. We also include the city's minimum payments to the Canadian River Municipal Water Authority (CRMWA) as a fixed-cost expense of the utility. With all these considerations, all-in coverage remains low but adequate, ranging from 1.1x to 1.2x in recent years. We expect this metric to remain consistent, but it could improve depending on several factors, including customer growth, expense growth, annual hydrology, lower debt service requirements, or changes to the city's CIP.

Other key credit factors include the following factors:

- Rates are generally affordable, even with income indicators that are below the national average, although we believe income metrics reflect a large student population, with undergraduate and graduate students making up almost 20% of the total population. We view the city's local colleges and universities, including Texas Tech University, Lubbock Christian University, Wayland Baptist University, and South Plains College, as a stabilizing presence.
- Unrestricted liquidity has been declining for the past several years, as Lubbock used reserves for capital and to support rising expenses, although the city projects liquidity will rise.
- Credit-supportive operational and financial policies and practices include comprehensive asset management, a long-term and annually updated rate model with an emphasis on sustainable rates, and financial policies that require management to hold a minimum of 25% operating revenue as reserves.

Environmental, social, and governance

Overall, we view the city's environmental, social, and governance risks as credit neutral. However, we believe it is exposed to elevated and ongoing physical risks. Data from S&P Global Sustainable1 highlights how the county faces comparatively outsized exposure to physical risks, including drought, water scarcity, and wildfire; however, Lubbock has had robust drought management and water conservation plans in place for years, as well as a rate structure that encourages water conservation with pricing signals. The city also has a diverse raw water supply from both groundwater and surface water and uses both city-owned facilities and access to CRMWA, of which Lubbock is a member city and has an allocable share of 37%. Earlier in the decade, the authority made a substantial purchase in Roberts County to secure a long-term groundwater supply, although the delivery infrastructure is not planned to be in place until the next decade. Management's long-term goal is to use surface water almost exclusively, with the

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wells serving peak needs or contingencies in the event of severe drought. Management has also begun planning for future Lake Seven, which will service demand needs beginning in 2035.

We continue to view social and governance risks as credit neutral and current and projected rates as affordable. The city has an informal succession plan in place, as well as state-approved and comprehensive drought and disaster management plans. It conducts periodic external rate studies, which it uses in rate considerations during budgeting.

Outlook

The stable outlook reflects our view that management will continue to proactively manage the system in a responsive manner, including adjusting rates to support changes in expense assumptions. The outlook also reflects the service area's stable and growing economy as well as robust drought management planning, which we expect will also support financial metrics.

Downside scenario

We could lower the rating should liquidity as measured by days' cash fall to and remain below 90 days for an extended period or should there be a sustained drop in the system's all-in coverage metrics from current levels, all other factors remaining consistent.

Upside scenario

We could raise the rating should the system sustain material improvements in both its all-in DSC and liquidity to levels comparable with those of higher-rated peers, and should local income levels improve as the economy continues to expand.

Lubbock, Texas--economic and financial data

	Most recent	Fiscal year-end			
		2024	2023	2022	Median (AA)
Economic data					
MHHEBI of the service area as % of the U.S.	83.0				110.0
Unemployment rate (%)	3.5				3.6
Poverty rate (%)	17.1				10.0
Water rate (6,000 gallons or actual) (\$)	42.3				36.5
Sewer rate (6,000 gallons or actual) (\$)	39.8				41.0
Annual utility bill as % of MHHEBI	1.8				1.1
Operational management assessment	Good				Good
Financial data					
Total operating revenues (\$000s)		148,458	141,803	143,989	24,286
Total operating expenses less depreciation (\$000s)		79,699	74,358	66,653	17,090
Net revenues available for debt service (\$000s)		93,720	81,273	80,597	--
Debt service (\$000s)		73,466	67,602	62,874	--
S&P Global Ratings-adjusted all-in DSC (x)		1.3	1.2	1.3	2.2
Unrestricted cash (\$000s)		19,396	24,951	34,541	24,667
Days' cash of operating expenses		89	122	189	631
Total on-balance-sheet debt (\$000s)		390,165	497,385	472,200	39,844
Debt-to-capitalization ratio (%)		34.9	42.1	42.2	27.0

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Lubbock, Texas--economic and financial data

	Most recent	Fiscal year-end			Median (AA)
		2024	2023	2022	
Financial management assessment	Strong	--	--	--	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\$48,930,000 City of Lubbock, Texas, Water and Wastewater System Revenue Improvement and Refunding Bonds, Series 2026, dated: April 01, 2026, due: February 15, 2046

Long Term Rating AA/Stable

Ratings Affirmed

Water & Sewer

Lubbock, 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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