Research Update:

Beaumont, TX Series 2026 GO Bonds, Tax Notes, And Certifications Of Obligation Rated 'AA-'; Outlook Stable

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Overview

- S&P Global Ratings assigned its 'AA-' rating to **Beaumont**, Texas' anticipated $38.75 million series 2026 general obligation (GO) bonds, $3.16 million series 2026 tax notes, and $11.69 million series 2026 certificates of obligation (CO).
- At the same time, we affirmed our 'AA-' rating on the city's GO and CO debt outstanding.
- The outlook is stable.

Rationale

Security

A limited ad valorem tax, levied on all taxable property within the city, secures Beaumont's GO bonds, COs, and tax notes. Texas 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 permits the allocation of $1.50 of the $2.50 maximum tax rate for ad valorem tax debt service. Despite state statutory tax rate limitations, we do not differentiate between the city's limited-tax debt and its general creditworthiness since the ad valorem tax is not derived from a measurably narrower tax base and there are no limitations on the fungibility of resources, which supports our view of the city's overall ability and willingness to pay debt service.

The COs are additionally secured by a limited pledge of the surplus net revenues of the city's waterworks and sewer system. Given the limited nature of the additional pledged revenues, we base our ratings on these obligations on Beaumont's limited-tax GO pledge.

Proceeds from the series 2026 GO bonds will fund sidewalk, mobility, and drainage improvements. Tax note proceeds will fund fleet and city equipment.

Proceeds from the COs will fund park improvements, along with various streets, traffic equipment, drainage, and law enforcement related projects.

Credit highlights

The rating reflects our view of the city's large economy with below-average incomes and elevated debt and liability profile. It also reflects our opinion of the city's strong reserve position; however, if reserves decline materially in fiscal 2027 and we do not believe Beaumont has a sufficient plan to restore reserves, we would view this as weakening credit quality.

General fund operations have been consistently negative, with the city expecting its fourth consecutive deficit for fiscal 2026 (year-ended Sept. 30). Officials project this deficit will be about $7.5 million (4.4% of budgeted revenues), which is a larger budget gap than the last three audits; however, this is a conservative estimate for year-end results. Management attributes the deficits to increased personnel expenditures and interfund support, and officials are working to reduce the budget gap by seeking ways to raise revenues and lower expenditures, including evaluating healthcare cost-saving initiatives, reducing fire department overtime, and considering a freeze on vacant positions.

Although the budget for fiscal 2027 has not yet been adopted, officials anticipate adopting a budget that is closer to balanced than that of fiscal 2026. Because fund balance has significantly declined and management anticipates further reductions, we view its ability to make material progress in closing the budget gap by fiscal 2027 as critical to maintaining credit quality.

The rating further reflects our view of the following factors:

- The economy in southeast Texas is focused on oil and gas; however, Beaumont's tax base is not concentrated, nor does it have high exposure to volatile industries. Economic development with industrial, commercial, and residential properties continues to drive taxable AV increases, which management expects will continue and contribute to revenue growth.
- Physical risk is elevated due to potential hurricanes and flooding based on its proximity to the Gulf Coast, although these risks are somewhat offset by the maintenance of healthy reserves that mitigate unexpected weather-related costs. We also view climate transition risks as elevated due to the city's exposure to the petrochemical industry, which heightens its vulnerability to potential shifts to renewable energy initiatives that could lead to long-term economic stagnation. However, considering the petrochemical industry's critical role in the global economy, we anticipate Beaumont will effectively navigate sustainability pressures and adapt to the evolving global landscape.
- Financial performance recently weakened, with pressures stemming from increasing personnel costs, and we expect this will continue in the near term; however, reserves are healthy and the city plans to maintain fund balance above its formal policy that requires 20% of expenditures in reserves.
- Management policies and practices are highlighted by monthly budget monitoring and reporting to city council, a five-year capital improvement plan, and formal policies related to investments, debt, and reserves. The city's cybersecurity risk mitigation measures are in line with our view of its overall credit quality.
- The debt and pension liability profile is elevated and additional debt issuances are likely throughout the next two years as Beaumont addresses its Community Investment Plan. The plan shows $256 million in debt supported by ad valorem taxes in 2027 and 2028, and we have incorporated this potential debt into our analysis, although actual debt issuance will be determined based on council approval and timing of construction.
- The city's Firemen Relief Retirement Fund, its single-employer defined-benefit plan, has a low funded ratio and plan contributions have been well below our minimum funding progress metric. The city recently lowered the discount rate to 6.8% from 7.5%, which we believe

reduces the contribution volatility risk, and management plans to increase its contribution rate over the next few years. While we view the contribution rate increases positively, we do not expect material improvement in funding within our two-year outlook and will continue to monitor the city's funding progress, as we believe this pension plan could contribute to credit pressure in the long term. We do not expect near-term risk from the city's participation in the Texas Municipal Employees Retirement System.

- For more information on our institutional framework assessment for Texas municipalities, see "Institutional Framework Assessment: Texas Local Governments," Sept. 9, 2024.

Outlook

The stable outlook reflects our expectation that the city's operations will be significantly closer to balanced by fiscal 2027, and that it will maintain general fund reserves above its policy of 20% of expenditures.

Downside scenario

If financial performance is notably worse than the projected $7.5 million deficit in fiscal 2026, or if the city does not make progress in closing the budget gap in fiscal 2027 and we do not believe it will maintain balanced-to-positive results beyond this, we could take a negative rating action.

Upside scenario

While we view a higher rating as unlikely in our two-year outlook, if the city's debt and long-term liabilities profile and economic metrics improve to levels commensurate with those of higher-rated peers while it grows reserves, we could raise the rating.

City of Beaumont, Texas--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	3.02
Economy	3.0
Financial performance	3
Reserves and liquidity	2
Management	2.35
Debt and liabilities	4.75

City of Beaumont, Texas--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	124	--	124	112
County PCPI % of U.S.	73	--	73	72
Market value ($000s)	11,214,669	10,987,681	10,517,778	9,477,689
Market value per capita ($)	100,389	98,357	94,151	83,415
Top 10 taxpayers % of taxable value	7.1	7.3	7.7	7.7
County unemployment rate (%)	5.4	5.7	5.9	6.0
Local median household EBI % of U.S.	77	--	77	78

City of Beaumont, Texas--key credit metrics

	Most recent	2025	2024	2023
Local per capita EBI % of U.S.	82	--	82	87
Local population	111,712	--	111,712	113,621
Financial performance				
Operating fund revenues ($000s)	--	155,140	146,355	141,609
Operating fund expenditures ($000s)	--	158,049	155,572	148,753
Net transfers and other adjustments ($000s)	--	618	5,688	1,167
Operating result ($000s)	--	(2,291)	(3,529)	(5,977)
Operating result % of revenues	--	(1.5)	(2.4)	(4.2)
Operating result three-year average %	--	(2.7)	(2.0)	(0.7)
Reserves and liquidity				
Available reserves % of operating revenues	--	26.4	29.5	32.2
Available reserves ($000s)	--	40,944	43,169	45,653
Debt and liabilities				
Debt service cost % of revenues	--	9.8	9.7	9.9
Net direct debt per capita ($)	2,064	1,803	1,732	1,687
Net direct debt ($000s)	230,552	201,472	193,533	191,652
Direct debt 10-year amortization (%)	63	73	73	--
Pension and OPEB cost % of revenues	--	13.0	13.0	12.0
NPLs per capita ($)	--	1,446	1,564	2,257
Combined NPLs ($000s)	--	161,587	174,728	256,429

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$11,690,000 City of Beaumont, Texas, (A political subdivision of the State of Texas located within Jefferson County, Texas), Certificates of Obligation, Series 2026, dated: August 1, 2026, due: March 1, 2046	
Long Term Rating	AA-/Stable
US$3,160,000 City of Beaumont, Texas, (A political subdivision of the State of Texas located within Jefferson County, Texas), Tax Notes, Series 2026, dated: July 1, 2026, due: March 1, 2033	
Long Term Rating	AA-/Stable
US$38,750,000 City of Beaumont, Texas, (A political subdivision of the State of Texas located within Jefferson County, Texas), General Obligation Bonds, Series 2026, dated: July 01, 2026, due: September 01, 2051	
Long Term Rating	AA-/Stable
Ratings Affirmed	
Local Government	
Beaumont, TX Limited Tax General Operating Pledge	AA-/Stable
Beaumont, 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.

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 https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.