Research Update:

Beaumont, TX Series 2026 Waterworks And Sewer System Revenue Bonds Rated 'A'; Outlook Stable

August 3, 2026

Overview

- S&P Global Ratings assigned its 'A' long-term rating to Beaumont, Texas' series 2026 waterworks and sewer system revenue bonds.
- At the same time, we affirmed our 'A' rating on the city's existing revenue bonds.
- The outlook is stable.

Rationale

Security

Net revenues of the waterworks and sewer system secure the bonds. We consider legal provisions credit neutral, with a rate covenant set at 1.10x annual debt service, and an additional bonds test of 1.25x annual debt service on outstanding and proposed bonds. A debt service reserve fund will not be established.

We understand proceeds from this issue will be used to finance the cost of various capital needs for both the water and sewer systems.

Following this issuance, the system will have roughly $237.3 million of revenue debt outstanding.

Credit highlights

A relatively stable customer base with ample system capacity and affordable rates supports the rating. However, while all-in coverage has seen improvements in recent years due to rate increases, we believe coverage will moderate as debt service from this issuance as well as additional planned debt issuance through 2030 is layered in. Furthermore, we believe all-in coverage is affected by considerable transfers out of the utility leading to lowered all-in DSC. Beaumont's city charter specifies that the utility fund can transfer as much as 20% of prior-year revenue to the general fund; the transfer out has averaged 18% of operating revenue in the last three years. Utility management plans to examine its waterworks and sewer rates annually, raising rates as needed to maintain financial health.

In our opinion, the rating on the system also reflects the following factors:

Primary Contact

Danielle L Leonardis
Trenton
1-212-438-2053
danielle.leonardis
@spglobal.com

Secondary Contact

Timothy P Meernik
Englewood
+ 1 (303) 721 4786
timothy.meernik
@spglobal.com

- Sizable and relatively stable primarily residential customer base located in a service area anchored in petrochemicals and manufacturing that has experienced modest population decline;
- Ample system capacity to meet customer's water and sewer needs for the next several years;
- Affordable combined monthly water and sewer rates representing roughly 1.87% of median household effective buying income (MHHEBI), which we believe should remain manageable after factoring in planned, although not yet adopted, annual rate increases through 2031 ranging from 4.9% to 12% for both water rates and sewer rates. While we believe rates should remain affordable over the next few years, should adopted rate increases be greater than proposed, both the system's future affordability and flexibility could be pressured over time, given the service area's below-average incomes;
- Although physical risks are relevant and somewhat elevated for the city given its location near the Gulf Coast and its susceptibility to hurricanes (such as Hurricane Harvey in 2017, Tropical Storm Imelda in 2019, and Hurricane Laura in 2020), we acknowledge the utility's ability to identify system vulnerabilities and take the necessary action to correct them. In particular the city added new raw water pump stations and water lines for redundancy and elevated sites to mitigate against flooding. In addition, the city continues to work with FEMA to further address concerns. In addition, the systems have been working for several years with the Texas Commission on Environmental Quality on a sanitary sewer overflow initiative. Management has indicated that there has been no significant impact on revenues during these times;
- Standard operational and fiscal policies and practices highlighted by addressing and planning for ongoing capital needs through its formal rolling five-year capital plan, yet the system lacks multi-year financial forecasting, which can provide a more predictable framework for financial performance and help identify problems. In addition, our view of governance risks is weakened by transfers that have caused periods of cash flow draws, despite specified limits on the transfer amount to the general fund;
- Healthy all-in coverage closing at 1.9x for fiscal 2025, which is projected to moderate as additional debt is layered on over the next several years, yet we expect coverage to remain at least adequate levels despite recurring transfers given sufficient anticipated future rate increases;
- Sufficient liquidity to meet operational and financial challenges, closing fiscal 2025 with $13.3 million or 118 days' cash on hand, which management has indicated should remain consistent over the near-term;
- Elevated debt burden, with a debt-to-capitalization ratio of 59%, which we expect to modestly weaken in the coming years as the utility issues additional debt totaling roughly $134.1 million through 2030 for its capital improvement plan (CIP).

Outlook

The stable outlook reflects the stable service area coupled with the expectation of the maintenance of healthy debt service coverage and strong cash position in the wake of ongoing future capital needs.

Downside scenario

In our opinion, should the economic base weaken and cash and coverage metrics decline to levels no longer in-line with peers either from unforeseen operating or capital expenditures or increased transfers, which are not met with sufficient rate increases, we could lower the rating.

Upside scenario

, We could raise the rating should economic indicators improve and coverage metrics be sustained at very strong levels along with improved cash levels, as the system carries out its capital plan.

City of Beaumont, Texas--economic and financial data

		Fiscal year-end			
	Most recent	2025	2024	2023	Median (A)
Economic data					
MHHEBI of the service area as % of the U.S.	77.0				86.0
Unemployment rate (%)	4.9				4.0
Poverty rate (%)	21.3				13.1
Water rate (6,000 gallons or actual) ($)	40.0				42.4
Sewer rate (6,000 gallons or actual) ($)	41.0				42.0
Annual utility bill as % of MHHEBI	1.9				1.3
Operational management assessment	Standard				Standard
Financial data					
Total operating revenues ($000s)		74,559	61,328	57,658	4,663
Total operating expenses less depreciation ($000s)		41,188	38,572	40,703	3,591
Net revenues available for debt service ($000s)		41,802	36,986	24,495	--
Debt service ($000s)		21,882	18,953	17,233	--
S&P Global Ratings-adjusted all-in DSC (x)		1.9	1.9	1.4	1.6
Unrestricted cash ($000s)		13,343	10,735	12,900	3,895
Days' cash of operating expenses		118	102	116	502
Total on-balance-sheet debt ($000s)		237,298	217,025	168,412	11,076
Debt-to-capitalization ratio (%)		58.5	60.0	57.9	45.0
Financial management assessment	Standard	--	--	--	Standard

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$34.630 mil wtrwks and swr sys rev bnds ser 2026 dtd 06/15/2026 due 09/01/2051	
Long Term Rating	A/Stable
Ratings Affirmed	
Water & Sewer	
Beaumont, TX Water and Sewer System 2nd Lien	A/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.