

25 SEP 2025

# Fitch Rates Orange County Sanitation District, CA Rev Obligations 'AAA'; Outlook Stable

Fitch Ratings - San Francisco - 25 Sep 2025: Fitch Ratings has assigned a 'AAA' rating to the following obligations issued by the Orange County Sanitation District, CA (OC San):

--\$96.1 million wastewater refunding revenue obligations series 2025A.

The bond proceeds will be used to prepay the wastewater refunding revenue obligations series 2016A for savings. The bonds are expected to price via competitive sale on or around the week of October 6.

Fitch has also affirmed the ratings on the following OC San obligations (pre-refunding):

--\$572 million wastewater revenue obligations at 'AAA';

--Issuer Default Rating (IDR) of the district at 'AAA'.

The Rating Outlook is Stable.

The 'AAA' wastewater revenue obligation rating along with the 'AAA' IDR reflect the district's 'Exceptionally Strong' financial profile within the framework of 'Very Strong' revenue defensibility and 'Very Strong' operating risk profile, both assessed at 'aa'. The district's leverage of -0.4x in fiscal 2024 (ended June 30), measured as net adjusted debt to adjusted funds available for debt service (FADS), indicates cash and investments available for debt service being greater than net adjusted debt. It is projected to remain exceptionally low with a peak of -0.1x over the next five years in Fitch's Analytical Stress Test (FAST) rating case, providing ample headroom relative to the rating.

## SECURITY

The revenue obligations are secured by installment payments to the Orange County Sanitation District Financing Corporation, CA (the corporation) from the district under a pledge of OC San's net wastewater revenues.

## KEY RATING DRIVERS

### Revenue Defensibility - 'aa'

Very Favorable Service Area, Affordable Rates for the Vast Majority of the Population

The district retains the legal authority to adjust rates as needed without external oversight. Fitch considers the monthly residential sewer bill affordable for around 94% of the service area population,

based on a standard monthly usage of 6,000 gallons. The very favorable service area is characterized by stronger income levels, a moderate unemployment rate relative to the nation and midrange customer growth.

Customer growth registered a five-year compound annual growth rate of 0.4% as of fiscal 2024. Income levels are about 45% higher than the national median as of 2023. The unemployment rate was 3.9% in 2024 and has averaged 101% of the national level over the past five years.

### **Operating Risk - 'aa'**

#### **Very Low Operating Cost Burden, Moderate Investment Needs**

In fiscal 2024, the system's operating cost burden was considered very low at \$4,811 per million gallons (mg), consistent with the operating risk assessment. The life cycle ratio was low at 41% in fiscal 2024. Capex to depreciation has been strong averaging 155% over the last five fiscal years from 2020 to 2024. Planned capital spending for the next five years should generally outpace historical depreciation, supporting a continued low life cycle ratio.

Five-year planned capital spending (2025-2029) totals \$1.47 billion and the most recent 10-year capital improvement plan (CIP) covering fiscal 2026 to 2035 totals \$3.6 billion, including project savings and deferrals. The bulk of the spending is for rehabilitation and replacement projects with other spending also dedicated to strategic initiatives and additional capacity. Given the relatively built-out nature of the district's service area and the expectations of fairly flat sewer flows going forward, current capacity is considered sufficient. The entire CIP will be supported by pay-as-you-go funding with no additional debt expected.

### **Financial Profile - 'aaa'**

#### **Leverage to Remain Extremely Low**

The district had leverage of -0.4x as of fiscal 2024 since available cash exceeds adjusted debt. This compares with the prior four-year average of 0.2x. The liquidity profile is neutral to the overall assessment, with current days cash on hand of 1,365 and coverage of full obligations (COFO) of 3.2x. Fitch-calculated total debt service coverage was 3.2x in fiscal 2024.

The FAST considers the potential trend of key ratios in a base case and stress scenario over a five-year period. The stress scenario is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios. The FAST reflects Fitch's view of a reasonable scenario, which is generally informed by publicly available or management-provided information with respect to capex, user charges, and rate of revenue and expenditure growth.

In the base case scenario, the leverage ratio is expected to decline to -0.5x through fiscal 2029. In the stress scenario, which is considered the rating case, the leverage ratio is projected to increase to -0.1x over the next five years. The negative leverage continues to be a result of available cash exceeding debt. The liquidity profile is expected to remain neutral to the assessment over the five-year horizon.

## **Asymmetric Additional Risk Considerations**

No asymmetric additive risk considerations affected this rating determination.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--Sustained increase in leverage approximating 5.0x or higher in Fitch's base and stress cases provided stability in the revenue defensibility and operating risks assessments.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

-- The ratings are at the highest level on Fitch's scale and cannot be upgraded.

## **PROFILE**

The district provides wastewater collection, treatment, and disposal services to about 81% of the population of Orange County, CA (IDR AAA/Stable), equal to approximately 2.6 million residents over 479 square miles in the northern and central portions of the county. OC San is a special district formed pursuant to the County Sanitation District Act and governed by a 25-member board of directors appointed from 20 cities, two sanitary districts, two water districts and one representative from the Orange County Board of Supervisors.

The district's two wastewater treatment plants (WWTPs) treat effluent received from the collection systems of the cities and sanitation districts in its boundaries. The combined primary and secondary treatment capacity of the WWTPs is 376 million gallons per day (mgd) and 332 mgd, respectively. Treatment Plant No. 1 provides up to 182 mgd of secondary treated effluent, which is conveyed to Orange County Water District (OCWD; IDR AAA/Stable) for tertiary treatment and subsequent groundwater recharge. Treatment Plant No. 2 also provides secondary treatment but conveys treated effluent to a five-mile-long ocean outfall pipe.

## **Sources of Information**

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from DIVER by Solve.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG Considerations**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and

materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY		PRIOR
Orange County Sanitation District (CA)	LT IDR	AAA 	Affirmed		AAA 
<div>• Orange County Sanitation District (CA)</div>	LT	AAA 	Affirmed		AAA 

ENTITY/DEBT	RATING	RECOVERY	PRIOR
/Sewer Revenues/ 1 LT			

## RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◆
NEGATIVE	⊖	◆
EVOLVING	◊	◆
STABLE	◐	

## Applicable Criteria

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub.10 Jan 2025\) \(including rating assumption sensitivity\)](#)

[U.S. Water and Sewer Rating Criteria \(pub.24 Feb 2025\) \(including rating assumption sensitivity\)](#)

## Additional Disclosures

[Solicitation Status](#)

## Endorsement Status

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each

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