S&P Global
Ratings

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Research Update:

Petaluma, CA Series 2026 Wastewater Revenue Bonds Assigned 'AA+' Rating

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Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to **Petaluma**, California's approximately $63 million series 2026 wastewater revenue bonds.
- At the same time, we affirmed our 'AA+' long-term rating on the city's wastewater revenue debt outstanding.
- The outlook is stable.

Rationale

Security

Net revenues from the wastewater system secures the bonds. Legal provisions for the 2026 bonds include a 1.2x rate covenant and a 1.25x maximum annual debt service additional bonds test that operates on a historical basis but permits revenue adjustments to reflect future system improvements and service rate changes that have been in effect for fewer than 12 months. There is no debt service reserve, which we do not currently view as a credit risk given the district's healthy cash position, which is sufficient to support total outstanding debt. The city had approximately $56.7 million in wastewater system debt outstanding as of fiscal 2025 (year-end June 30).

The bonds will finance the Parallel Force Main Project and the Pump Station Replacement Project.

Credit highlights

The rating reflects our view of the city's extremely strong economic fundamentals, management's forward-looking financial and capital planning, and extremely strong all-in coverage that is anticipated to remain so in our two-year outlook. Further supporting the rating is our view of the wastewater system's robust cash reserves position that is anticipated to remain sufficient in our view even with plans to fund pay-go capital. The rating is tempered by our view of its potential affordability pressures, particularly compared to higher-rated peers.

The city's wastewater rates will be adjusted by approximately 5% annually through 2028. We understand the city is in progress of updating its rate study, which is anticipated to be completed during 2027. We note that the city has regularly updated and adopted rate increases.

We view the wastewater system's capital improvement plan (CIP) as manageable at $132 million from fiscal years 2027 through 2031; the series 2026 bonds will support the CIP. Petaluma's asset management and capital prioritization process also supports the CIP, which we believe will continue to underpin operational and financial stability.

The rating also reflects our view of the wastewater system's:

- Participation in the Sonoma-Santa Rosa metropolitan service area, approximately 40 miles north of San Francisco, with income indicators above the national average and a largely residential service area;
- Affordable service rates, which consist of a fixed monthly service charge by user type plus a cubic feet rate for users;
- Robust reserve levels, even after we consider the city's plans to draw on cash reserves for pay-go capital in the next few years;
- Modest debt-to-capitalization ratio with the series 2026 issuance, which would increase the system's debt to about $120 million. We maintain a conservative view on the city's debt-to-capitalization ratio, which we believe could weaken with potential plans to issue $25 million of new debt in 2027; and
- Financial management policies and practices that we view as credit stabilizing, including long-range capital and financial planning, regularly updated rate studies, and codified financial policies like a formalized 25% operating reserve target for the system.

Environmental, social, and governance

We view the city as facing elevated environmental risk due to the region's susceptibility to wildfires, drought, and earthquakes. Sonoma County is highly susceptible to wildfire, most recently experiencing a significant wildfire in 2017, which remains the county's primary natural hazard threat. County voters approved the Measure H sales tax in March 2024, with no sunset date, to fund new and ongoing fire operational costs and mitigation measures. We believe seismic risks have been substantially managed through the state's strong building codes, and the county has a formal climate action and resiliency office that engages in planning for wildfires and other natural disaster risks.

Although the wastewater system is pending permit renewals, we understand that this is not due to any pending regulatory issues or requirements, and the city remains in compliance with ongoing permit requirements.

We view the social and governance risks as neutral in our credit analysis. The city has formal and proactive long-term capital and financial planning, which is supportive of our view that governance is in line with its peers. Furthermore, we view social risks as neutral given that proposed rate adjustments are expected to remain affordable in the context of local incomes.

Outlook

The stable outlook reflects our view that the city's rate increases, proactive capital planning, and manageable capital plan will continue to preserve financial metrics that we view as commensurate with the current rating.

Downside scenario

We could lower the rating should financial metrics materially weaken, either due to the wastewater system's capital or debt plans unexpectedly exceeding current expectations.

Upside scenario

We could raise the rating if the wastewater system's reserves increase significantly, such that its reserve levels are comparable to those of higher rated peers, and if our market position assessment improves.

Petaluma, California--economic and financial data

		Fiscal year-end			
	Most recent	2025	2024	2023	Median (AA+)
Economic data					
MHHEBI of the service area as % of the U.S.	143.0				112.0
Unemployment rate (%)	3.9				3.4
Poverty rate (%)	8.4				10.2
Water rate (6,000 gallons or actual) ($)	0.0				33.9
Sewer rate (6,000 gallons or actual) ($)	95.2				38.6
Annual utility bill as % of MHHEBI	1.2				1.0
Operational management assessment	Good				Good
Financial data					
Total operating revenues ($000s)		32,443	30,914	31,725	41,982
Total operating expenses less depreciation ($000s)		20,447	17,576	15,152	31,740
Net revenues available for debt service ($000s)		22,150	15,569	18,654	--
Debt service ($000s)		8,577	8,577	8,564	--
S&P Global Ratings-adjusted all-in DSC (x)		2.6	1.8	2.2	2.5
Unrestricted cash ($000s)		44,190	50,033	55,230	55,536
Days' cash of operating expenses		789	1,039	1,330	650
Total on-balance-sheet debt ($000s)		56,703	64,150	71,322	74,352
Debt-to-capitalization ratio (%)		27.0	24.8	27.7	25.0
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$64,005,000 City of Petaluma, California, 2026 Wastewater Revenue Bonds, Series 2026, dated: Date of Delivery, due: May 1, 2051	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Water & Sewer	
Petaluma, CA 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.