Research Update:

Orange County Sanitation District, CA Series 2026A Wastewater Revenue Refunding Obligations Assigned 'AAA' Rating

September 29, 2026

Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to Orange County Sanitation District, California's approximately $48.79 million series 2026A wastewater refunding revenue obligations.
- At the same time, we affirmed our 'AAA' long-term rating on the district's parity obligations.
- The outlook is stable.

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Rationale

Security

The bonds are payable from installment payments secured by the district's net revenue. Proceeds of the 2026A obligations will be used to refund the district's series 2017A obligations. The district has $657 million in long-term debt outstanding. We view bond provisions as credit-neutral. The district has its own debt service reserve funded at 10% of the value of its outstanding certificates of participation.

Credit highlights

Highly supportive financial management and an entirely cash-funded capital program underpin the rating. The district’s financial performance is expected to remain well above that of median utilities, incorporating annual modest rate increases, with above 5.0x all-in coverage and liquidity reserves of greater than three years’ operating expenses. While the system’s capital plan is large at $3.6 billion over the next ten years, it will be paid through ongoing operating margins, thereby keeping the district’s debt burden very low. Management currently forecasts annual capital expenditures of near $300 million. In addition, capital needs largely focus on renewal and replacement, which we view favorably. Further credit stability is provided by the district's sewer charges, which are collected under the county property tax roll and serve as a fixed customer charge, guaranteeing 100% payment under the Teeter Plan.

Further credit factors include:

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- Primarily residential customer base in an affluent and diverse service area, with the district serving approximately 60% of the county.
- Very affordable sewer rates. The district will increase sewer charges by 3.5% annually through 2028.
- Operational management practices and policies that we consider strong, reflecting the district's robust asset management program and overall system integrity and planning, including regularly updated strategic initiatives, a climate resiliency study, emergency response programs, and an updated biosolids master plan. Cybersecurity protocols are also embedded in managerial practices.
- Regulatory and environmental risks are limited at the district and are well incorporated within five long-term and strategic management plans. Through a long-standing partnership with the Orange County Water District, the district's groundwater replenishment system produces 130 million gallons per day of drinking water from wastewater that the district would have previously discharged into the Pacific Ocean. In our view, this is a desirable commodity for the region and provides strong environmental stewardship.
- Management predicts reserves may dip to $639 million by 2035, a level we still view as credit-supportive.
- Robust and transparent long-range financial planning, including quarterly financial reports to the board, well-defined reserve policies, and formal investment and debt management policies, together support our assessment of management's forward-looking practices and the continued strength of the district's financial profile.

Rating above the sovereign

The long-term rating is above our rating on the U.S., reflecting the district's predominantly locally derived revenue base, with operating expense flexibility that limits its exposure to federal revenue, in our view. Given the district's exceptional management practices and very good transparency and disclosure, we view it as having strong market access, which is also supportive of its credit quality.

Outlook

The stable outlook reflects our anticipation that the district will continue to adjust service rates to meet its revenue and capital requirements, thereby producing continued wide margins and robust all-in coverage metrics.

Downside scenario

Although we do not expect it at this time, we could take a negative rating action if the district's plans materially change, particularly if the capital improvement plan funding shifts to require a significant amount of debt, resulting in diluted coverage metrics, or if reserve targets decline and the district significantly spends down reserves.

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Orange County Sanitation District, California--economic and financial data

		Fiscal year-end			
	Most recent	2025	2024	2023	Median (AAA)
Economic data					
MHHEBI of the service area as % of the U.S.	136.0				115.8
Unemployment rate (%)	4.2				3.4
Poverty rate (%)	9.7				10.1
Water rate (6,000 gallons or actual) ($)	--				
Sewer rate (6,000 gallons or actual) ($)	32.0				
Annual utility bill as % of MHHEBI	0.4				1.0
Operational management assessment	Strong				Good
Financial data					
Total operating revenues ($000s)		354,411	339,654	332,782	88,628
Total operating expenses less depreciation ($000s)		237,925	222,672	207,212	58,349
Net revenues available for debt service ($000s)		329,095	331,172	283,734	29,124
Debt service ($000s)		61,230	61,800	67,948	11,512
S&P Global Ratings-adjusted all-in DSC (x)		5.4	5.4	4.2	3.0
Unrestricted cash ($000s)		900,887	832,857	990,022	113,340
Days' cash of operating expenses		1,382	1,365	1,744	738
Total on-balance-sheet debt ($000s)		656,980	696,866	885,409	152,068
Debt-to-capitalization ratio (%)		16.3	18.0	22.9	24.6
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$48,790,000 Orange County Sanitation District, California, Wastewater Refunding Revenue Obligation, Series 2026A, dated: Date of Delivery, due: February 1, 2030	
Long Term Rating	AAA/Stable
Ratings Affirmed	
Water & Sewer	
Orange County Sanitation District, CA Sewer System Revenues	AAA/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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