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FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Orange County Sanitation District, CA Revs 'AAA'; Outlook Stable

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Fitch Ratings - San Francisco - 29 Sep 2026: Fitch Ratings has assigned a 'AAA' rating to Orange County Sanitation District, CA's (OC San) $48.8 million wastewater refunding revenue obligations, series 2026A.

The bonds are expected to be priced through competitive sale on or around the week of October 5.

Fitch has also affirmed the 'AAA' ratings on the outstanding Fitch-rated district obligations and the district's Issuer Default Rating (IDR).

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING TYPE	RATING	RATING ACTION	PRIOR
Orange County Sanitation District (CA)	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Orange County Sanitation District (CA) /Sewer Revenues/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

The 'AAA' wastewater revenue obligation rating along with the 'AAA' IDR reflect the district's 'Exceptionally Strong' financial profile, supported by 'Very Strong' revenue defensibility and 'Very Strong' operating risk profile. Fitch assesses both at 'aa'. The district's leverage was negative 0.4x in fiscal 2025, which ended June 30. Fitch measures leverage as net adjusted debt to adjusted funds available for debt service (FADS). The negative leverage indicates that cash and investments available for debt service exceed net adjusted debt. Fitch expects leverage to remain below 1.0x around negative 0.7x over the next five years in Fitch's Analytical Stress Test (FAST) rating case. This provides ample headroom within the rating category.

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 without external oversight. Fitch considers the monthly residential sewer bill affordable for about 94% of the service area population, based on standard monthly usage of 6,000 gallons. The very favorable service area is characterized by stronger income levels and a moderate unemployment rate relative to the nation, despite a slightly declining customer base. Customer count has declined with five-year compound annual growth rate (CAGR) of negative 0.20% in fiscal 2025. Income levels are stronger, with median household income (MHI) equal to nearly 144% of the national median as of 2024. The unemployment rate was 4% in 2025 and averaged about 98% of the national level over the past five years.

Operating Risk - 'aa'

Very Low Operating Cost Burden, Moderate Investment Needs

In fiscal 2025, the system's operating cost burden was very low, at $5,482 per million gallons (mg), consistent with the operating risk assessment. The life cycle ratio was low at

41% in fiscal 2025. Capex to depreciation averaged 170% over the last five fiscal years from 2021 through 2025. Planned capital spending for the next five years is expected to generally outpace historical depreciation, supporting a continued low life cycle ratio.

Five-year planned capital spending for 2026-2030 totals $1.5 billion. The most recent 10-year capital improvement plan (CIP) covering fiscals 2027-2036 totals $3.6 billion, including project savings and deferrals, with all expected to be funded with pay-go funding. Most spending is for rehabilitation and replacement projects. Given the relatively built-out nature of the district's service area and the expectations of flat sewer flows going forward, current capacity is considered sufficient.

Financial Profile - 'aaa'

Very Low Leverage to Decrease

The district leverage was negative 0.4x in fiscal 2025 since available cash exceeds adjusted debt. The liquidity profile is neutral for the overall assessment, with 1,382 days cash on hand and coverage of full obligations (COFO) of 4.4x. Fitch-calculated total debt service coverage was 4.4x in fiscal 2025.

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

In the base case scenario, the leverage ratio is expected to decline to about negative 1.1x over the next five years. In the stress scenario, which Fitch considers the rating case, the leverage ratio is expected to decrease to about negative 0.7x over the next five years. 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 to about 5.0x or higher in Fitch's base and stress cases, with stability in the revenue defensibility and operating risk 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.

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.

CLIMATE VULNERABILITY SIGNALS

The results of our Climate.VS screener did not indicate an elevated risk for Orange County Sanitation District (CA).

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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APPLICABLE CRITERIA

U.S. Water and Sewer Rating Criteria (pub. 17 Feb 2026) (including rating assumption sensitivity)

U.S. Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 May 2026) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Orange County Sanitation District (CA)	EU Endorsed, UK Endorsed

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