CREDIT OPINION
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Orange County Sanitation District, CA

Update to credit analysis

Summary

Orange County Sanitation District, CA's (Aaa stable) strong credit profile reflects the district's large service area with a diverse and stable customer base. The district has very strong reserves with over 1,240 days cash on hand and consistently robust debt service coverage that exceeds 5.0x. The district has unusually strong revenue reliability due to its participation in the county Teeter Program and high proportion of service charges being paid by residential and commercial customers through semi-annual property tax bills.

The debt burden is relatively low at 1.8x revenue and will continue to decline given absence of any near-term borrowing plans. The district maintains ten-year capital plan that aims to address sizeable system upgrades, primarily to address rehabilitation and replacement needs, and management expects to cash fund these improvements. As such days cash on hand will decline over the next five years but remain strong, supported by management's commitment to adopting annual rate increases.

Credit strengths

» Exceptionally large, diverse and stable ratepayer base

» Strong debt service coverage supported by approved multiyear rates

» Consistently robust liquidity

Credit challenges

» Sizeable capital needs outlined in the 10 year capital plan

» Future risk of weather variability

Rating outlook

The stable outlook reflects our expectation that the district will continue to maintain a strong financial position supported by good governance practices and adopted rate increases through 2028. The outlook also incorporates the district's large and stable service area with a diverse ratepayer base.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Material declines in debt service coverage to below 3.0x

» Significant reduction in available liquidity below targets or 500 DCOH

Key indicators

Exhibit 1

Orange County Sanitation District, CA					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	24 years				
System Size - O&M (in $000s)	$233,870				
Service Area Wealth: MFI % of US median	133%				
Legal Provisions					
Rate Covenant (x)	1.25				
Debt Service Reserve Requirement	No DSRF (Baa and Below)				
Management					
Rate Management	Aaa				
Regulatory Compliance and Capital Planning	Aaa				
Financial Strength					
	2021	2022	2023	2024	2025
Operating Revenue ($000)	$336,700	$329,095	$332,781	$339,654	$354,411
System Size - O&M ($000)	$179,163	$186,282	$202,243	$222,586	$233,870
Net Revenues ($000)	$314,588	$252,171	$309,632	$347,513	$348,044
Net Funded Debt ($000)	$909,620	$819,843	$790,391	$607,029	$636,647
Annual Debt Service ($000)	$65,267	$75,400	$55,928	$68,982	$61,229
Annual Debt Service Coverage (x)	4.8x	3.3x	5.5x	5.0x	5.7x
Cash on Hand	1,957	1,902	1,787	1,366	1,406
Debt to Operating Revenues (x)	2.70	2.49	2.38	1.79	1.80

Source: Orange County Sanitation District, CA and Moody's Ratings

Profile

Orange County Sanitation District is a public agency responsible for regional wastewater collection, treatment and disposal. The district is the sixth largest wastewater discharger in the United States, providing service to a 479 square mile area with a population of approximately 2.6 million people in the northern and central portion of Orange County.

Detailed credit considerations

Service area and system characteristics: exceptionally large, diverse service area with reliable customer base

The district will remain firmly positioned as a critical wastewater discharger, serving 81% of Orange County's population across 20 cities and four special districts. The service area's assessed valuation reached $645 billion in fiscal 2026 and median family income is strong at 133% of the national level, supporting capacity to accommodate the planned rate increases. The customer base is diverse, with 95% of revenue collected from residential and commercial users paying flat fees. Industrial users account for 5%, and the top 10 customers represent just 2.8% of total charges.

The district operates two large reclamation plants with a combined secondary treatment capacity of 332 million gallons per day (MGD), well above fiscal 2026 average daily flow of 195 MGD. The average annual rate for single family residences is $397 for fiscal 2027, which remains far below other large California metropolitan wastewater utilities.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Debt service and liquidity: multiyear rate increases supports strong debt service coverage and cash

The district's financial position will remain very strong, with projected debt service coverage of 5.5x in fiscal 2027 and gradually increasing to 6.3x by fiscal 2031. District management has a solid history of consistently producing stronger actual operating results relative to budgeted expectations in each of the last five years.

Liquidity remains robust, supported by a history of approved multiyear rate increases and proactive management. Annual sewer service charge rate increases of 3.5% have been approved by the district's board through fiscal 2028, with 4.87% proposed through fiscal 2030. Additionally, revenue reliability is strong because of the sewer charges being collected via property tax bills and backed by the county's Teeter Program, ensuring full receipt regardless of actual collections. Flat residential fees also provide stability during drought conditions when sewer flows tend to be lower.

Liquidity

The district's ample liquidity is expected to remain a key credit strength. Unrestricted cash and investments reached $901 million as of fiscal 2025, or 1,406 days cash on hand. Unaudited fiscal 2026 results reflect a similarly strong 1,240 days cash on hand ($848 million in total reserves). The fiscal 2027 budget indicates stable liquidity while incorporating approximately $291 million of capital improvement plan outlays.

Liquidity is expected to soften as the district will largely PAYGO-fund it's capital improvement plan. However, based on reasonable projections over the next ten years, ending reserves are forecasted to remain strong and above reserve targets of $639 million.

Debt and legal covenants: debt burden will continue to decline with no new debt plans

The district's debt burden will continue to decline given that management has no new debt plans. Post-issuance of the 2026 refunding revenue bonds, the district will have approximately $524 million in total debt outstanding, equal to a relatively low 1.8x revenue. While the district's capital improvement plan requires significant spending of about $3.6 billion over the next 10 years, officials anticipate financing it through future planned rate increases.

Legal covenants include the requirement to maintain net revenues equal to at least 1.25 times senior debt as well as a 1.25 times additional bonds test. There is no debt service reserve fund for the 2026 refunding revenue bonds, though the district maintains a debt service reserve.

Pensions and OPEB

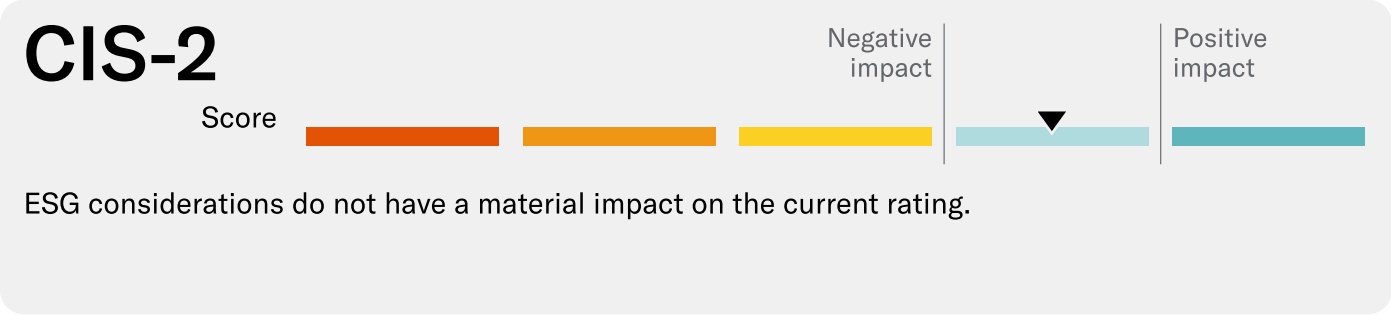
The district has two pension plans for retirees: a defined benefit pension plan through the Orange County Employees' Retirement System (OCERS) and the Additional Retiree Benefit Account (ARBA) administered by the district. In fiscal 2020 (November 2019), the district made an additional $38.0 million contribution toward its OCERS unfunded liability, which completely paid off its reported liability. Since fiscal 2015, the district has contributed a cumulative $252 million toward this liability, demonstrating proactive fiscal management.

ESG considerations

Orange County Sanitation District, CA's ESG credit impact score is CIS-2

Exhibit 2

ESG credit impact score



Source: Moody's Ratings

Orange County Sanitation District, CA's credit impact score indicates that ESG considerations have a minimal impact on the district's credit rating. The district has elevated exposure to environmental risks, moderate exposure to social risks, and positive governance considerations.

Exhibit 3
ESG issuer profile scores



Source: Moody's Ratings

Environmental

The district's environmental issuer profile score of **E-3** reflects an elevated exposure to physical climate risks including water stress, wildfire risk, flooding and sea level rise. The district also faces water management risks with the potential for regulatory violations associated with wastewater disposal.

Social

The district's social issuer profile score of **S-2** indicates exposure to social considerations is limited across all social risk categories including demographic and societal trends, customer relations, human capital, health and safety, and responsible production. The district has a stable customer base with strong resident income and wealth levels providing the district with ample capacity to implement regular rate increases.

Governance

The district's governance issuer profile score of **G-1** is positive. The district benefits from strong financial strategy and risk management considerations, positive management credibility and track record considerations, and minimal exposure to organizational structure and compliance and reporting considerations. Adopted financial policies coupled with multi-year capital and rate planning provide evidence of strong management practices.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Exhibit 4

Orange County Sanitation District, CA

Rating Factors	Input	Weight	Score
System Characteristics (30%)			
Asset Condition (Years of Annual Depreciation)	24	10%	A
System Size (O&M in Millions of Dollars)	$233,870	7.5%	Aaa
Service Area Wealth (Median Family Income as % of US)	133%	12.5%	Aa
Financial Strength (40%)			
Annual Debt Service Coverage (x)	5.68	15%	Aaa
Days Cash on Hand	1,406	15%	Aaa
Debt to Operating Revenue (x)	1.80	10%	Aaa
Management (20%)			
Rate Management	Aaa	10%	Aaa
Regulatory Compliance and Capital Planning	Aaa	10%	Aaa
Legal Provisions (10%)			
Rate Covenant (x)	1.25	5%	Aa
Debt Service Reserve Requirement	Baa and Below	5%	Baa
Notching Factors			**Up/Down**
No Notching Factors Applied			N/A
Scorecard-Indicated Outcome			Aaa
Assigned Rating			Aaa

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

Source: Orange County Sanitation District, CA and Moody's Ratings

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