SAN FRANCISCO--(BUSINESS WIRE)--Fitch Ratings assigns an 'AAA' rating to the following Orange County Sanitation District, California (OCSD or the district) debt:

--Approximately $88.6 million wastewater refunding revenue obligations, series 2014A.

The notes will be sold via competitive sale on or about July 8, 2014. The proceeds will refund a portion of the district's 2007B certificates of participation (COPs).

In addition, Fitch affirms its 'AAA' rating on the district's following outstanding debt:

--$1.1 billion wastewater revenue obligations and COPs;

--$129.6 certificate anticipation notes at 'F1+'.

The Rating Outlook is Stable.

SECURITY

The obligations are secured by installment purchase payments from the district to the Orange County Sanitation District Financing Corp. The payments are payable from net wastewater revenues after operations and maintenance expenses. The installment payments are an absolute and unconditional obligation of the district and are not subject to abatement or annual appropriation risk.

KEY RATING DRIVERS

LARGE, AFFLUENT SERVICE AREA: The district's essential role as the wastewater service provider to a large and wealthy service area of 2.5 million people and flat rate structure provide a high degree of revenue stability.

STRONG FINANCIAL PERFORMANCE: Debt service coverage (DSC) averaged a healthy 2.7x over the three fiscal years ended June 30, 2013, and liquidity was very strong with 1,334 days cash on hand at the end of the fiscal year. Expectations are for similar results for fiscal 2014.

GOOD RATE FLEXIBILITY: Rates remain very affordable at just 0.4% of the county's median household income (MHI).

REDUCED REGULATORY RISK: The district completed a large, multiyear capital plan in 2012, increasing sewerage treatment levels to full secondary standards and reducing regulatory risks with the lifting of a consent decree that governed its voluntary shift to higher treatment standards.

MODERATE DEBT BURDEN: The long-term debt burden is below average at $392 per capita and declining. The district has no additional borrowing plans.

STRONG MANAGEMENT PRACTICES: Sound reserve policies, a robust strategic planning process and long-term capital planning drive long-term financial and rate planning processes that have consistently delivered strong financial results.

SHORT-TERM DEBT STRATEGY: The 'F1+' notes rating reflects OCSD's long-term credit quality and implied market access to remarket the notes. The district has used the certificate anticipation note structure since 2008 and refinanced the notes each year with a subsequent issue.

RATING SENSITIVITIES

SHIFTS IN FUNDAMENTALS UNLIKELY: The rating is sensitive to shifts in fundamental economic, financial, debt and management changes, particularly any erosion of the district's historically strong rate discipline. The Stable Outlook means that Fitch believes such shifts are unlikely.

CREDIT PROFILE

OCSD provides wastewater treatment services to the northern and central portions of Orange County and about 80% of county residents. The district's affluent suburban service area provides a strong underlying economic basis for district operations. The district benefits from its desirable coastal location, and residents have good access to employment opportunities in the massive and diverse Los Angeles metropolitan economy. Orange County's non-seasonally adjusted unemployment rate declined to 5% in April (compared with 7.4% for the state and 5.9% for the nation). The jobless rate has posted year-over-year declines for the past 44 months. MHIs are solid at 123% of state and 144% of national levels.

CONSISTENTLY STRONG FINANCIAL PERFORMANCE

The district's financial performance remained strong throughout the recent period of economic weakness. All-in DSC was 2.6x in fiscal 2012 and 2.8x in 2013 by Fitch's calculation. Coverage is forecast to remain close to 3.0x through 2018 in a reasonably conservative district forecast.

Liquidity remains very strong with $547.4 million of unrestricted cash and investments on hand at the end of fiscal 2013. Unrestricted cash and investments have averaged 1,080 days of operating expenses over the past five years, well in excess of the 671 days cash median for 'AAA' rated water and sewer utilities. The district plans to draw cash balances back down toward the median over the next few years, as it has recently completed a major capital plan that drove significantly above average cash balances. But strong reserve policies and planning targets suggest the district will maintain very robust liquidity levels. The draws on liquidity represent planned drawdowns for capital spending and to comply with reserve policies and debt pre-payments, not an underlying mismatch between operating revenues and expenditures.

The district's primary revenue streams are quite stable, with property taxes providing about 20% of revenues and sewer fees providing 70%. Property taxes were little changed during the housing downturn and have grown the past three years. The district's service area includes relatively built-out and well-established communities such as Anaheim, Huntington Beach, Irvine and Santa Ana, insulating the district from the sharp declines in assessed value (AV) that have hit newly developed areas. The district's AV rose a solid 4.1% in fiscal 2014.

GOOD RATE DISCIPLINE AND FLEXIBILITY

The district's board has been quite disciplined in raising rates to support the district's shift to full secondary treatment of sewerage discharges. Rate increases have averaged 8.9% over the past five years and are scheduled to decline to more moderate inflationary increases over the current five-year forecast horizon. Even after years of large rate increases, rates remain very affordable at $316 per year ($26.33 per month or 0.4% of MHI) for a single family residence in fiscal 2015. Treatment rates are in addition to collection fees charged by local governments in the district, but even assuming the high end of collection fees in the service area, rates remain well below Fitch's 1% of MHI affordability metric at 0.6% of MHI.

DECREASING REGULATORY RISK, CAPITAL DEMANDS

OCSD has managed significant regulatory and capital burdens well. In 2002, the district's board decided to upgrade its treatment wastewater effluent discharged into the ocean to full secondary treatment. The district historically operated under a 301(h) waiver, allowing for less than full secondary treatment. The district voluntarily entered into a consent decree concurrently with the issuance of a new ocean discharge permit. The consent decree called for implementation of full secondary treatment by December 2012.

The district completed the required treatment upgrades ahead of schedule and received a standard National Pollutant Discharge Elimination System permit with no treatment waiver in 2012. The consent decree was lifted in August 2013. The completion of the treatment level upgrades decreases regulatory risk, while meeting longstanding community goals of protecting water quality at the region's beaches.

Treatment plant upgrades also position the district well vis-a-vis its capital spending cycle. The district's $993.7 million fiscal 2015-2018 capital improvement plan is quite moderate at $226 per capita annually and will require no additional debt. Debt is expected to decline to just $343 per capita over the next five years, compared with a median projected debt per capita of $508 for 'AAA' rated water and sewer utilities. Amortization is somewhat slow with 28% of debt scheduled to be repaid in 10 years and 75% in 20 years. Amortization rates will improve with the anticipated lull in borrowing over the next few years.

Additional information is available at ' www.fitchratings.com '.

In addition to the sources of information identified in the Revenue-Supported Rating Criteria, this action was informed by information from CreditScope and IHS Global Insights.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria' (June 16, 2014);

--'U.S. Water and Sewer Revenue Bond Rating Criteria' (July 31, 2013);

--'2014 Water and Sewer Medians' (Dec. 12, 2013);

--'2014 Outlook: Water and Sewer Sector' (Dec. 12, 2013).

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012

U.S. Water and Sewer Revenue Bond Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715275

2014 Water and Sewer Medians

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724358

2014 Outlook: Water and Sewer Sector

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724357

Additional Disclosure

Solicitation Status

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