S&P Global
Ratings

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Summary:

Sacramento County Water Agency, California
Sacramento County Water Financing Authority; Water/Sewer

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Credit Profile		
US$63.71 mil rev bnds (Sacramento County Water Agency) ser 2025 due 06/01/2055		
Long Term Rating	AA-/Stable	New
Sacramento County Water Financing Authority, California		
Sacramento Cnty Wtr Agy, California		
Sacramento Cnty Wtr Fincg Auth (Sacramento Cnty Wtr Agy) Zones 40 & 41		
Long Term Rating	AA-/Stable	Affirmed
Sacramento Cnty Wtr Fincg Auth (Sacramento Cnty Wtr Agy) Zones 40 & 41		
Long Term Rating	AA-/Stable	Affirmed
Sacramento Cnty Wtr Fincg Auth (Sacramento Cnty Wtr Agy) Zones 40 & 41 (MBIA) (National)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to the Sacramento County Water Financing Authority, Calif.'s anticipated $63.7 million series 2025 water revenue bonds, issued on behalf of the Sacramento County Water Agency Zones 40 and 41.
- At the same time, S&P Global Ratings affirmed its 'AA-' rating on the authority's revenue bonds outstanding.
- The outlook is stable.

Security

The series 2025 bonds are secured by a first lien on the water agency's net revenues within zones 40 and 41. Bond proceeds will finance a portion of the Arden Service Area Distribution System projects as well as treatment plant recoating projects. We view the bond provisions as credit neutral. We understand that the bonds will not be secured by a debt service reserve fund, but we believe this is offset by the agency's robust cash levels. Inclusive of this issuance, the agency will have $421.6 million in water revenue debt outstanding.

Credit overview

The rating reflects the agency's strong rate-setting practices, which we expect will support robust all-in debt service coverage (DSC) and liquidity levels. The agency has pre-approved multi-year rate increases for fiscal years 2025 through 2029. We expect its rate plans to support DSC of at least 2x once amortization on the series 2025 bonds begins in fiscal 2029. Adopted rate increases will also support annual spending for projects under its $359 million five-year capital improvement plan (CIP). The CIP consists primarily of growth-related projects, groundwater projects, and the Arden Meter Project. The agency has been maintaining robust cash levels, reported at $178 million, or about 4.5 years' cash on hand, as of fiscal 2024 year-end, which further supports credit quality. We consider the system's reliance on growth-related fees a limiting credit factor; however, we expect adopted rate increases to somewhat moderate this reliance during the next five years. Also, we consider regional drought conditions a financial and operational risk to the credit though we believe the agency's conjunctive water use program and strong financial profile mitigate potential drought-related pressures.

The enterprise risk profile reflects our view of the agency's:

- Largely residential and growing customer base that participates in the broad and diverse Sacramento metropolitan statistical area (MSA) economy;
- Moderately affordable service rates in the context of the service area's income levels and county poverty rate; and
- Good operational policies and practices, including its conjunctive use program, operational planning, and rate-setting practices.

The financial risk profile reflects our view of the agency's:

- Robust DSC metrics based on all-in DSC ranging between 2.5x and 3.2x for the past three audited fiscal years, although we note that absent development fees coverage has been closer to 1x;
- Extremely strong liquidity position with available cash balances totaling $178 million, equivalent to 1,642 days of operating expenses, and an informal target of maintaining at least 900 days' cash;
- Moderate leverage level based on a debt-to-capitalization ratio of about 34% and a large capital plan focused on expanding infrastructure to meet demand for new developments, but no additional debt plans; and
- Good financial management assessment, including comprehensive long-term capital planning, formal debt management and investment policies, and long-term financial projections updated in conjunction with new debt issuances and rate studies.

Environmental, social, and governance

We believe the agency faces elevated drought risk due to the region's inherent water supply scarcity. We understand the agency mitigates this risk with its conjunctive use program, which optimizes the use of groundwater and surface water based on hydrologic conditions. Conjunctively using surface water and groundwater allows it to reduce surface water diversions and increase groundwater use in dry years. In wet and average years, the agency can increase surface water use and decrease groundwater use, thereby not exceeding the long-term sustainable yield of the underlying groundwater basin. The agency updated its water shortage contingency plan in 2020 and we understand it is focusing efforts on increasing the sustainability of its groundwater use. We believe the agency's social factors, including rate affordability, do not present an elevated risk. Finally, we view the system's governance factors, including its long-term planning and credit-supportive rate-setting practices, as in line with those of other similarly rated utilities.

Outlook

The stable outlook reflects our expectation that the agency will continue to adjust rates as needed to support its financial profile as it progresses through its capital program to meet growth in developing portions of the service area.

Downside scenario

We could take a negative rating action if the agency's financial position deteriorates significantly, such as from an unanticipated increase in operating costs or extraordinarily large changes in its capital plans, resulting in diluted coverage metrics or a substantially weaker liquidity position.

Upside scenario

We could take a positive rating action if the agency maintains its robust coverage levels while decreasing its reliance on developer fees and successfully managing its capital plan.

Credit Opinion

The agency serves unincorporated Sacramento County, including portions of Rancho Cordova and Elk Grove. The service area is about 50% built out and the agency estimates it will be fully built out by 2052. The agency charges customers based on their presence within Zone 40 and/or Zone 41. The service that the agency provides in Zone 40 is capital development, whereas in Zone 41 it is operations and maintenance, and approximately 90% of system connections fall within both zones. The agency charges customers separate monthly service fees for each zone. The average residential monthly bill was roughly $87.6 in fiscal 2025, which includes fees for both zones. The agency has adopted a five-year rate adjustment plan for zone 41. The plan includes a 17% rate adjustment for fiscal 2025, an 8% adjustment for fiscal 2026, and a 7% adjustments for the subsequent three years. Rate-setting practices include formal rate studies and pre-approved multi-year rate increases.

All-in coverage incorporates the agency's reimbursement agreements, which we consider fixed obligations that are debt-like in nature, even if legally treated as an operating expense, and it also incorporates fixed charges associated with transfers to cover allocated pension obligation debt service payments. In addition, we include the calculation of the agency's series 2022A interim financing bonds' adjusted annual debt service as equal payments over a 30-year period.

We note that the agency's debt profile includes its 2007B swaps, which are secured by net payments on parity with its series 2019, series 2022, and series 2025 bonds outstanding. For the swaps, the agency receives payments calculated by reference to a percentage of SOFR Index plus a spread. The counterparty is JP Morgan Chase Bank, N.A. Should the agency's rating be downgraded to 'BBB' and an insurer event has occurred, the counterparty has the option to terminate the swap.

In its five-year capital plan, the agency plans to spend roughly $359 million on capital projects, inclusive of the current transaction. CIP projects will be funded by development fees and on a pay-as-you-go basis. We anticipate the agency's leverage will continue to moderate as management reports no plans for additional debt over the next five years.

Sacramento County Water Agency, California--Economic and financial data

		Fiscal year-end			
	Most recent	**2024**	**2023**	**2022**	**Median (AA-)**
Economic data					
MHHEBI of the service area as % of the U.S.	107.0				105.0
Unemployment rate (%)	4.7				3.6
Poverty rate (%)	12.2				11.3
Water rate (6,000 gallons or actual) ($)	87.6				37.7
Sewer rate (6,000 gallons or actual) ($)	0.0				40.8
Annual utility bill as % of MHHEBI	1.5				1.2
Operational management assessment	Good				Good
Financial data					
Total operating revenues ($000s)		59,653	62,385	62,727	15,647
Total operating expenses less depreciation ($000s)		39,608	35,363	30,389	11,314
Net revenues available for debt service ($000s)		99,726	72,619	76,513	--
Debt service ($000s)		28,190	27,949	27,878	--
S&P Global Ratings-adjusted all-in DSC (x)		3.2	2.3	2.5	2.0
Unrestricted cash ($000s)		178,142	129,805	111,626	16,768
Days' cash of operating expenses		1,642	1,340	1,341	610
Total on-balance-sheet debt ($000s)		421,591	373,665	388,175	29,615
Debt-to-capitalization ratio (%)		33.5	33.1	35.7	31.0
Financial management assessment	Good	--	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.