Research Update:

Cascade Water Alliance, WA Series 2026 Water System Revenue Bonds Rated 'AAA'; Outlook Stable

October 9, 2026

Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the Cascade Water Alliance (CWA), Washington's approximately $42.3 million series 2026 water system revenue bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on CWA's existing water system revenue bonds.
- The outlook is stable.

Primary Contact

Alexandra Rozgonyi
Englewood
1-303-721-4824
alexandra.rozgonyi
@spglobal.com

Secondary Contact

Stephanie Linnet
Englewood
+ 303-721-4393
Stephanie.Linnet
@spglobal.com

Rationale

Security

The bonds are payable from CWA net revenue. Net revenue includes member charges, investment earnings, and withdrawals from the coverage stabilization account that have not been used in the past five years. The proceeds from the bonds will be used to construct and design new water supply infrastructure (associated with the connection to Tacoma water supply) and other capital projects.

The series 2014 bonds have a reserve fund, but the series 2019, 2020, and 2026 do not. We view the lack of a reserve fund as credit neutral given CWA's robust liquidity position. With the new bond resolution there is a springing provision related to the rate covenant. This is expected to spring after 2030 when the 2026 bonds represent greater than 50% of the parity debt outstanding. The current coverage requirement is net revenues minus regional capital facility charges (RCFC), plus the prior-year debt service account at greater than or equal to 1.0x coverage. After it springs, the new requirement will be net revenue minus RCFC at greater than or equal to 1.05x annual debt service (ADS), or net revenue including RCFC at greater than or equal to 1.20x ADS. We view the latter as more protective given that it excludes use of the debt service account deposit. CWA currently has about $110 million of series 2014, 2019, 2020 (taxable), and 2026 bonds, in addition to capital payments related to the Tacoma water contracts.

Credit highlights

CWA is a regional wholesale water provider in central Puget Sound that manages both economic and water supply risks for its seven members. The system sells water to seven separate retail water purveyors: their demand share in 2026 was Bellevue (51.0% of total demand in 2026), Redmond (18.6%), Kirkland (14.7%), Tukwila (6.3%), Sammamish Plateau Water and Sewer District (3.4%), Issaquah (5.2%), and Skyway Water and Sewer District (1.0%). Each member owns and operates its own water distribution system and bills customers directly, and with partial or no independent supply of their own, purveyors are reliant on CWA's water supply to meet their full demand.

The rating reflects our opinion of CWA's credit-supportive membership agreements including a take-or-pay, unlimited step-up obligation; a member water rate covenant at 1.0x of operations and maintenance expenses; and a member withdrawal that requires the member to pay for its allocable share of existing obligations, including debt service on bonds, and unlimited step up. The rating reflects the extremely strong credit quality of the participating members including Bellevue, Washington's water system, which had a demand share of 51.0% in 2026. Furthermore, the rating reflects our view of the essentiality of CWA providing clean water supply to its regional members while maintaining a robust financial profile at the wholesale level.

The long-term rating on CWA is above that of the U.S. and the system has a predominantly locally derived revenue base. Member agency payments under the Joint Agreement, using a cost recovery methodology, represent virtually all its revenue. This, coupled with operating expense flexibility, limits CWA's exposure to federal revenue, in our opinion.

The rating further reflects our view of the CWA's:

- Broad and diverse service territory in the Seattle-Tacoma-Bellevue metropolitan statistical area, as demonstrated by the service area's very strong income levels;
- Ample water supply reliant on wholesale purchases from Seattle Water (AA+/Stable) through a long-range declining block structure agreement, two new contracts with the city of Tacoma (AA+/Stable) for permanent and temporary water supply, and ownership of a long-term supply source through its purchase of Lake Tapps Reservoir; and
- Stable all-in coverage (AIC) at about 1.3x, and $34 million of unrestricted cash and investments, equivalent to 345 days' operating expenses in fiscal 2025, and our expectation that coverage and cash will remain stable given planned rate increases and our view that the members' rates are currently affordable given high income levels and low poverty rate, which we believe provides flexibility for members to increase rates to recover costs without significantly burdening the retail residential customers.

These strengths are tempered by our opinion of the system's:

- Sizable, fixed contract payments to the cities of Seattle and Tacoma;
- AIC metrics that are reliant on RCFCs, although we note that management has conservatively reduced its assumption for RCFCs annually to reflect a modest softening over the past five years; and
- Large $386 million capital improvement plan (CIP) for fiscal years 2027-2032, with a significant ramp-up thereafter as CWA connects to Tacoma for water supply and in the future access to Lake Tapps Reservoir water supply. Projected capital expenditures include approximately $1.5 billion of future debt through 2040 (inclusive of the current issuance).

Outlook

The stable outlook reflects our view of the largest members' credit quality, which we believe have the financial capacity and rate-making flexibility to continue to make timely payments to CWA as the system progresses through its large CIP. The stable outlook further reflects CWA's ample water supply, robust financial policies and practices, and projected financial metrics that we expect will continue to support the current rating level as a regional wholesale provider.

Downside scenario

We could take a negative rating action if the credit quality of the leading members were to deteriorate, either due to insufficient cost recovery, weakened rate affordability, or decline in reserves.

Credit Opinion

The system's water supply comes from purchases from Seattle under an agreement expiring in 2063. CWA also has a water supply agreement with Tacoma, although it will need to develop additional transmission facilities to take this water. The Seattle agreement is a take-or-pay contract, with the amount of water available to CWA guaranteed at 33.3 million gallons per day (mgd) through 2039, and then stepping down over time until 2063. Between 2040 and 2042 the contract steps down by 2 mgd a year, and then 1 mgd a year thereafter. The new Tacoma agreement was signed to layer in supply as the stepdown in the Seattle water begins. The contract with Tacoma for permanent supply is 15 mgd; this agreement is volume-based founded on Tacoma wholesale class charges. CWA's second agreement with Tacoma is for a temporary supply of up to 17.5 mgd peak from 2041-2062. This is a volume-based rate, built on a utility-basis contracted charge structure.

For its long-term water supply needs, CWA purchased Lake Tapps Reservoir. It will need to make substantial capital investments before it can use the water source, including constructing intakes, a treatment plant, and pipelines. However, the current connection to the Tacoma will support the long-term goals to access Lake Tapps Reservoir.

CWA's AIC has remained sound at 1.3x in fiscal 2025. Our AIC metric considers S&P Global Ratings-adjusted fixed costs associated Seattle contract payments and the Tacoma contract. Based on our analysis of management-provided projections, AIC will improve despite the layering in additional debt obligations. This is primarily due to the planned recovery of costs through the system's various rates and charges (water delivery rate, RCFC, administrative dues, conservation program, and temporary water sales). Management is projecting annual rate increases of 8.75%-9.50% from 2027-2040. We also note that there was a reliance on RCFCs in the most recent fiscal year to reach 1.3x and metrics excluding RCFCs are below 1.0x. We understand management is using an updated conservative RCFC assumption at 1,150 equivalent residential units (ERU), which is lower than the historical five-year average of 1,167 ERU.

We consider CWA's liquidity position very strong, with $34 million, equivalent to about 345 days of operating expenses in fiscal 2025. This is up from about $13.2 million in fiscal 2021; however, we understand the buildup of liquidity was intentional to fund a portion of the CIP from reserves. Based on our analysis of management-provided projections, liquidity is expected to decline to $23 million in fiscal 2038, equivalent to 137 days' cash before rebounding back up.

CWA has a large long-term CIP related to water supply projects (access to Tacoma water supply and future development to access Lake Tapps Reservoir). The current CIP is $386 million through 2032. Total Phase I construction costs is $1.35 billion in 2026 dollars, this amount includes a 20% reserve margin. This will be funded from a combination of current and future bond proceeds

(33%), Water Infrastructure Finance Innovation Act (42%), cash (23%), and state loans/grants (2%).

Member agencies

We consider the financial stability of CWA's member agencies to be a key credit factor. However, member charges are heavily concentrated in Bellevue's water system, which represents 51% of the total demand. If Bellevue were unable to make its payments, the subsequent required step-up from the other members on short notice could be difficult to cover. However, we believe this risk is largely mitigated by Bellevue's water system extremely strong credit quality, with no long-term debt outstanding of its own, sound AIC (4.11x in fiscal 2025 including fixed charges to CWA), and robust cash reserves ($118 million as of Dec. 31, 2025).

We also view the credit quality of the second- and third-largest members as extremely strong. The second-largest member, Redmond, which represents 18.6% of CWA's member charges, has a combined water, sewer, and drainage system. This system is characterized by extremely low leverage (3% debt to capitalization as of Dec. 31, 2025) and sound AIC (including fixed charges to both CWA and King County for wastewater treatment) of 3.2x in fiscal 2025. The system held unrestricted cash reserves of $138 million as of Dec. 31, 2025.

The third-largest member, Kirkland, is also a combined water and sewer system, with extremely low leverage (1% debt to capitalization as of Dec. 31, 2025), AIC of 1.7x (including fixed charges to both CWA and King County), and $52 million of unrestricted cash reserves as of Dec. 31, 2025.

Climate And Other Evolving Factors

CWA and its members have exposure to environmental physical risks including drought, wildfire, floods, mudslides, and earthquakes, but we believe the system is mitigating these long-term exposures through compliance with environmental regulations, extensive long-term water supply planning, robust long-term financial planning, and proactive rate-setting practices. CWA has general liability insurance to cover some of these exposures. Additionally, to mitigate drought risk, CWA has a Shortage Management Plan as a part of its Water System Plan. We believe the biggest risk is long-term water supply, given Seattle's declining block structure; however, mitigating this risk is the long-term water supply agreement entered into with the city of Tacoma to meet water demand through 2060, and the purchase of Lake Tapps Reservoir to provide water supply beyond 2060. CWA has conducted climate studies of the potential yield over time on the reservoir and plans to update these studies before any major action is taken.

Ratings List	
New Issue Ratings	
US$42,300,000 Cascade Water Alliance, Washington, Water System Improvement Revenue Bonds, Series 2026, dated: Date of Delivery, due: September 1, 2055	
Long Term Rating	AAA/Stable
Ratings Affirmed	
Water & Sewer	
Cascade Wtr Alliance, WA, Water System	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.

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 https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2026 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Some of the Content may have been created with the assistance of an artificial intelligence (AI) tool. Published Content created or processed using AI is composed, reviewed, edited, and approved by S&P personnel.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.