MATERIAL-EVENT NOTICE PURSUANT TO S.E.C. RULE 15c2-12(b)(5)
RATING CHANGES

Dated: September 22, 2009

NOTICE IS HEREBY GIVEN that on June 22, 2009, Standard & Poor's Rating Services lowered its issuer-credit rating for the City of Sacramento from AA to A+/Stable.

Standard & Poor's Rating Services also lowered its rating and underlying rating from AA- to A/Stable on Sacramento City Financing Authority lease revenue bonds of the city's Master Lease Program issued on behalf of City of Sacramento.

The following issues are affected:

- Sacramento City Financing Authority 1999 Capital Improvement Revenue Bonds (Solid Waste and Redevelopment Projects)
- Sacramento City Financing Authority 2002 Capital Improvement Revenue Bonds (City Hall and Redevelopment Projects)
- Sacramento City Financing Authority 2002 Refunding Revenue Bonds
- Sacramento City Financing Authority 2003 Capital Improvement Revenue Bonds (911 Call Center and Other Municipal Projects)
- Sacramento City Financing Authority 2005 Refunding Revenue Bonds (Solid Waste, Redevelopment, and Master Lease Program Facilities)
- Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series A (Community Reinvestment Capital Improvement Program)
- Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series B (Community Reinvestment Capital Improvement Program)
- Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series C (300 Richards Boulevard Building Acquisition)
- Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series D (300 Richards Boulevard Building Acquisition)
- Sacramento City Financing Authority 2006 Capital Improvement Revenue Bonds, Series E (Master Lease Program Facilities)

STANDARD &POOR'S

RATINGSDIRECT®

June 22, 2009

Sacramento City Financing Authority, California Sacramento; Appropriations; General Obligation

Primary Credit Analyst:
Paul Dyson, San Francisco (1) 415-371-5079; paul_dyson@standardandpoors.com

Secondary Credit Analyst:
Matthew Reining, San Francisco (1) 415-371-5044; matthew_reining@standardandpoors.com

Table Of Contents

Rationale

Outlook

Financial Management Assessment: 'Good'

Debt Derivative Profile: Low-to-Moderate Risk

Related Research

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

Sacramento City Financing Authority, California
Sacramento; Appropriations; General Obligation

Credit Profile		
Sacramento ICR		
Long Term Rating	A+/Stable	Downgraded
Sacramento City Fincg Auth cap Imp (300 Richards Blvd Bldg Acquisition) ser 2006C		
Unenhanced Rating	A(SPUR)/Stable	Downgraded

Rationale

Standard & Poor's Ratings Services lowered its issuer credit rating (ICR) two notches to 'A+' from 'AA' on the City of Sacramento, Calif. Simultaneously, Standard & Poor's lowered its rating and underlying rating (SPUR) to 'A' from 'AA-' on Sacramento City Financing Authority, Calif.'s outstanding lease revenue bonds, issued on behalf of the City of Sacramento. The lowered city ICR and authority lease revenue bond ratings reflect our view of the city's current and projected budgetary pressures related to declining revenue streams. The downgrades also reflect our opinion of the city's continued cost pressures, which have already reduced and, according to city officials, are expected to continue to reduce city reserve designations, limiting the city's future financial flexibility. Although management has already implemented many cost-saving measures -- and has proposed more measures for 2010 -- it is our understanding from management that achieving structural balance will be a multiyear process and that budget gaps will likely persist beyond fiscal 2010.

The rating on the city's outstanding lease revenue bonds, issued by the authority, reflects our view of:

- The city's covenant to budget and appropriate lease payments,
- Annual appropriation risk, and
- The city's general creditworthiness.

The 'A+' ICR reflects our view of the city's general creditworthiness, including our view of the city's following credit strengths:

- The general stability of the city's underlying economy given its role as the state capital (although unemployment has risen);
- The city's intent to maintain $10.5 million in economic contingency reserves (2.4% of expenditures) into fiscal 2010, although below the $30 million-$33 million (8%-10% of expenditures) maintained in previous years;
- The city's willingness to make difficult expenditure reductions in order to help balance the 2010 budget, although further declines in key revenue streams into fiscal 2010 or impacts from the state's own budgetary challenges could strain the city's ability to maintain contingency reserves; and
- The city's lack of additional bonding plans for the next two years, which will likely allow it to reduce its currently

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

moderate debt burden.

Tempering factors to the ratings include our opinion of:

- A substantial decline in the city's projected general fund reserves, with the city's reserve for economic uncertainty projected to fall to $10.5 million or 2.4% of expenditures in fiscal 2009 from $33.1 million or 8.1% of expenditures as of audited fiscal 2008;
- Softness in key city revenue streams including property and sales taxes projected for fiscals 2009 and 2010, and perhaps beyond; and
- Rising city costs related to labor union agreements and retirement benefits.

The city has been assigned a Standard & Poor's Debt Derivative Profile (DDP) overall score of '2.5' on a scale of '1' to '4', with '1' representing the lowest risk. The overall score of '2.5' reflects our view that the city's swap portfolio reflects a low-to-moderate credit risk at this time.

Until the current fiscal year 2009, the city's financial performance had been what we consider strong, with healthy financial reserves resulting from favorable economic (and in turn, revenue) trends and conservative budgeting practices. Although the city does not currently have a reserve policy, in practice it has maintained an economic uncertainty reserve fund of $30 million (approximately 7% of budget). It has maintained this reserve designation for several years, including fiscal 2008 when the fund totaled $33.1 million or, in our opinion, a strong 8.1% of expenditures. Also, in 2008, the city had $1 million in unreserved and undesignated funds, plus $14.1 million "designated for subsequent years' expenditures," which, when combined with the city's economic uncertainty reserve, totaled a combined $48.2 million or 12% of expenditures. When including other unreserved designated funds, the city's unreserved fund balance totaled $88 million, or 21% of expenditures.

During the fiscal 2010 budget hearings that took place midyear fiscal 2009, city officials discovered a $58 million general fund budget gap pertaining to fiscal 2009. The city promptly closed the gap by removing the funding of 360 vacant positions, using $22.6 million in economic uncertainty reserves and $9 million from its risk management fund, and instituting a one-day-per-month furlough for non-represented employees (which stays in place through fiscal 2010). Given the city's plans to use approximately $22.6 million of its economic uncertainty reserve, the reserve's balance for fiscal 2009 is projected at $10.5 million or just 2.7% of expenditures, down from 8.1% in fiscal 2008, according to city officials. Including $875,000 in unreserved, undesignated reserves and the $14.1 million designated reserve for subsequent years' expenditures, the city projects total combined reserves for fiscal 2009 at $25.4 million or 6% of expenditures.

The fiscal 2010 proposed budget originally indicated a $50 million general fund deficit, but given expenditure reductions of $41.7 million (mostly labor) and $8.3 million in one-time resources (reserve drawdown), the proposed budget is balanced. Further reductions will likely be required into fiscal 2011 to balance the budget, according to the city. However, there continues to be a structural imbalance between ongoing revenues and expenditures. Revenue growth has failed to keep up with expenditure growth given the economic downturn. According to the city, property and sales taxes budgeted to decline while personnel and operating costs continue to rise, with labor costs representing 85% of expenditures. In 2010, city officials estimate that property taxes will decline $8.3 million (or 6%) and that sales taxes will fall $1.6 million (2.5%), but that utility user and other taxes will rise $3.2 million (4%). In response, labor unions have been asked to forgo salary and step increases, and the city is in the process of finalizing a proposal requiring all non-public safety employees to take a one-day furlough per month for fiscal 2010.

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page. 729149 | 300097587

The city has issued some layoff notices, but the final number of layoffs will depend on final salary negotiations. The police union has consented to salary freezes -- with the previously agreed-to 5% cost-of-living adjustment to be spread over fiscals 2011, 2012, and 2013 -- and the city is hoping for similar concessions from the fire department union. Labor cost reductions total $28.9 million, reductions in services and supplies total $6.0 million, and additional revenues related to general fund cost recovery will generate an estimated $5.1 million, according to the city. We understand that various other savings measures totaling $8.3 million comprise the balance of fiscal 2010 budget gap solutions. We also understand that the city plans to use $6.2 million of its designation for subsequent years' expenditures in fiscal 2010, but that it strives to maintain its $10.5 million economic uncertainty reserve so that combined reserves for fiscal 2010 are, according to management, estimated at $19.2 million or 5% of expenditures.

General fund resources are derived mostly from taxes, which account for 66% of the city's estimated fiscal 2009 revenues. Property taxes, at $139 million, make up 35% of that amount, while sales and utility taxes account for 16% and 15%, respectively. The city is forecasting revenue growth for 2010 to be negative, and its five-year general fund forecast projects that overall revenue growth will be flat for the period. Property taxes, which comprise 42% of general fund revenues, are projected to decline 6% in fiscal 2010 and 2% in fiscal 2011, according to the city. The city's forecast from 2006 had projected 3%-5% annual growth for most tax revenue categories, which officials believed would be sufficient to keep pace with expenditure growth and allow for small operating surpluses through 2011.

In our opinion, the city's budget sustainability and fiscal capacity will hinge on its ability to make further expenditure reductions in fiscal 2011 and beyond given rising labor costs, increased costs to make up for investment losses in the city's retirement funds, and the cost to bring new facilities online. The city believes additional cuts may also be necessary in fiscal 2010 should various proposals by the state to solve its own budget gap materialize. Should this occur, the city has indicated that it would rely on temporary borrowing from various internal liquidity resources outside of the general fund. Overall, the current level of general fund commitments indicates a cumulative deficit of $102 million over the next four fiscal years if further expenditure cuts are not made in fiscal 2011. In addition, the city has indicated that revenue enhancements such as a possible parking tax or an increase in the city's business operations tax (both requiring voter approval), could provide some fiscal relief.

The City of Sacramento's management practices are considered 'good' under Standard & Poor's Financial Management Assessment (FMA). An FMA of 'good' indicates our view that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

The city has about $521 million in bonds and certificates of participation secured by the general fund. We understand the city has no additional bonding plans for at least the next two years. The city's five-year capital improvement plan related to the general fund totals what we consider a manageable $17.9 million. All of the city's debt is fixed rate, and one bond issue, the 1997 Arco Arena bonds, is synthetically fixed through a floating-to-fixed interest rate swap. Overall debt levels are, in our view, moderate at $4,624 per capita and 5.7% of the market value of property. The city's general fund debt obligations total about $76 million annually, or 18% of the city's revenues, but net of bonds supported by other sources, net debt service is $33 million or 8% of revenues. Amortization of debt is what we consider average, with 38% of debt maturing in 10 years and 76% maturing in 20 years.

The city's other post-employment benefits (OPEB) liability as of its June 2008 actuarial report indicated an unfunded accrued liability of $380 million, with an annual required contribution of $31.5 million versus the current

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page. 729149 | 300097587

pay-as-you-go cost in the budget of $10 million. Given current cost constraints, we understand that the city plans to continue its pay-as-you-go contribution. The city has a task force that is assigned to exploring future OPEB funding options, such as issuing OPEB obligation bonds or making changes to benefit plans, although nothing has been resolved at this point. The city also provides defined pension retirement benefits through the State of California Public Employee's Retirement System (PERS) and Sacramento City Employees' Retirement System (SCERS). The city's combined pension costs for PERS and SCERS were $39.7 million in 2008, equal to its required contribution. As of June 30, 2007, the funded ratios for PERS miscellaneous and public safety systems were what we consider a healthy 83% and 88%, respectively, with SCERS' funded ratio as of June 30, 2008, at 92%.

Outlook

The stable outlook reflects our expectation that city management will maintain reserves near levels projected for fiscals 2009 and 2010 without further significant drawdowns. The outlook additionally reflects our view of the city's ability to make budget adjustments as needed to alleviate slower or negative revenue growth. While we note that the city has implemented several cost-cutting measures -- some of which are recurring in nature -- in 2009 (and proposed for 2010), we believe additional reductions and/or revenue enhancement will likely be required to curb falling revenue. We believe the state's budget crisis will present the city with additional financial challenges, but we understand that the city's internal liquidity sources could be tapped, if necessary, on a temporary basis for budgetary relief.

Financial Management Assessment: 'Good'

The City of Sacramento's management practices are considered 'good' under Standard & Poor's Financial Management Assessment (FMA). An FMA of 'good' indicates our view that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. While the city does not have a debt management policy, it does have other policies in place to support a wide array of financial management practices. As stated earlier, the city council has no formal reserve policy, but instead each year establishes a reserve based on the availability of funds, with such reserve intended to provide a cushion against fluctuations on revenues and expenditures. To plan for revenue growth, management works closely with the county assessor to determine property tax income, and with an outside consultant to project sales tax revenue. The budget is informally monitored throughout the fiscal year. On a formal basis, the budget is adjusted during a midyear review, although it can be adjusted more often if necessary. A five-year capital improvement plan exists, and is updated each year. Investment management practices include at least quarterly reporting to the city council, which reviews the portfolio for performance and compliance with state law.

Debt Derivative Profile: Low-to-Moderate Risk

The city has been assigned a Standard & Poor's Debt Derivative Profile (DDP) overall score of '2.5' on a scale of '1' to '4', with '1' representing the lowest risk. The overall score of '2.5' reflects our view that the city's swap portfolio reflects a low-to-moderate credit risk at this time. The city's DDP score includes a management component score of '4' because the city has no written swap management policies, although the swap is disclosed thoroughly in the notes to the city's audited financial statements.

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

Sacramento has a single swap, which it entered into in May 2007 with regard to its $73.725 million series 1997 lease revenue bonds financing for Arco Arena (home of the NBA Sacramento Kings), then outstanding in the amount of $70.93 million. The city uses lease payments it receives from the Kings to cover debt payments, but ultimately the city is obligated to budget and appropriate debt service payments from its general fund, regardless of payments made by the Kings. The swap terminates July 19, 2017, when the bonds are subject to a mandatory tender. At the time of the mandatory tender, the city intends to refund the bonds through a fixed- or variable-rate bond issue and has pledged in bond documents to do so at least 90 days prior to the tender date. The current notional amount of the swap is $69.87 million, or 13% of Sacramento's general fund-related debt portfolio. The 1997 bonds are the only bonds that were issued in a variable-rate mode, and these have been synthetically fixed. Until July 19, 2017, when the swap terminates, the city will have no net variable-rate exposure.

The bonds were issued in a variable-rate mode with interest rates that reset every three months at the rate of LIBOR plus 25 basis points. The city synthetically fixed the interest rate at 5.607% by entering into an interest rate swap with counterparty Golden Sachs Capital Markets L.P., now Goldman Sachs Bank USA, a direct subsidiary of the Goldman Sachs Group Inc. (A/Negative). The city does not have a swap management policy and does not have specific plans to enter into additional swaps at this time. In our opinion, the likelihood of the city being required to make a termination payment is relatively remote, considering that the city's underlying 'A+' credit rating would need to be lowered to 'BB+' before a termination payment would be triggered.

Economy Showing Softness; Recovery Could Be Gradual

As California's capital, Sacramento's employment base has a concentration in government, but we believe this also provides a degree of stability to the city's economic base. The city's population of 467,649 is just less than a third of Sacramento County (1.4 million residents), which encompasses most of the metropolitan area. The city serves as the main job center for the metropolitan area, though residential growth in the outer parts of the metropolitan area has far outpaced that in the City of Sacramento. The city is older and more built out than the newer suburban communities of Elk Grove, Citrus Heights, Rancho Cordova, Rocklin, and Roseville.

Roughly a quarter of jobs in the Sacramento metropolitan area are in the government sector. While Sacramento has historically been among the state's most stable employment bases, it too has experienced job losses. Unemployment rose to 8.5% in 2008 from 6.4% in 2007 and 5.6% in 2006, and as of May 2009 it climbed to 13.1%. Total employment as of May 2009 was 189,800, down 6% from the peak of 201,500 in July 2007. Wealth and income levels have typically lagged state and national averages, with median household and per capita income levels at 96% and 91% of the U.S. average, respectively. Assessed value (AV) has grown at an average rate of 11% from 2004-2009 and totals a very strong $90,314 per capita as of 2009.

However, as has been the case in other parts of the state and nation, the Sacramento housing market is currently experiencing what we consider a significant downturn. Home prices are down by approximately one-third from their peak in 2005. The city's preliminary estimates indicate that AV for fiscal 2010 could fall by 11% to $37.7 billion from $42.2 billion in fiscal 2009. If this decline holds, per capita market value is projected to decline to $80,616, according to the city, although we still consider this total very strong. Secured property taxes, which grew 9% in 2008, are showing just 2% growth in 2009. Sales taxes have declined steadily since 2006, fiscal 2008 collections are down 4% from 2007, and the city's estimates for 2009 are showing a 6% decline versus 2008.

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page. 729149 | 300097587

Related Research

- USPF Criteria: "GO Debt," Oct. 12, 2006
- USPF Criteria: "Appropriation-Backed Obligations," June 13, 2007

Ratings Detail (As Of June 22, 2009)		
Sacramento City Fincg Auth cap Improv rev bnds (Comnty Reinvestment Cap Improv Prgm) ser 2006 A due 12/01/2036		
Long Term Rating	A/Stable	Downgraded
Sacramento City Fincg Auth Taxable cap Improv rev bnds (Comnty Reinvestment Cap Improv Prgm) ser 2006 B		
Long Term Rating	A/Stable	Downgraded
Sacramento Fincg Auth rfdg rev bnds ser 2002 (MBIA)		
Long Term Rating	A/Stable	Downgraded
Sacramento City Fincg Auth (Comnty Reinvestment Cap Improv Prgm) ser 2006A		
Unenhanced Rating	A(SPUR)/Stable	Downgraded
Sacramento City Fincg Auth (Master Lse Prog Facs) ser 2006E		
Unenhanced Rating	A(SPUR)/Stable	Downgraded
Sacramento City Fincg Auth (300 Richards Blvd Bldg Acquisition) ser 2006D		
Unenhanced Rating	A(SPUR)/Stable	Downgraded
Sacramento City Fincg Auth, California		
Sacramento, California		
Sacramento City Fincg Auth (Sacramento) 2003 cap imp rev bnds (911 Call Ctr & other mun proj) dtdt 09/30/2003 due 12/01/2008-2024 2027 2033		
Unenhanced Rating	A(SPUR)/Stable	Downgraded
Sacramento City Fing Auth (City Hall & Redev Proj) ser 2002A dtd 07/02/2002 due 12/01/2003-2022 2028 2032		
Unenhanced Rating	A(SPUR)/Stable	Downgraded

Many issues are enhanced by bond insurance.

Standard & Poor's. All rights reserved. No reprint or dissemination without S&P's permission. See Terms of Use/Disclaimer on the last page.

Copyright © 2009, Standard & Poors, a division of The McGraw-Hill Companies, Inc. (S&P). S&P and/or its third party licensors have exclusive proprietary rights in the data or information provided herein. This data/information may only be used internally for business purposes and shall not be used for any unlawful or unauthorized purposes. Dissemination, distribution or reproduction of this data/information in any form is strictly prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P, its affiliates or its third party licensors, S&P, its affiliates and its third party licensors do not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P GIVES NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates and its third party licensors be liable for any direct, indirect, special or consequential damages in connection with subscribers or others use of the data/information contained herein. Access to the data or information contained herein is subject to termination in the event any agreement with a third-party of information or software is terminated.

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: research_request@standardandpoors.com.

Copyright © 1994-2009 Standard & Poors, a division of The McGraw-Hill Companies. All Rights Reserved.

The McGraw-Hill Companies