DAC Bond®

Municipal Market Disclosure Information Cover Sheet

This Filing Applies to:

1. City of Sacramento, Water Revenue Bonds, Series 2017, $52,610,000, Dated: June 22, 2017
786089HD7, 786089HE5, 786089HF2, 786089HG0, 786089HH8, 786089HJ4, 786089HK1, 786089HL9, 786089HM7, 786089HN5, 786089HP0, 786089HQ8, 786089HR6, 786089HS4, 786089HT2, 786089HU9, 786089HV7, 786089HW5, 786089HX3, 786089HY1

2. City of Sacramento, Water Revenue Bonds, Series 2013, $215,195,000, Dated: March 28, 2013
786089GC0, 786089GD8, 786089GE6, 786089GZ9, 786089GF3, 786089GG1, 786089GH9, 786089HA3, 786089GJ5, 786089GK2, 786089GL0, 786089GM8, 786089GN6, 786089GP1, 786089GQ9, 786089GR7, 786089GS5, 786089GT3

TYPE OF FILING:

If information is also available on the Internet, give URL: www.dacbond.com

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

Financial / Operating Data Disclosures

Rule 15c2-12 Disclosure

- ☐ Annual Financial Information & Operating Data (Rule 15c2-12)
- ☐ Audited Financial Statements or CAFR (Rule 15c2-12)
- ☐ Failure to provide as required

Additional / Voluntary Disclosure

- ☐ Quarterly / Monthly Financial Information
- ☐ Change in Fiscal Year / Timing of Annual Disclosure
- ☐ Change in Accounting Standard

- [ ] Interim / Additional Financial Information / Operating Data
- [ ] Budget
- [ ] Investment / Debt / Financial Policy
- [ ] Information Provided to Rating Agency, Credit / Liquidity Provider or Other Third Party
- [ ] Consultant Reports
- [ ] Other Financial / Operating Data

Event Filing

Rule 15c2-12 Disclosure

- [ ] Principal / Interest Payment Delinquency
- [ ] Non-payment Related Default
- [ ] Unscheduled Draw on Debt Service Reserve Reflecting Financial Difficulties
- [ ] Unscheduled Draw on Credit Enhancement Reflecting Financial Difficulties
- [ ] Substitution of Credit or Liquidity Provider, or Its Failure to Perform
- [ ] Adverse Tax Opinion or Event Affecting the Tax-exempt Status of the Security
- [ ] Modification to the Rights of Security Holders
- [ ] Bond Call
- [ ] Defeasance
- [ ] Release, Substitution or Sale of Property Securing Repayment of the Security
- [ ] Rating Change
- [ ] Tender Offer / Secondary Market Purchases
- [ ] Merger / Consolidation / Acquisition and Sale of All or Substantially All Assets
- [ ] Bankruptcy, insolvency, receivership or similar event
- [ ] Successor, Additional or Change in Trustee
- [ ] Failure to Provide Event Filing Information as Required
- [ ] Financial Obligation - Incurrence and Agreement
- [ ] Financial Obligation - Event Reflecting Financial Difficulties

Additional / Voluntary Disclosure

- [ ] Amendment to Continuing Disclosure Undertaking
- [ ] Change in Obligated Person
- [ ] Notice to Investor Pursuant to Bond Documents
- [ ] Communication From the Internal Revenue Service
- [ ] Bid For Auction Rate or Other Securities
- [ ] Capital or Other Financing Plan
- [ ] Litigation / Enforcement Action
- [ ] Change of Tender Agent, Remarketing Agent or Other On-going Party
- [ ] Derivative or Other Similar Transaction
- [x] Other Event-based Disclosures

Fitch Rating Affirmation

Asset-Backed Securities Filing

Additional / Voluntary Disclosure

☐ Initial Asset-Backed Securities Disclosure (SEC Rule 15Ga-1(c)(1))
☐ Quarterly Asset-Backed Securities Disclosure (SEC Rule 15Ga-1(c)(2)(i))
☐ Annual Asset-Backed Securities Disclosure (SEC Rule 15Ga-1(c)(2)(ii))
☐ Other Asset-Backed Securities Disclosure (e.g. notice of termination of duty to file reports pursuant to SEC Rule 15Ga-1(c)(3))

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Authorized By:

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Title: Debt Manager
Entity: City of Sacramento, CA

Digital Assurance Certification

Filing Certificate

DAC transmitted the Other Event-based Disclosures to EMMA/SID (if applicable) on behalf of City of Sacramento, CA under their SEC Rule 15c2-12 Continuing Disclosure Agreement.

Transmission Details: ES1048126

Date & Time Stamp:	03/27/2020
Document Name or Event Type:	Other Event-based Disclosures
Document Description:	Fitch Rating Affirmation
DAC Bond Coversheet:	Yes
Transmitted to:	MSRB-EMMA
Total CUSIPs associated with this Filing:	38
Filing made on Series:	2017, 2013

Codes: P (Prerefunded), **R** (Refunded), **U** (Unrefunded), **E** (Escrowed), **A** (Advance Refunding), **D** (Defeased), **T** (Tendered), **V** (Derivatives), **UD** (Undetermined), **NLO** (No Longer Outstanding)

Red: Original CUSIPs - filing missed · **Blue:** Non-Original CUSIPs - filing missed · **Green:** Outstanding CUSIPs - filing made · **Black:** Inactive CUSIPs

1. Issue: City of Sacramento, Water Revenue Bonds, Series 2017, $52,610,000, Dated: June 22, 2017

   CUSIP: 786089HD7, 786089HE5, 786089HF2, 786089HG0, 786089HH8, 786089HJ4, 786089HK1, 786089HL9, 786089HM7, 786089HN5, 786089HP0, 786089HQ8, 786089HR6, 786089HS4, 786089HT2, 786089HU9, 786089HV7, 786089HW5, 786089HX3, 786089HY1

   No missing CUSIPs for this bond issue

2. Issue: City of Sacramento, Water Revenue Bonds, Series 2013, $215,195,000, Dated: March 28, 2013

   CUSIP: 786089GC0, 786089GD8, 786089GE6, 786089GF3, 786089GZ9, 786089GG1, 786089GH9, 786089GJ5, 786089HA3, 786089GK2, 786089GL0, 786089GM8, 786089GN6, 786089GP1, 786089GQ9, 786089GR7, 786089GS5, 786089GT3

   No missing CUSIPs for this bond issue

City of
SACRAMENTO
Office of the City Treasurer

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Sacramento CA 95814

John Colville ~ City Treasurer

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ADDITIONAL (VOLUNTARY) DISCLOSURE
RATING AFFIRMED

Dated: March 27, 2020

NOTICE IS HEREBY GIVEN that on March 26, 2020, Fitch Ratings ("**Fitch**") affirmed the "AA-" long-term rating with a stable outlook for the City of Sacramento's Water Revenue Bonds, Series 2013 and Water Revenue Bonds, Series 2017. Additionally, Fitch assigned a "AA-" rating with a stable outlook to the upcoming issuance of the City of Sacramento's Water Revenue Refunding Bonds, Series 2020.

The press release from Fitch is attached.

City of Sacramento

Brian Wong
Debt Manager

Attachment: Fitch Press Release – City of Sacramento Water Revenue Bonds, Series 2013, City of Sacramento Water Revenue Bonds, Series 2017, and upcoming City of Sacramento Water Revenue Refunding Bonds, Series 2020

FitchRatings

Fitch Rates Sacramento, CA Water Revs 'AA-'; Outlook Stable

Fitch Ratings - San Francisco - 26 March 2020:

Fitch Ratings has assigned a 'AA-' rating to the following obligations issued by Sacramento, CA:

--$187.1 million water revenue refunding bonds, series 2020 (federally taxable).

The bond proceeds will be used to refund a portion of the city's outstanding water revenue bonds, series 2013 (approximately $166.4 million of the $191.8 million outstanding). The bonds are expected to sell via negotiation on or around April 27, 2020.

In addition, Fitch has affirmed the 'AA-' ratings on the following outstanding obligations:

--Approximately $242.8 million water revenue bonds, series 2013 (pre-refunding) and 2017.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by a senior lien on the city's net water system revenues after payment of maintenance and operations expenses.

KEY RATING DRIVERS

SOLID FINANCIAL PERFORMANCE: Financial performance is solid with very stable revenues, strong debt service coverage (DSC) and healthy liquidity. Margins are expected to narrow over the next few years given recent borrowing and anticipated flat rates but remain adequate for the rating category.

HIGH DEBT, CAPITAL NEEDS: The debt burden is above average and expected to remain so over the next five years with the completion of a major water metering project.

DISCIPLINED RATE POLICY: The city council previously approved significant rate increases to support planned capital investments and rising debt service. Rates are equal to Fitch's 1% of median household income affordability metric, but are expected to remain flat through at least the forecast period.

STRONG SUPPLY POSITION: The city has rights to an ample supply of local surface water under high-priority water rights. It conserved heavily in the recent drought and aims to maintain a lower level of usage going forward.

LARGE, DIVERSE SERVICE AREA: The utility is the monopoly provider of essential retail water services to a large urban service area. The customer base is diverse and largely residential.

RATING SENSITIVITIES

Developments that May, Individually or Collectively, Lead to a Positive Rating Action:

--A material decline in leverage metrics, which is not expected over the intermediate term, could lead to positive rating action.

Developments that May, Individually or Collectively, Lead to a Negative Rating Action:

--Additional borrowing due to revisions in the capital plan or reductions in operating cash flow significantly beyond that already anticipated would be viewed unfavorably given the already high leverage the utility.

CREDIT PROFILE

The utility provides essential water services to more than 500,000 residents of the city, California's state capital and the nation's 36th-largest city. The utility also serves several small wholesale accounts. The customer base of 142,831 accounts is largely residential, and the utility's three largest customers are governmental entities. The 10 largest retail accounts provide just 7.7% of operating revenues.

The Sacramento economy is growing at a healthy pace with payroll employment growth outpacing the nation over the past several years and unemployment continuing to decline. The unemployment rate trends somewhat higher than the national average, though it was 3.2% in December 2019 compared with 3.4% for the nation. The State of California is the dominant local economic force and employer. While the state provides a solid fundamental base for local economic activity, the concentration of state employment in the city leaves Sacramento heavily exposed to changes in the state's budget position and employment levels.

The recent outbreak of coronavirus and related government containment measures worldwide creates an uncertain global environment for the Water and Sewer sector. While the utility's performance through most recently available data has not have indicated impairment, material changes in revenue and cost profile are occurring across the sector and likely to worsen in the coming weeks and months as economic activity suffers and government restrictions are maintained or expanded. Fitch's ratings are forward-looking in nature, and Fitch will monitor developments in the sector as a result of the virus outbreak as it relates to severity and duration, and incorporate revised expectations for future performance and assessment of key risks.

SOLID FINANCIAL PERFORMANCE

Financial performance remained solid through a period of intense drought due to ongoing adjustments in water rates and substantial amount of revenues provided by fixed meter fees. Fitch-calculated senior DSC (net of transfers out of utility taxes equal to 11% of utility rate fees paid to the city's general fund) averaged 3.5x over the last five years, providing solid coverage for the rated bonds. All-in DSC net of transfers was solid at a five-year average of 2.0x. The utility tax transfer approved by voters and levied on the city's water, wastewater, storm-drainage and solid-waste enterprises may be higher or lower than 11% on one or more of the enterprises provided that the total tax paid by all of the enterprises does not exceed 11% of the total gross revenues received from user fees and charges of all of the enterprises combined. The city currently levies 11% on each of the enterprises. Free cash to depreciation has increased each of the last four years to a healthy 175% in fiscal 2019, providing solid excess revenues for investment in the system after payment of debt service and operating expenses.

Liquidity is strong, with a five-year average days cash on hand at 740. Unrestricted cash and investments equaled $107.4 million, or 639 days cash, as of June 30, 2019. Cash increased rapidly in recent years as the city ramped up rates to support its capital investment program.

Financial performance is expected to moderate somewhat over the next five years as the utility's debt obligations increase and rates remain flat. Fitch-calculated all-in DSC based on city forecasts will fall to a more moderate 1.6x by fiscal 2024, or 1.25x net of transfers. Fitch-calculated senior coverage is expected to remain strong for the rating category, declining to 2.3x in fiscal 2024, or 1.8x net of transfers.

STRONG RATE DISCIPLINE; NO ADDITIONAL INCREASES

The Sacramento City Council has shown strong rate discipline in recent years, increasing rates 10% each year from fiscal 2013 to 2020 (except 2016) to support a significant increase in capital spending. Water rates for 100 cubic feet of water cost $50.31 per month in fiscal 2020, which equal Fitch's 1% of median household income affordability threshold. Rates are expected to remain flat at least through the five-year forecast period. As such, rates are expected to moderate somewhat. The utility has faced some rate controversy in the past, but has received strong political and electoral support for its need to raise rates to update its aging infrastructure.

HIGH DEBT, CAPITAL NEEDS

The utility's current capital improvement plan (CIP) for fiscal 2020-2024 totaling $138.2 million is well under the $276.5 million 2017-2021 CIP. The utility entered into a $173.1 million SRF loan in fiscal 2018 to fund a statutorily mandated plan to meter its large customer base (a $230 million project that is expected to be completed by 2021, about three years ahead of the requirement). The city also continues to work on main replacements and other asset renewal to address a backlog of deferred necessary maintenance on the system's aging infrastructure.

Debt per customer is approximately $3,740 and debt per capita is just over $1,000 including the SRF loan, both about 2x the median for 'AA' rated water and sewer utilities. While the utility does not expect any additional borrowing in the intermediate term, the high reliance on debt and the high debt burden are the main factors precluding a higher rating in the near term.

STRONG WATER RIGHTS

The utility maintains a large supply of low cost, local surface water that is limited in only the most severe California droughts. Sacramento draws about 76% of its water supplies from the American and Sacramento Rivers based on a five-year average. Another 24% of supplies are provided by local ground water wells. The city estimates that its reliable supplies equal about 280 million gallons per day (MGD) compared with recent demand of less than 100 MGD. The city has contracts with the U.S. Bureau of Reclamation that require the agency to provide sufficient flows to meet city needs before serving the Bureau's own Central Valley Project customers from its Folsom Lake reservoir.

Despite its high priority rights, Sacramento cut use quite aggressively in the recent drought ending in 2017, even before state-mandated conservation measures were put in place. Once state regulation was imposed, the city maintained compliance with a very high conservation requirement of 28%.

Policymakers expect conservation to continue with its metering program and public outreach aimed at hardening demand at lower levels.

Reducing water usage allows the city to create greater drought resiliency and to accommodate new growth without investing in expensive new supply projects. The reductions would also reduce political and regulatory risk that could stem from above average water use in a state where water policymakers are pushing to reduce usage. Reductions in the volume of water sold are not a credit concern so long as the city continues to take offsetting rate action to recover the full cost of providing service.

ESG Considerations

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
Sacramento (CA) [Water]			
Sacramento (CA) /Water Revenues/1 LT	LT AA- ⊙ Affirmed		AA- ⊙

Additional information is available on www.fitchratings.com

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Applicable Criteria

U.S. Water and Sewer Rating Criteria (pub. 29 Nov 2018)
Public Sector, Revenue-Supported Entities Rating Criteria (pub. 07 Nov 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

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