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June 22, 2012

RE: Ratings of Tax Allocation Bonds, Capital Improvement Revenue Bonds, and Refunding Revenue Bonds of the Redevelopment Agency of the City of Sacramento, California

To Whom It May Concern,

NOTICE IS HEREBY GIVEN that on June 14, 2012, Moody's Investors Service downgraded to Ba1all California tax-allocation bonds rated Baa3 and above. All California tax-allocation bond ratings remain on review for possible withdrawal due to insufficient information. A copy of the Moody's report dated June 14, 2012, is attached to this notice.

The City of Sacramento is the Successor Agency to the Redevelopment Agency of the City of Sacramento. A summary of the ratings of the issues potentially affected by the Moody's report can be found on the following pages.

- The following bonds issued by the Sacramento City Financing Authority are payable from and secured by a lien upon tax-increment revenues and previously had a rating of Baa2 from Moody's Investors Service:

  - 1993 Taxable Tax Allocation Revenue Bonds, Series B

- The following bonds issued by the Sacramento City Financing Authority are payable from and secured by a lien upon tax-increment revenues and previously had an insured rating from Moody's Investors Service, but they are no longer rated by Moody's Investors Service:

  - 2005 Tax Allocation Revenue Bonds, Series A and Taxable Series B
  - 2006 Tax Allocation Revenue Bonds, Series A and Taxable Series B

- The following bonds issued by the Redevelopment Agency of the City of Sacramento are payable from and secured by a lien upon tax-increment revenues and are insured by Assured Guaranty Municipal Corp. (formerly FSA) with an insured rating by Moody's Investors Service:

  - Tax Allocation Bonds, Series 1998 A, B, and C
  - Tax Allocation Bonds, Series 2000 A

- A portion of the following bonds issued by the Sacramento City Financing Authority are payable from and secured by a lien upon tax-increment revenues and are insured by Assured Guaranty Municipal Corp. (formerly FSA) with an insured rating by Moody's Investors Service;

  - 2002 Capital Improvement Revenue Bonds

- A portion of the following bonds issued by the Sacramento City Financing Authority are payable from and secured by a lien upon tax-increment revenues and previously had an insured rating from Moody's Investors Service:

  - 1999 Capital Improvement Revenue Bonds (no longer rated by Moody's Investors Service)
  - 2005 Refunding Revenue Bonds

- The following bonds issued by the Sacramento County Public Financing Authority are payable from and secured by a lien upon tax-increment revenues. Either they previously had an insured rating from Moody's Investors Service and are no longer rated by Moody's Investors Service, or they were not initially rated by Moody's Investors Service:

  - 2003 Tax Allocation Revenue Bonds, Series A and C

Bond	***Moody's Underlying Rating of the Bond***	***Insurer***	***Moody's Current Rating of the Insurer***	***Moody's Previous Rating of the Bond***	***Moody's New Rating of the Bond***	***Effect***
Issued by the Sacramento City Financing Authority						
1993 Taxable Tax Allocation Revenue Bonds, Series B	Baa2	MBIA*	B3	Baa2	Ba1	Downgrade
2005 Tax Allocation Revenue Bonds, Series A	-	FGIC**	NR	WR	WR	N/A
2005 Taxable Tax Allocation Revenue Bonds, Series B	-	FGIC**	NR	WR	WR	N/A
2006 Tax Allocation Revenue Bonds, Series A	-	FGIC**	NR	WR	WR	N/A
2006 Taxable Tax Allocation Revenue Bonds, Series B	-	FGIC**	NR	WR	WR	N/A
1999 CIRB (Oak Park)	-	AMBAC	WR	WR	WR	N/A
2002 CIRB (Merged Downtown)	-	FSA***	Aa3	Aa3	Aa3	N/A
2005 Revenue Refunding (DPH)	A1	FGIC	WR	A1	A1	N/A
Issued by the Redevelopment Agency of the City of Sacramento						
Tax Allocation Bonds, Series 1998 A	-	FSA***	Aa3	Aa3	Aa3	N/A
Tax Allocation Bonds, Series 1998 B	-	FSA***	Aa3	Aa3	Aa3	N/A
Tax Allocation Bonds, Series 1998 C	-	FSA***	Aa3	Aa3	Aa3	N/A
Tax Allocation Bonds, Series 2000 A	-	FSA***	Aa3	Aa3	Aa3	N/A
Issued by the Sacramento County Public Financing Authority						
2003 Tax Allocation Revenue Bonds, Series A	-	FGIC	WR	-	-	N/A
2003 Tax Allocation Revenue Bonds, Series C	-	RADIAN	-	-	-	N/A

* as National Public Finance Guaranty Corp.
** Financial Guaranty Insurance Company
*** FSA is now Assured Guaranty Municipal Corp.

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades to Ba1 all California TABs rated Baa3 or above, reflecting sharply increased uncertainty of continued, timely cash-flow for debt service payments; all TAB ratings remain on review for possible withdrawal due to insufficient information

Global Credit Research - 14 Jun 2012

Approximately $11.6 billion of debt affected

New York, June 14, 2012 -- Moody's Investors Service has downgraded to Ba1 all California tax allocation bonds that were rated Baa3 or higher. All of our California tax allocation bond ratings remain on review for possible withdrawal. This continued review reflects the likelihood that insufficient information will be available to evaluate the relative probability of default due to the new cash flow pattern established in the redevelopment dissolution law (AB 1x 26). The new cash distribution procedure effectively eliminates bond indentures' flow of funds, and it is clearly subject to differing procedural interpretations. These differing interpretations can, without warning, give rise to the potential for debt service defaults that did not exist prior to the passage of this law. Absent administrative or legislative correction of this weakness in the law's terms, Moody's will likely withdraw its ratings on California tax allocation bonds.

RATING RATIONALE

The downgrades for the bonds rated Baa3 and higher primarily reflect the heightened cash flow risks arising from the implementation of state legislation dissolving all redevelopment agencies. This legislation effectively altered the flow of funds to be used to pay bondholders.

Even with strong credit fundamentals and intact legal security, timely debt service payments on California tax allocation bonds cannot currently be assured. This uncertainty primarily arises from the potential for legal and political disputes on the correct procedure for distributing cash according to the redevelopment agency dissolution law, AB 1x 26. This risk was recently highlighted by a dispute (discussed below) between the City of San Jose's Successor Agency and Santa Clara County that, according to a public notice filed by the City of San Jose, threatens timely payment of debt service in August despite sufficient tax increment revenues derived from the legal pledge to bondholders.

The downgrade also reflects the absence of a robust mechanism within the dissolution law itself to resolve such disputes and the evolution of the California Department of Finance's guidelines on distributing tax increment revenues. While the law has a reallocation procedure in the event of a shortfall that results solely from the new cash distribution procedure, the process for resolving disputed calculations and varying legal interpretations is not sufficiently detailed or prescribed so as to provide assurances of full or timely bond payments. The resolution of such issues may be left up to the courts if the state does not pass additional "cleanup" legislation. The current state guidance to county auditor-controllers to withhold property tax distributions in the absence of a state approved payment schedule also injects an element of payment timing uncertainty that did not exist prior to the dissolution law's adoption.

While the implementation of the law has given rise to new cash flow risks, Moody's believes the law is clear that fundamental legal security for tax allocation bonds is intended to be preserved. Therefore, we would expect that any defaults stemming solely from the new law's cash distribution procedure would likely over time be corrected. We believe that after a default, recovery would likely be at or close to 100%.

All ratings remain on review for possible withdrawal due to the potential that insufficient information will be available on a continuing, long-term basis with which to determine the relative probability of cash flow disputes leading to defaults.

STRENGTHS

- Successor agencies, which replaced the dissolved redevelopment agencies, remain explicitly obligated to honor existing bond contracts, with recognition of legally pledged revenue streams, debt service reserve funding requirements, and other performance requirements in existing bond documents.

- County auditor-controllers have generally indicated a very strong willingness and ability to comply with the new revenue allocation requirements on a sufficiently timely basis to allow successor agencies to meet existing debt service payment obligations.

- In the long-run, existing contract law should protect bondholder's interests, minimizing losses that might result solely from new procedural requirements in the redevelopment dissolution law.

CHALLENGES

- While the legislature's intent to honor existing obligations is clearly stated in the law, the mechanics of the new law do not provide sufficient clarity on process to realize this intent.

- The law creates significant uncertainty with respect to timing and mechanics of cash flows, which in our view effectively trumps the strength of the legal security and debt service coverage of bonds.

- The law establishes an initial allocation of property tax revenues that conflicts with existing bond documents, and the effectiveness of the resolution process on a timely basis is uncertain.

- The timeframe for property tax disbursements is more restricted than it had been previously, potentially resulting in mismatched receipt and disbursement schedules over the course of a year.

- The new law's audit requirements and sheer complexity have resulted in unexpected payment delays. These will require legal and/or administrative clarification.

WHAT COULD MAKE THE RATINGS GO UP

- Implementation of the legislation in a manner that clearly preserves timely debt service payment and enables compliance with bond documents

- Legislative or judicial clarification that compliance with bond documents takes precedence over other, apparently conflicting aspects of the legislation

WHAT COULD MAKE THE RATINGS GO DOWN

- Continued implementation of the legislation in a way that does not clearly preserve timely debt service payment

- Continued legal uncertainty and conflict between the law's requirements and strict compliance with existing bond documents

- Judicial determination that compliance with bond documents is subordinate to, or to be balanced against, other objectives of the legislation

The principal methodology used in this rating was Moody's Analytic Approach To Rating California Tax Allocation Bonds published in December 2003. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: public information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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