

City of  
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**EVENT NOTICE PURSUANT TO S.E.C. RULE 15c2-12  
RATING CHANGE**

Dated: March 15, 2018

NOTICE IS HEREBY GIVEN that on March 14, 2018, Moody's Investor Services ("**Moody's**") affirmed the City of Sacramento's long-term issuer rating at "Aa2" with a stable outlook. At the same time, Moody's also upgraded the rating and outlook of lease revenue bonds issued by the Sacramento City Financing Authority as follow:

- The underlying rating of the *Lease Revenue Refunding Bonds, Series 1993A* was upgraded to "A1" from "A2" with a stable outlook.
- The underlying rating of the *Lease Revenue Refunding Bonds, Series 1993B* was upgraded to "Aa3" from "A1" with a stable outlook.
- The underlying and insured ratings of the *2006 Improvement Revenue Bonds, Series B* were upgraded to "Aa3" from "A1" with a stable outlook.
- The underlying and insured ratings of the *2006 Refunding Revenue Bonds, Series E* were upgraded to "Aa3" from "A1" with a stable outlook.
- The underlying rating of the *2015 Refunding Revenue Bonds (Master Lease Program Facilities)* was upgraded to "Aa3" from "A1" with a stable outlook.

City of Sacramento



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Brian Wong  
Debt Manager

Attachment: Moody's Affirms City of Sacramento Issuer Rating & Ratings of Lease-backed Obligations

**Rating Action: Moody's affirms City of Sacramento, CA's Aa2 issuer rating and upgrades lease-backed obligations to Aa3 or A1; outlook is stable**

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Global Credit Research - 14 Mar 2018

**Aa3 rating applies to \$385.4M lease revenue bonds and A1 rating applies to \$25.3M lease revenue bonds**

New York, March 14, 2018 -- Moody's Investors Service has affirmed the City of Sacramento's Aa2 issuer rating and upgraded its "more essential" lease-backed obligation to Aa3 from A1 and "less essential" lease-backed obligation to A1 from A2, depending on essentiality of the leased assets. The city has \$712.8 million in outstanding lease revenue bonds, including \$385.4 million in Aa3-rated bonds and \$25.3 million in A1-rated bonds. The outlook remains stable.

**RATINGS RATIONALE**

The one-notch upgrade of the city's lease-backed obligations to Aa3 or A1 primarily reflects improvement in the city's general fund financial position and sound financial prospects going forward. We had previously applied widened notching on our lease ratings to reflect post-recessionary general fund stress and uncertain prospects for recovery. We also did not consider sufficient the degree to which the city's unusually high general fund lease payment burden was offset by earmarked, additional revenues outside the general fund. These additional revenues have sufficiently demonstrated a history of moderate coverage to assume reasonable protection for the general fund. The notching for the city's lease-backed ratings is now consistent with Moody's standard practice for California cities.

The city's Aa2 Issuer Rating reflects the large tax base that has resumed healthy growth, largely fueled by positive trends in employment, housing prices, and building activity. The city has room for additional growth and there is healthy demand for both residential and commercial development. The rating also reflects the city's materially strengthened financial position, which will provide flexibility to manage expected expenditure pressures from rising pension costs, as well as the potential loss in revenue should the city's half-cent sales tax measure not be renewed by voters. The city's fixed costs are somewhat elevated, but we note that revenues outside the general fund offset a significant portion of the general fund debt service. The city debt level is moderate, but pensions are elevated. The city's OPEB liability is also somewhat elevated, but the city took action to reduce this liability by eliminating OPEB benefits for new employees in 2015.

The Aa3 lease-backed ratings are one notch lower than the Aa2 issuer rating. For a California city, Moody's typically applies a one-notch distinction from the issuer rating, reflecting a standard California abatement lease legal structure and leased assets that we view as "more essential." The Aa3 rating applies to the city's 2015 Refunding Revenue Bonds (Master Lease Program Facilities), 2006 Capital Improvement Revenue Bonds, Series B Taxable, and 2006 Refunding Revenue Bonds, Series E (Master Lease Program Facilities), which benefit from the more essential nature of the leased assets within the city's Master Lease Program; and to the city's Lease Revenue Refunding Bonds, Series 1993B, which benefit from the more essential nature of the executive airport and civic center garage, which secure the bonds.

The A1 lease-backed rating is two notches lower than the Aa2 issuer rating. Moody's typically applies a two-notch distinction from a California city's issuer rating reflecting a standard California abatement lease legal structure and leased assets that we view as "less essential." The A1 rating applies to the city's Lease Revenue Refunding Bonds, Series 1993A, which are secured by the city's convention center.

**RATING OUTLOOK**

The outlook on the city's long-term ratings is stable. The outlook recognizes the city's large and diverse tax base which is undergoing healthy growth and the city's financial position, which is currently above-average for the rating level, should sustain the city's financial operation through anticipated expenditure pressures.

**FACTORS THAT COULD LEAD TO AN UPGRADE**

- Substantial and sustained strengthening of the city's financial position

- Material improvement to resident wealth measures, including median family income and full value per capita
- Reduction of debt burden
- Reduction of unfunded pension and OPEB liabilities

#### FACTORS THAT COULD LEAD TO A DOWNGRADE

- Expiration of Measure U sales tax measure without commiserate reduction in expenditures
- Deterioration of fiscal position through deficit spending
- Material erosion of the tax base
- An increase in general fund-supported debt
- Growth in unfunded pension or OPEB liabilities

#### LEGAL SECURITY

The city's lease-backed obligations are secured by standard abatement leases benefiting from 24-month rental interruption insurance and surety-funded debt service reserves. The Aa3-rated bonds are secured by rental payments for use and occupancy of leased assets under a Master Lease Agreement or for use and occupancy of the Executive Airport and Civic Center Garage.

The A1-rated bonds are secured by rental payments for use and occupancy of the city's convention center.

#### PROFILE

Sacramento serves as the state capital and is located at the confluence of the Sacramento and American Rivers in the northern part of California's Central Valley, about 75 miles northeast of San Francisco. The city encompasses 100 square miles and has an estimated population of 493,000. It is the fastest growing large city in the state.

#### METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. An additional methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local published in July 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of these methodologies.

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