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EVENT NOTICE PURSUANT TO S.E.C. RULE 15C2-12
RATING CHANGE

Dated: September 7, 2018

NOTICE IS HEREBY GIVEN that on August 31, 2018, Standard and Poor's Global Ratings ("S&P") upgraded the long-term rating to "A-" from "BBB+" with a stable outlook for the Sacramento City Financing Authority 2013 Special Tax Refunding Bonds (Westlake and Regency Park), Series A debt issue.

The rating report from S&P is attached.

City of Sacramento

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Brian Wong
Debt Manager

Attachment: S&P Press Release – Sacramento City Financing Authority 2013 Special Tax Refunding Revenue Bonds (Westlake and Regency Park), Series A

S&P Global
Ratings

RatingsDirect®

Summary:

Sacramento City Financing Authority Sacramento Community Facilities Districts No. 2000-01 and 2001-03 (Westlake and Regency Park); Special Assessments

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Table Of Contents

Summary:

Sacramento City Financing Authority Sacramento Community Facilities Districts No. 2000-01 and 2001-03 (Westlake and Regency Park); Special Assessments

Credit Profile		
Sacramento City Fincg Auth, California		
Sacramento Comnty Facs Dist No. 2000-01 & 2001-03 (Westlake & Regency Park), California		
Sacramento City Fincg Auth (Sacramento CFD #2000-01 & 2001-03 (Westlake & Regency Park)) spl tax rev rfdg bnds		
Long Term Rating	A-/Stable	Upgraded
Sacramento City Fincg Auth (Sacramento CFD #2000-01 & 2001-03 (Westlake & Regency Park)) spl tax (AGM)		
Unenhanced Rating	A-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term rating and underlying rating one notch to 'A-' from 'BBB+' on Sacramento City Financing Authority's series 2013A special tax refunding revenue bonds, issued for Sacramento Community Facilities Districts (CFD) No. 2000-01 and 2001-03 (Westlake and Regency Park). The outlook is stable.

The rating action reflects the application of our updated methodology for assessing special assessments, "Special Assessment Debt," published April 2, 2018.

The bonds constitute special obligations of the districts, secured and payable from an annual special assessment tax levied on and collected from the parcels within CFD No. 2000-01 (Westlake) and CFD No. 2001-03 (Regency Park), and to the extent necessary, amounts in certain funds and accounts held under the districts' respective indentures. The special taxes are levied according to the rate and method of apportionment approved by the city of Sacramento.

Revenue from the series 2013A special tax refunding bonds is pooled by the authority--pursuant to the Mark-Roos Joint Exercise of Powers Act financing structure--to pay debt service on the authority's bonds. There is no cross-collateralization between the individual local obligations, and two individual debt service reserves are established at the local-obligation level to protect against annual delinquencies. There is no authority-level debt service reserve fund. The bonds require a reserve funded at a level equal to the least of the standard three-prong test of 100% of maximum annual debt service (MADS), 125% of average annual debt service, or 10% of the original par. The cash-funded reserve of almost $1.51 million (Westlake) and $846,000 (Regency Park) in fiscal 2018 exceeds the minimum reserve requirement (10% of original par amount). The liens are closed at both the CFD and authority levels except for refunding purposes.

The rating is based on the weak-link analysis of the two districts; therefore, it represents our opinion of CFD No. 2000-01 (Westlake). The report reflects the underlying credit quality of Westlake, which will make its final debt service payment in 2026. CFD No. 2001-03 (Regency Park) will be the sole district paying the final two years of debt service to maturity in 2028.

Officials used proceeds from the bond issuance to refund bonds that were issued to finance the acquisition, construction, and installation of various public improvements in connection within the districts.

The rating reflects our view of the districts' factors and analytical considerations, specifically their:

- Adequate economic fundamentals, characterized by adequate incomes and participation in a broad and diverse metropolitan statistical area (MSA), but partly offset by historically elevated home price volatility relative to the state and the U.S., and real estate affordability ratios that compare less favorably with the nation;
- Adequate district characteristics that include its overall large size, low-to-moderate concentration among top assessment payers, and almost built-out status of development, but which are somewhat mitigated by average overall value-to-lien (OVTL) ratios; and
- Adequate financial profile, characterized by adequate maximum loss to maturity (MLTM) and adequate ability to withstand the permanent loss of the top 10 taxpayers, albeit with bond provisions that provide lower coverage relative to similarly rated peers'.

Adequate economic fundamentals

CFD No. 2000-01 is located in Sacramento County in the northern area of the city of Sacramento (known as North Natomas). Sacramento, which has an estimated population of 498,083, is the capital of California and is the oldest incorporated city in the state. Residents have access to regional employment centers throughout the county and in the Sacramento-Roseville-Arden Arcade MSA, which, in our view, is broad and diverse.

Residents' wealth and income levels are adequate, in our view, and the unemployment rate has historically been slightly above the U.S. average, albeit below the state. The median household wealth level is 95.5% of the national level. The local unemployment rate was 4.6% in 2017, compared with the state (4.8%) and nation (4.4%). However, the area experienced 10-year population growth of 5.7%, which was generally below the national rate of 8.4%.

The local economy's Federal Housing Finance Agency (FHFA) housing price volatility can trend higher than the state and the U.S., which is not atypical of many California cities. According to the index, volatility was 17.9% over 10 years, compared with the state average of 16.3% and the U.S. rate of 8.7%. More recently, the FHFA home price index has been above the state and the U.S. averages, at 5.7% in the past two years and about 12.6% in the past five years. Historically, the local area's foreclosure rate has been slightly higher than the county's rate (0.17%), and is currently at 0.2%, which matches that of the state. Housing affordability ratios are substantially below the state's (806%), but above the U.S. (412%), with the median housing price at 618% of the median income.

Therefore, in assessing the economic fundamentals factor at an adequate score, we consider the district economy's adequate incomes, average unemployment rate, and access to a broad and diverse MSA. In addition, we believe the district's real estate market characteristics feature historically elevated home price volatility, coupled with average affordability and slow population growth relative to the U.S. average.

Adequate district characteristics

We believe the district characteristics are adequate, reflecting its overall low-to-moderate assessment payer concentration, large size with primarily residential composition, and largely built-out status of development, albeit with some developer concentration. These characteristics are somewhat offset by its adequate OVTL ratios.

Westlake CFD

Westlake is 90.6% built out on 331 gross acres and encompasses 1,500 parcels. After several years of declines following the Great Recession, assessed value (AV) on taxable property increased by an average of 4.5% over the past three years, reaching $525.8 million in 2018. While the payment of special taxes is unrelated to AV, it indicates the performance of the underlying tax base. We calculate that the OVTL, including overlapping general obligation debt, is 17.6 to 1, which we view as adequate. We calculate that about 7.8% of special tax comes from parcels with an overall VTL of less than 5 to 1. In our view, the tax base is somewhat concentrated, with the top 10 assessment payers in fiscal 2018 accounting for 13.9% of the total levy. The largest special taxpayer is Landsource Holding Co. LLC (7.2% of the total levy), a real estate developer that owns 153 residential parcels in the district.

The highest tax delinquency in recent history for Westlake was 8.4% in fiscal 2009; most recently, in fiscal 2018, the district experienced a very low, 0.3% delinquency. The majority of delinquencies have been covered by the county Teeter Plan, with only three foreclosures initiated since fiscal 2008.

Regency Park CFD

Regency Park is 98.4% built out on 464 gross acres and encompasses 2,322 parcels. AV on taxable property has followed a similar pattern to that in Westlake, increasing in fiscal years 2016, 2017, and 2018 by 4.9%, 4.7%, and 6.4%, respectively. The OVTL is, in our view, adequate at 17.8 to 1. In our view, the tax base is diverse, with the top 10 special assessment payers in fiscal 2016 accounting for only 4.4% of the total levy.

The highest tax delinquency in the recent past for Regency Park was 2.7% in fiscal 2008. Most recently, in fiscal 2018, the district experienced a low, 1.4% delinquency. The county Teeter Plan covered all delinquencies, with no foreclosures initiated since 2008.

Adequate financial profile

Our opinion of the financial profile score considers the transaction's overall adequate coverage structure. The debt service reserve is cash funded in excess of 100% of the standard three-prong test. Furthermore, the CFDs have no additional special tax bonding authorization remaining, which limits potential dilution of coverage as a result of additional bond issuance.

Westlake CFD

We understand CFD 2001-01 has historically levied at less than the maximum tax rate (approximately 10% of its maximum allowable rate in 2018). However, it levies at a rate that is sufficient to pay the principal and interest on debt service, as well as administrative expenses. Including the 2% escalators and the legally allowable 10% increase due to delinquencies, we calculate the legal maximum coverage to be about 1.1x each year during the life of the bonds. With these limitations, the district could withstand a maximum permanent delinquency rate of 19.2% over the life of the bonds while meeting all debt service obligations, which we believe is adequate. In addition, the district can cover its top 10 taxpayers 2.1x.

Although we believe its overall adequate economic profile can meet its obligations under low-to-moderate real estate distress, a significant increase in the special tax rate under adverse economic and real estate market conditions could overburden the taxpayer and weaken delinquency rates. However, the CFD participates in the county's Teeter Plan, which may protect its ability to pay debt service during a period of elevated assessment payment delinquencies.

Regency Park CFD

We understand CFD 2001-03 levies at less than the maximum tax rate (approximately 12.6% of its maximum allowable rate in 2018). However, it levies at a rate that is sufficient to pay the principal and interest on debt service, as well as administrative expenses. We calculate the legally maximum coverage to be about 1.1x annually during the life of the bonds. With the abovementioned limitations, the district could withstand a maximum permanent delinquency rate of 18% over the life of the bonds while meeting all debt service obligations, which we believe is adequate. In addition, the district can cover its top 10 taxpayers 2.5x.

Outlook

The stable outlook reflects our expectation that the economy will remain, at least, stable given its access to a broad and diverse MSA, albeit with adequate income levels and historically elevated home price volatility. The stable outlook also reflects our expectation that the districts' adequate characteristics and delinquency rates will likely remain low. As a result, we do not expect to change the rating over the two-year outlook horizon.

Upside scenario

If the districts' financial profile score strengthens and delinquencies remain at low levels, we could raise the rating.

Downside scenario

If delinquencies rise relative to peers', causing pressure on the maximum loss to maturity stress ratio, we could lower the rating.

Related Research

Special Assessment Bond Ratings Are Trending Up As The U.S. Economic Recovery Continues, March 28, 2016