This Filing Applies to:

1. City of Sacramento, Wastewater Revenue Bonds, Series 2019, $25,960,000, Dated: April 10, 2019
   786087AX4, 786087AY2, 786087AZ9, 786087BA3, 786087BB1, 786087BC9, 786087BD7, 786087BE5, 786087BF2, 786087BG0, 786087BH8, 786087BJ4, 786087BK1, 786087BL9, 786087BM7, 786087BN5, 786087BP0, 786087BQ8, 786087BR6

2. City of Sacramento, Wastewater Revenue Bonds, Series 2013, $30,855,000, Dated: June 27, 2013
   786087AF3, 786087AG1, 786087AH9, 786087AJ5, 786087AK2, 786087AL0, 786087AM8, 786087AN6, 786087AP1, 786087AQ9, 786087AR7, 786087AS5, 786087AT3, 786087AU0, 786087AV8, 786087AW6

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
Other Event-based Disclosures
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))

Disclosure Dissemination Agent Contact:
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Authorized By:
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Title: Debt Manager
Entity: Sacramento, CA, City of
DAC transmitted the Other Event-based Disclosures to EMMA/SID (if applicable) on behalf of Sacramento, CA, City of under their SEC Rule 15c2-12 Continuing Disclosure Agreement.

Transmission Details: ER1018724

Date & Time Stamp: 04/01/2020
Document Name or Event Type: Other Event-based Disclosures
Document Description: Rating Affirmation
DAC Bond Coversheet: Yes
Transmitted to: MSRB-EMMA
Total CUSIPs associated with this Filing: 35
Filing made on Series: 2019, 2013

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

1. Issue: City of Sacramento, Wastewater Revenue Bonds, Series 2019, $25,960,000, Dated: April 10, 2019
   CUSIP: 786087AX4, 786087AY2, 786087AZ9, 786087BA3, 786087BB1, 786087BC9, 786087BD7, 786087BE5, 786087BF2, 786087BG0, 786087BH8, 786087BJ4, 786087BK1, 786087BL9, 786087BM7, 786087BN5, 786087BP0, 786087BQ8, 786087BR6
   No missing CUSIPs for this bond issue

2. Issue: City of Sacramento, Wastewater Revenue Bonds, Series 2013, $30,855,000, Dated: June 27, 2013
   CUSIP: 786087AF3, 786087AG1, 786087AH9, 786087AJ5, 786087AK2, 786087AL0, 786087AM8, 786087AN6, 786087AP1, 786087AQ9, 786087AR7, 786087AS5, 786087AT3, 786087AU0, 786087AV8, 786087AW6
   No missing CUSIPs for this bond issue

The credit report from S&P is attached.
Summary:
Sacramento, California; Water/Sewer

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Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Sacramento, Calif.'s series 2020 wastewater revenue refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the city's outstanding series 2013 wastewater revenue bonds and series 2019 wastewater revenue bonds. The outlook is stable.

The series 2020 wastewater revenue refunding bonds will have a par amount of about $27.6 million to refund the city's outstanding wastewater revenue bonds, series 2013, for debt service savings. The 2013 bonds currently have about $27.82 million outstanding. The city additionally has about $25.96 million outstanding of series 2019 obligations and about $715,000 outstanding state loans. Net revenue of the wastewater system secures the bonds and loans.

Credit overview

The rating reflects our view of the wastewater system's very strong enterprise risk profile and extremely strong financial risk profile. The city is the state's capital, and the employment base consists of government- and health care-related employment. The customer base benefits from being in the broad and diverse Sacramento-Roseville-Arden-Arcade metropolitan service area with diversifying employment opportunities, good income metrics, and a low unemployment rate. Although the wastewater system's collection system is susceptible to combined sewer system overflows and environmental regulations, we understand management's capital plan is focused on maintaining the integrity of the system and complying with environmental regulations. The city's strong management team and history of timely wastewater rates have supported continued financial strength in both extremely strong all-in coverage and unrestricted cash position.

In our opinion, given the current economic conditions, we believe the wastewater system's revenues may experience some declines for fiscal 2020, ultimately our expectation is that management will continue to manage expenses and capital projects to maintain sound financial metrics. As of fiscal 2019, the wastewater system had 607 days' cash on hand, which we believe provides a significant cushion against short-term disruptions. The city has been proactive in implementing strategies for reducing the spread of COVID-19 and supporting the safety and welfare of city employees, such as implementing an expanded telecommuting policy, using WebEx and other tools for conducting virtual meetings, and relaxing the sick leave policy. While we continue to monitor events related to COVID-19, we do not currently expect it to affect the wastewater system's ability to maintain budgetary balance and pay debt service costs. For more information, see our article "COVID-19's Potential Effects In U.S. Public Finance Vary By Sector" (published...
March 5, 2020, on RatingsDirect).

The stable outlook reflects our expectation that management will draw down unrestricted liquidity to fund capital needs associated with the maintenance of the system's combined sewer system but that liquidity will stay above a range we consider very strong. Our stable outlook further reflects the diverse service area economy anchored by the state capital.

The rating reflects our view of the wastewater system's strengths:

- Extremely strong all-in coverage at above about 2.4x during the past three fiscal years, which we expect to continue given the lack of future debt plans and a 9% rate increase in 2020;
- Extremely strong unrestricted liquidity position at about $52 million, equivalent to 607 days of operating expenses, which will be drawn down to about $15 million by the end of 2020 to fund capital projects; and
- Strong financial management practices and policies.

The rating also reflects our view of the wastewater system's limiting factors:

- Affordable service rates in the context of the service area's good income metrics, offset by exposure to planned Sacramento Regional County Sanitation District (SRCSD) regional treatment rate increases that are set separately by the regional treatment plant provider and work to increase customers' overall wastewater bill, and
- Capital needs associated with the aging infrastructure of the combined sewer system to maintain the integrity of the system and compliance with environmental regulations.

Environmental, social, and governance (ESG) factors

Overall, we believe that management has mitigated most of its wastewater system's ESG-related risk by adopting, adhering to, and adjusting operating and financial policies and procedures. However, the utility may have more environmental risk with regard to its wastewater utility operations than peers given that portions of the systems are combined with stormwater and therefore more susceptible to combined system overflows. The wastewater system's capital plan includes projects that are critical to maintain compliance with environmental regulations and to limit the amount of combined system overflows. Given the current income indicators and county poverty rate, we do not view affordability as a social risk above peers; however, if rates significantly increase, income indicators decline, and the county poverty rate rises, rates may become less affordable.

Stable Two-Year Outlook

Downside scenario

We could lower the rating if there is a material decline in the city's economic fundamentals, such as median income metrics, or a rise in unemployment or poverty rates. As our assessment of the city's market position reflects both the city's cost of service and SRCSD's treatment costs, a significant increase in SRCSD's planned capital needs could affect our view of the cost of wastewater collection and treatment service in the city over time.
Upside scenario
We could raise the rating if the city continues to manage through its large capital plan while maintaining extremely strong coverage and cash.

Credit Opinion

Enterprise risk
The city is located in Sacramento County in the northern section of California's Central Valley at the confluence of the Sacramento and American rivers. The city is the state's capital, and the employment base consists of government- and health care-related employment. As of March 17, 2020, S&P Global Ratings forecasts a global recession this year. We will continue to monitor the city's economic conditions going forward; however, we view the primarily residential customer base to provide some stability to the wastewater system's revenue stream in the future. We view the service area's income levels to be good, based on the city's median household effective buying income (MHHEBI), which was 97% of the national median for 2018. For November 2019, the city's unemployment rate was about 3.3%, which was below the state's 3.7% and in line with the national rate.

The wastewater system's service area is primarily residential and very diverse. The wastewater system accounts for about 60% of public collection within city limits; the remaining 40% is served by Sacramento Area Sewer District primarily in the northwest and southeast. The wastewater system served about 78,100 customers in 2019, of which 94% are residential, which in our opinion provides stability to the wastewater system's revenue stream. The top 10 customers are also very diverse, representing only 6.83% of total system revenues based on fiscal 2019 financials. The leading customer, the state of California, represented 1.51% of system revenue for the same respective period. We view the leading customers to be very stable, as they are primarily government users, such as the state of California, the city of Sacramento, and Sacramento City Unified School District.

We view the wastewater system's market position as good, represented by affordable service rates in the context of the service area's good income metrics, and average county poverty rate of about 14% based on the U.S. Department of Agriculture's most recent 2018 data. Billing for wastewater service (including SRCSD charges) is included on a monthly bill that may include other utility services provided by the city. The city sets rates to cover costs of its local system only. SRCSD sets a separate rate paid by customers to cover regional treatment plant expenses. The city is responsible for payment to SRCSD for any charges not paid on time by city customers. If there are delinquencies, the city pursues collections through liens or special assessments, or both, for any uncollectable fees. The city and other SRCSD contributing agencies collect the regional treatment fee on behalf of SRCSD and must cover any delinquencies.

The city's wastewater bill for collection only is about $25.90 for a typical customer using our benchmark of about 800 cubic feet of water per month, and SRCSD's current wastewater treatment cost is $37 a month. A typical residential bill when including the SRCSD's rate is affordable at about 1.53% of MHHEBI. The county's poverty rate as reported by the U.S. Department of Agriculture is 14%, which we view as average across the nation. The city performs frequent internal rate studies and does not have future wastewater rate increases planned, given the 9% annual rate increases implemented for 2017-2020. SRCSD's monthly rate for single-family residential customers is about $37 a month, and SRCSD's board of directors has opted to rescind future rate increases through June 2022.
Based on our operational management assessment, we score the wastewater system a '3' on a six-point scale on which '1' is the strongest. The assessment of good reflects the city's efforts to maintain the integrity of its aging wastewater collection system and management's focus on complying with environmental regulations. A significant portion of the city's collection system is a combined sewer system (CSS), which receives both wastewater and stormwater in the same pipe network. The CSS system covers the older areas of the city. The remaining network is a separated sewer system (SSS). The system's wastewater is conveyed to the SRCSD's 181 million gallon per day (mgd) treatment plant. Under an operating agreement, SRCSD is contracted to accept 60 mgd of wastewater and stormwater from the CSS and all flows from the SSS. During storm events, CSS flows in excess of 60 mgd are stored at the city's two wet weather storage and treatment facilities, where they are eventually discharged to the SRCSD treatment plant. During large storm events when the system's storage capacity is exhausted, excess flows are treated to a primary level at the city's facilities and discharged to the Sacramento River under a state discharge permit. The city is currently in compliance with all environmental regulations.

Financial risk
The wastewater system's historical all-in coverage has been extremely strong, and we expect this to continue during the next five years. The system's all-in coverage during the past three fiscal years was above 2.4x, which that we consider to be extremely strong. Our all-in coverage metric includes the city's annual payment to the general fund of 11%. The voter-approved general fund tax is equal to 11% and has been the same since 1998. We are not including a fixed-charge cost related to SRCSD because the city collects SRCSD rates for SRCSD but the actual revenues never flow through the city's financial statements. Payments are made to SRCSD every two weeks.

All-in coverage during the past three fiscal years was about 4.6x (2019), 4.4x (2018), and 2.4x (2017), all figures we consider to be extremely strong. The decline in all-in coverage in fiscal 2017 was related to one-time increases to computer equipment, new vehicles, and other expenses. Based on our analysis of management-provided projections, we expect all-in coverage to stay above 1.85x during the next five years. Projections assume no approved rate increases, modest revenue growth of 0.2% annually, interest earnings rise of 1.25% annually, an 11% general fund transfer, 3.0%-4.5% annual increases for operating expenses, and no future debt plans. In addition, we performed a stress test to the above listed assumptions by reducing revenues annually by 5%, and all-in coverage is likely to stay above 1.6x, what we consider extremely strong, through 2023.

The wastewater system's liquidity position has been extremely strong during the past three fiscal years, and we expect it to decline to a figure we consider very strong. The planned drawdown in cash was incorporated into our analysis, and we do not expect it to change our opinion of the overall assessment of the system's credit quality. The wastewater system's unrestricted cash and investments for fiscal 2019, based on audited financials from the comprehensive annual financial report, were about $52 million, equivalent to 607 days of operating expenses. Based on our analysis of management-provided projections, from their projected ending unrestricted water fund balance on a budgetary basis, is expected to decline to about $15 million, or 165 days of operating expenses, in fiscal 2020, a figure we consider very strong. After fiscal 2020, cash is expected to rebound to about $24 million, equivalent to about 239 days of operating expenses, by 2024. Although we believe that Proposition 218 (Article XIII C and D of the California Constitution) restricts municipalities from imposing overhead costs or franchise fees on utility enterprises to increase general fund revenues, we believe the city council could take steps to ignore such protections in times of severe financial distress.
Further, general fund distress could lead to the city transferring cash from the utility, which could negatively affect the utility's liquidity assessment.

The wastewater system's debt-to-capitalization ratio is low, at about 29%, and the system's capital plan is sizable at about $10.5 million through 2024. The capital plan is focused on rehabilitating or replacing aging infrastructure, primarily pipes and pump stations, and complying with regulatory mandates. Based on the wastewater system's five-year capital plan, about 55% of the projects are labeled "critical" and need to maintain compliance with environmental regulations and safety. The city will continue to face challenges with aging infrastructure and compliance with future environmental regulations. The five-year capital plan will be funded from rate revenue and unrestricted cash.

Based on our financial management assessment, we score the wastewater system as a '1' on a six-point scale on which '1' is the strongest. In our view, financial practices and policies exist and are transparent. The city reviews the budget semiannually. The city has a formalized investment, debt, and liquidity policy. The liquidity policy is to maintain a minimum of 120 days of working capital for the wastewater fund. The city's capital improvement program includes a comprehensive five-year plan for identifying current fiscal requirements. Additionally, the program includes a long-term, 30-year capital plan. Furthermore, the city annually updates its long-term financial plan and complies with generally accepted accounting principles.

**Leased wastewater assets**

The city has a master lease program under which it has issued bonds for financing various capital improvements unrelated to the wastewater system. The bonds are secured by lease payments from the city's general fund. Under the master lease program, the city has leased a pool of assets, including portion of the wastewater system's wet weather facilities related to the CSS. If the city were to fail to make any portion of its lease payments under the entire program, the trustee has the right to re-let a portion of the leased property, potentially including the wastewater system assets. Any disruption in the use of the system's wet weather facilities would affect operations, particularly during storm events. Therefore, in our view, under the lease revenue bond structure, the wastewater system has some exposure to the financial position of the general fund. However, given S&P Global Ratings' current rating on the city's general fund-backed debt, we do not view this exposure as a key credit weakness at this time.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.