



Municipal Market Disclosure Information Cover Sheet

This Filing Applies to:

1. City of Sacramento Water Revenue Refunding Bonds, Series 2020 (Federally Taxable), \$188,390,000 Dated: May 6, 2020
786089JA1, 786089JB9, 786089JC7, 786089JD5, 786089JE3, 786089JF0, 786089JG8, 786089JH6, 786089JJ2, 786089JK9, 786089JL7, 786089JM5, 786089JN3, 786089JP8, 786089JQ6, 786089JR4
 2. City of Sacramento, Water Revenue Bonds, Series 2017, \$52,610,000, Dated: June 22, 2017
786089HE5, 786089HF2, 786089HG0, 786089HH8, 786089HJ4, 786089HK1, 786089HL9, 786089HM7, 786089HN5, 786089HP0, 786089HQ8, 786089HR6, 786089HS4, 786089HT2, 786089HU9, 786089HV7, 786089HW5, 786089HX3, 786089HY1
 3. City of Sacramento, Water Revenue Bonds, Series 2013, \$215,195,000, Dated: March 28, 2013
786089GD8, 786089GE6, 786089GF3, 786089GZ9, 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
- Other Event-based Disclosures

Fitch Affirmation of Water Revenue Bonds, Series 2013 and 2017, and Water Revenue Refunding Bonds, Series 2020
Ratings

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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Relationship to Issuer: Dissemination Agent

Authorized By:

Name: Brian Wong

Title: Debt Manager

Entity: Sacramento, CA, City of

Digital Assurance Certification

Filing Certificate

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: P21104757

Date & Time Stamp: 03/16/2021

Document: Other Event-based Disclosures: Fitch Affirmation of Water Revenue Bonds, Series 2013 and 2017, and Water Revenue Refunding Bonds, Series 2020 Ratings

DAC Bond Coversheet: Yes

Transmitted to: MSRB-EMMA

Total CUSIPs associated with this Filing: 52

Filing made on Series: 2020, 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 Refunding Bonds, Series 2020 (Federally Taxable), \$188,390,000 Dated: May 6, 2020
 CUSIP: 786089JA1, 786089JB9, 786089JC7, 786089JD5, 786089JE3, 786089JF0, 786089JG8, 786089JH6, 786089JJ2, 786089JK9, 786089JL7, 786089JM5, 786089JN3, 786089JP8, 786089JQ6, 786089JR4
 No missing CUSIPs for this bond issue
2. Issue: City of Sacramento, Water Revenue Bonds, Series 2017, \$52,610,000, Dated: June 22, 2017
 CUSIP: 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
3. Issue: City of Sacramento, Water Revenue Bonds, Series 2013, \$215,195,000, Dated: March 28, 2013
 CUSIP: 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
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Office of the City Treasurer

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Sacramento CA 95814

John Colville ~ City Treasurer

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Via Email

**ADDITIONAL (VOLUNTARY) DISCLOSURE
RATING AFFIRMED**


Dated: March 16, 2021

NOTICE IS HEREBY GIVEN that on March 15, 2021, Fitch Ratings (“Fitch”) affirmed the “AA-“ long-term rating with a stable outlook for various City of Sacramento Water Revenue Bonds. The rating affirmation impacts the following series of bonds:

- Water Revenue Bonds, Series 2013
- Water Revenue Bonds, Series 2017
- Water Revenue Refunding Bonds, Series 2020

In addition, Fitch assessed the City water system’s Standalone Credit Profile as “aa.” Attached to this notice is the report from Fitch, including the full analysis for the ratings.

City of Sacramento



Brian Wong
Debt Manager

Attachment: Fitch Ratings Report for the City of Sacramento’s Water Revenue Bonds



RATING ACTION COMMENTARY

Fitch Affirms Sacramento, California's Water Revs at 'AA-' '; Outlook Stable

Mon 15 Mar, 2021 - 9:39 AM ET

Fitch Ratings - Austin - 15 Mar 2021: Fitch has affirmed the 'AA-' rating on the following city of Sacramento, CA (the city) water system (the system) obligations:

--Approximately \$256 million water system revenue bonds, series 2013, 2017, and 2020.

Fitch has also assessed the system's Standalone Credit Profile (SCP) at 'aa'.

The Rating Outlook is Stable.

ANALYTICAL CONCLUSION

The affirmation of the 'AA-' bond rating and 'aa-' SCP assessment reflects the system's very low leverage, measured as net adjusted debt to adjusted funds available for debt service (FADS), in the context of very strong revenue defensibility and operating risks, both assessed at 'aa'. Recent above-average rate increases adopted over the last decade have resulted in the system's declining leverage that registered 4.9x in fiscal 2020. The system's capital needs are declining as it has largely completed its metering project that came in under budget and ahead of its mandated deadline. However, leverage is expected to trend upward over the next five years as financial margins are expected to narrow given

anticipated flat rates and rising debt costs related to recent borrowings. Fitch expects leverage to climb closer to 8.0x over the coming five years, which is adequate for the current rating.

CREDIT PROFILE

The system provides essential water services to more than 500,000 residents of the city, California's state capital. The system provides some water on a wholesale basis to Sacramento Suburban Water District, Sacramento County Water Agency, and California American Water Co. (including portions of the Fruitridge Vista Water Co.'s service territory purchase by California American Water Co.) The city has rights to an ample supply of local surface water under high-priority water rights that is limited in only the most severe drought conditions. 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 90 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. Ample water supply is treated at two city-owned and operated treatment plants.

Fitch considers the system a related entity of the City of Sacramento, CA (Issuer Default Rating: AA-/Stable) given the relationship of the system serves as an enterprise fund of the city. The rating on the water revenue bonds is not currently constrained by the credit quality of the city.

Coronavirus Considerations

The outbreak of coronavirus has thus far not had a material impact on the system's operations or financial performance. However, Fitch's ratings remain forward-looking in nature, and the agency will continue to monitor developments related to the severity and duration of the virus outbreak, as well as revise expectations for future performance as appropriate.

KEY RATING DRIVERS

Revenue Defensibility 'aa'

Very Strong Rate Flexibility; Mature Service Area

The system is the monopoly provider of essential retail water services to a large urban service area. The customer base is diverse and largely residential. Despite several years of above-average rate increases, rates remain affordable for a large portion of the population. No additional rate increases are expected over near term.

Operating Risks 'aa'

Very Low Operating Risk Due to Very Low Water Costs; Capital Needs Expected to Decline

The system's very affordable and ample water supply provides for a very low operating cost burden, well under Fitch's \$6,500 per million gallons (mg) of production threshold for the 'aa' assessment. The system is exiting its capital-intensive phase to address metering all customers, with future capital costs expected to be significantly lower than the last several years.

Financial Profile 'aa'

Very Low Leverage Expected to See Moderate Increases

The currently very strong finance profile is expected to tighten due to increased debt costs and no planned rate increases. Nevertheless, leverage levels are expected to remain adequate for the rating level. The liquidity profile is neutral to the assessment.

ASYMMETRIC ADDITIVE RISK CONSIDERATIONS

No asymmetric additive risk considerations affected this rating determination.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Leverage that stabilizes to approximate 8x or less through Fitch's base and stress cases, assuming revenue defensibility and operating risks assessments remain unchanged.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Sustained trend of leverage that approximates 10x or more through Fitch's base and stress cases, assuming revenue defensibility and operating risks assessments remain unchanged;

--Trend of rate adjustments that result in utility costs that are high for a large segment of customers.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>].

SECURITY

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

REVENUE DEFENSIBILITY

The system's revenue defensibility is assessed at 'aa' reflecting favorable service area characteristics and an independent ability to raise rates. The system is the monopoly provider of essential retail water services to a large urban service area. The customer base is diverse and largely residential. Rates are set by the city council with no outside regulatory approval, although typical of California utilities, rates are subject to challenge under Proposition 218, which allows ratepayers to roll back rates if a majority submits a written protest. While there have been past challenges to rate adjustments, since fiscal 2013 the city council has approved significant rate increases to support planned capital investments and rising debt service.

Service area characteristics are favorable, reflecting average income levels and unemployment. Growth, while still midrange, has been seen improvement with the five-year total customer compound annual growth count of 1.3% in 2020, indicative of yoy customer gains. The area is seeing some uptick in growth and residents from the bay area moving to the region. The State of California is the dominant local economic force and employer in the city. While the state provides a solid fundamental base for local economic activity, the concentration of state employment in the city leaves Sacramento vulnerable to changes in the state's budget position and employment levels. The 10 largest retail accounts, which are primarily comprised of governmental entities, and account for about 7% of fiscal 2020 revenues, reflecting modest customer concentration.

Fiscal 2020 water rates result in a monthly bill of \$50.31 based on Fitch's assumed usage of 7,500 gallons and are affordable for about 76% of the population. The city council has shown strong rate discipline in recent years, increasing rates 10% each year from fiscal years 2013 to 2020 (except 2016) to support a significant increase in capital spending and associated debt costs. No additional rate adjustments are planned through at least fiscal 2025 now that capital needs are moderating. However, management continues to evaluate the need for future rate increases to support capital needs and operations. As such, Fitch expects rates to remain affordable for most customers.

OPERATING RISKS

The operating risks profile is very strong, assessed at 'aa'. Low cost water supply provides for a very favorable operating cost burden that has averaged about \$3,000 per mg of water produced since 2016. The system's capital planning and management reflect its moderate life cycle investment needs supported by adequate capital investment.

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. Given regulatory requirements surrounding conservation, groundwater management and compliance with a variety of state and local regulations, it is expected that operating costs will continue to rise. However, Fitch expects operating costs to remain below \$6,500 per mg for the near and intermediate future.

Included within Fitch's calculation of operating cost burden is the system's transfer to the general government. The utility tax transfer approved by voters and levied on the city's water, wastewater, stormwater 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.

The fiscal 2021-2025 capital improvement plan (CIP) totals \$186 million and will be funded from remaining draws on existing state revolving loans, pay-go resources and system impact fees. The CIP is down considerably from the fiscal 2017-2021 CIP of \$295 million. Annual capital costs are expected to range from \$26 million to \$47 million, considerably lower than the historical five-year average of \$69 million.

The system has not historically been metered due to the abundance of water, but state law required the system to be metered by 2025, which the system accomplished early. Accelerated capital spending to address a state mandate to meter its entire customer base resulted in a low life cycle ratio of 26% and very favorable five-year average capex to

depreciation of 340%. Despite a favorable life cycle ratio, Sacramento's water utility is a mature, established system with aging infrastructure that requires continuous reinvestment. The city is making a major push to resolve past maintenance and infrastructure investment deficiencies and is phasing into a 100-year replacement cycle. Planned capital investment is expected to exceed annual depreciation, and, as a result, Fitch expects the system's life cycle ratio to remain favorable and under 45% for the near to intermediate term.

FINANCIAL PROFILE

The system's financial profile is assessed at 'aa', with leverage that has steadily declined over the past five years, registering at 4.9x in fiscal 2020. Liquidity, while neutral to the financial profile assessment, is strong, with a five-year average days cash on hand at 724. Unrestricted cash and investments equaled \$116.9 million, or 629 days cash, as of June 30, 2020. Further, coverage of full obligations (COFO) continued an upward trend, reaching 2.1x in fiscal 2020, up from 1.6x in fiscal 2016.

Fitch Analytical Stress Test (FAST)

The five-year forward look provided by FAST considers the potential trend of key ratios in a base case and a stress case. The stress case is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios. Management's forecast informed Fitch's base case as the assumptions were considered reasonable and took into consideration conservative assumptions related to the ongoing pandemic. Further, Fitch's analysis included an assumption related to operating costs that are based on historical spending patterns. The system's CIP, which totals \$186 million takes into consideration additional draws of about \$108 million on existing SRF loans. Under these assumptions leverage grows yoy, increasing to 8.4x and 8.8x in the base and stress cases, respectively, in fiscal 2025. Fitch's expectation that leverage will remain adequate for the rating level is supporting by the belief that rate adjustment will resume in some form starting in fiscal 2026, stabilizing leverage over the intermediate term. COFO is expected to remain sound at 1.2x or higher and continue to be neutral to the assessment.

ASYMMETRIC ADDITIVE RISK CONSIDERATIONS

No asymmetric additive risk considerations affected this rating determination.

SOURCES OF INFORMATION

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[U.S. Water and Sewer Rating Criteria \(pub. 03 Apr 2020\) \(including rating assumption sensitivity\)](#)[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 23 Feb 2021\) \(including rating assumption sensitivity\)](#)**ADDITIONAL DISCLOSURES**[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Sacramento (CA)

EU Endorsed, UK Endorsed

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Infrastructure and Project Finance

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