

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings upgrades Sacramento, CA's TOT revenue bonds and TID assessment revenue bonds; outlook stable**

---

10 Oct 2024

New York, October 10, 2024 -- Moody's Ratings (Moody's) has upgraded the City of Sacramento, CA's senior lien transient occupancy tax (TOT) revenue bonds to Aa3 from A1, subordinate lien TOT bonds to A1 from A2 and assessment revenue bonds to A1 from A2. We have also affirmed the city's Aa2 issuer and Aa3 lease revenue ratings.

This action concludes a review for possible upgrade initiated on July 24, 2024 in conjunction with an update to the US Cities and Counties methodology. The outlook is stable.

#### RATINGS RATIONALE

The Aa2 issuer rating primarily reflects the city's large, expanding tax base, a diverse regional economy anchored by the state government, and the maintenance of a strong financial position. The city expects slight surpluses in fiscal 2024 (year-end June 30) and fiscal 2025, which will provide a buffer as the city faces structural imbalance beginning in fiscal 2026. Total leverage is elevated and driven largely by pension liabilities.

The Aa3 lease-backed rating is 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 the essential nature of the leased assets within the city's Master Lease Program.

The Aa3 rating on the senior lien TOT revenue bonds is one notch below the issuer rating, reflecting the economic strength of the Sacramento area but the narrow nature of the pledged revenues. Maximum annual debt service (MADS) coverage as of June 2023 was solid at 2.1x and will remain at this level due to a relatively flat debt service schedule. Also incorporated are satisfactory legal provisions.

The A1 rating on the subordinate lien TOT revenue bonds is two notches below the issuer rating, reflecting both the narrow nature of the pledged revenues and the subordinate pledge. MADS coverage as of June 2023 was somewhat lower than that of the senior lien at 1.6x. Also considered are legal provisions which, though satisfactory, are weaker than the senior lien bonds.

The A1 rating on the assessment revenue bonds is two notches below the issuer rating, reflecting the narrow nature of the pledged revenues, somewhat modest MADS coverage of 1.3x and the economic strength of the assessment district, which includes all of Sacramento and neighboring unincorporated areas of Sacramento County (A1 stable), primarily to the east.

## RATING OUTLOOK

The stable outlook reflects our view that the city's financial profile will remain strong, supported by proactive management and a robust economy.

## FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Moderation of total leverage to around 200%
- Improved economic measures, including resident income above 100% and assessed value per capita over \$180,000
- Upgrade of the issuer rating (TOT and assessment revenue bonds)
- Improved MADS coverage above 2x (subordinate lien TOT and assessment revenue bonds)

## FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained narrowing of financial reserves to below 35%
- Leverage in excess of 400%
- Downgrade of the issuer rating (TOT and assessment revenue bonds)
- Sustained decline in revenue leading to MADS coverage below 2x (senior lien TOT)

## LEGAL SECURITY

The city's lease-backed obligations are secured by standard abatement leases benefiting from 24-month rental interruption insurance, surety-funded or cash-funded debt service reserves, and rental payments for use and occupancy of a variety of leased assets under a master lease agreement.

The TOT bonds are secured by a pledge of and lien on TOT revenues generated by the room tax on lodging businesses located within the City of Sacramento, net of a

small portion of the TOT revenues used to support the general fund and visitors' bureau that are not pledged. The bonds are additionally secured by debt service reserve funds for each lien equal to the lesser of a standard three-prong test. The senior lien bonds have a 1.75x MADS additional bonds test (ABT) and the subordinate lien bonds have a 1.15x MADS ABT. The repayment of the bonds is also secured in part by a TOT revenue surplus account, which was established upon issuance, equal to approximately 11% of MADS.

The assessment revenue bonds are secured by a first pledge of and lien on all of the pledged revenues from assessments on the lodging businesses in the district, excluding vacation rentals. However, any assessments paid by vacation rental owners are also available for payment of debt service. There is an ABT of 1.15x MADS. A debt service reserve account was funded with a surety at closing at the lesser of the three-prong test. Additionally, a surplus revenue account was cash funded at 50% of MADS and any draws will be replenished over time from excess revenues. The balance in the surplus revenue account as of September 2024 represents just over 54% of MADS.

## PROFILE

Sacramento is located at the confluence of the Sacramento and American rivers in the northern Central Valley, 75 miles northeast of San Francisco (Aaa negative). It encompasses roughly 100 square miles and is the sixth largest city in the state with a population of over 523,000 as of 2022. Sacramento is the state capital of California (Aa2 negative) and the seat of Sacramento County. The full-service city is governed by a nine-member city council including an elected mayor.

## METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425429>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain

jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain 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.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see <https://ratings.moody's.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moody's.com> for additional regulatory disclosures for each credit rating.

Natalie Claes  
Lead Analyst  
Regional PFG West  
Moody's Investors Service, Inc.  
100 N Riverside Plaza  
Suite 2220  
Chicago 60606  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Eric Hoffmann  
Additional Contact  
Regional PFG West

JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

---

© 2024 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS,**

**OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit 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 credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its

directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the

entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.