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

Dated: July 24, 2014

NOTICE IS HEREBY GIVEN that on July 22, 2014, Standard & Poor's Rating Services upgraded its issuer credit rating for the City of Sacramento from A+ to AA- with a stable outlook; while raising its rating for the Sacramento City Financing Authority outstanding lease revenue bonds, issued on behalf of the City, from A to A+ with a stable outlook. The Sacramento City Financing Authority is the issuer for the following issues:

- 1993 Lease Revenue Refunding Bonds, Series A
- 1993 Lease Revenue Refunding Bonds, Series B
- 2002 Capital Improvement Revenue Bonds
- 2003 Capital Improvement Revenue Bonds
- 2006 Capital Improvement Revenue Bonds, Series A
- 2006 Capital Improvement Revenue Bonds, Series B
- 2006 Capital Improvement Revenue Bonds, Series C
- 2006 Capital Improvement Revenue Bonds, Series D
- 2006 Capital Improvement Revenue Bonds, Series E

Attached to this notice is the report from Standard & Poor's Rating Services, including the full analysis for the ratings.

City of Sacramento

Janelle Gray
Debt Manager

Attachment: City of Sacramento – Report.pdf

RatingsDirect®

Summary:

Sacramento City Financing Authority, California
Sacramento; Appropriations; General Obligation

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Table Of Contents

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Summary:

Sacramento City Financing Authority, California Sacramento; Appropriations; General Obligation

Credit Profile		
Sacramento ICR		
Long Term Rating	AA-/Stable	Upgraded
Sacramento City Fincg Auth, California		
Sacramento, California		
Sacramento City Fincg Auth (Sacramento) cap Improv rev bnds (Comnty Reinvestment Cap Improv Prgm) ser 2006 B		
Long Term Rating	A+/Stable	Upgraded
Sacramento City Fincg Auth (300 Richards Blvd Bldg Acquisition) ser 2006D		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its issuer credit rating (ICR) to 'AA-' from 'A+' on the City of Sacramento, Calif. Simultaneously, Standard & Poor's raised its rating and underlying rating (SPUR) to 'A+' from 'A' on Sacramento City Financing Authority, Calif.'s outstanding lease revenue bonds, issued on behalf of the city. The raised ratings reflect our view of the city's improved finances, as demonstrated by current and projected budgetary surpluses, and cost-cutting measures, which have eliminated prior-year deficits. The outlook is stable.

The ratings reflect our opinion of the city's:

Adequate economy

Sacramento serves an estimated population of 475,000 in Sacramento County and is located in the northern section of California's Central Valley at the confluence of the Sacramento and American rivers. Because Sacramento is the state's capital, its employment base is concentrated in government; roughly a quarter of jobs in the area are in the government sector. Sacramento's local economy is adequate, in our view, with per capita market value at roughly $74,600 and projected per capita effective buying income at 89% of the national average. The county unemployment rate was 8.8% in 2013, according to the Bureau of Labor Statistics, and is down from more than 10% in fiscal 2012. In our opinion, residents benefit from participation in the broad and diverse Sacramento-Roseville-Arden-Arcade, Calif. metropolitan statistical area; we view this as a credit strength.

Strong management

In our opinion, Sacramento's management conditions are strong, with "good" financial practices under our Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas, but that governance officials might not formalize them or monitor all of them regularly.

Strong budgetary flexibility

Sacramento's budgetary flexibility is strong , in our opinion, with available reserves at 10.5% of operating expenditures in fiscal 2013. The city has improved its budgetary flexibility during the past two years, and it projects it will close fiscal 2014 with a $1 million increase in its economic uncertainty reserve and an additional $400,000 increase in its reserve in fiscal 2015.

Very strong liquidity

Very strong liquidity supports Sacramento's finances, in our view, with total government available cash at 89% of total government fund expenditures and at 12.3x debt service. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.

Adequate budgetary performance

In our opinion, Sacramento's budgetary performance is adequate overall, with a surplus of 2.1% for the general fund and a deficit of 2.8% for the total governmental funds in fiscal 2013. The city is projecting small general fund surpluses in both fiscal 2014 and fiscal 2015.

Very weak debt and contingent liabilities profile

Sacramento's debt and contingent liabilities profile is very weak, in our opinion. Net direct debt is 121.7% of total governmental funds revenue, and total governmental funds debt service is 7.2% of total governmental funds expenditures. The city plans to issue $299 million of debt early in 2015 to fund the new Sacramento Kings stadium close to downtown Sacramento. However, the city has identified several sources of revenue to fund the additional debt and stated that the impact to the general fund will be minimal. In our opinion, the city's pension and other postemployment benefits (OPEB) obligations are large and a negative credit factor. Last year, Sacramento contributed 100% of its annual required pension contribution. The annual pension and OPEB costs accounted for 12% of total government expenditures in fiscal 2013. However, we recognize that the city has adjusted its pension and OPEB cost structure, including eliminating OPEB benefits for new hires in most employee groups. In addition, most city employees are now required to contribute to the California Public Employees' Retirement System.

Strong institutional framework

We consider the institutional framework score for California municipalities with a federal singled audit requirement as strong. See Institutional Framework score for California.

Outlook

The stable outlook reflects our view of the city's strong budgetary flexibility, with small surpluses projected in fiscal 2014 and balanced operations projected for fiscal 2015. Further strengthening the ratings is our view of the city's strong management practices and good financial policies. We do not expect to change the ratings within our two-year outlook horizon due to our anticipation that the city will maintain adequate reserves and a very weak debt profile.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: California Local Governments

Ratings Detail (As Of July 22, 2014)		
Sacramento City Fincg Auth, California		
Sacramento, California		
Sacramento City Fincg Auth cap Imp (300 Richards Blvd Bldg Acquisition) ser 2006C		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Sacramento City Fincg Auth (Comnty Reinvestment Cap Improv Prgm) ser 2006A		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Sacramento City Fincg Auth (Master Lse Prog Facs) ser 2006E		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Sacramento City Fincg Auth (Sacramento) 2003 cap imp rev bnds (911 Call Ctr & other mun proj) dtdt 09/30/2003 due 12/01/2008-2024 2027 2033		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Sacramento City Fing Auth (City Hall & Redev Proj) ser 2002A dtd 07/02/2002 due 12/01/2003-2022 2028 2032		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Sacramento Fincg Auth, California		
Sacramento, California		
Sacramento Fin Auth lse rev rfdg bnds ser 1993B (MBIA) (National) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Sacramento Fin Auth (Sacramento)		
Long Term Rating	A+/Stable	Upgraded
Sacramento Fin Auth (Sacramento) lse rfdg ser 1993A (AMBAC)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.