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**ADDITIONAL (VOLUNTARY) DISCLOSURE
RATING AFFIRMED**

Dated: June 15, 2015

NOTICE IS HEREBY GIVEN that on June 11, 2015, Standard and Poor's Financial Services LLC ("S&P") affirmed the long-term and underlying rating of "BBB+" with a stable outlook for the City of Sacramento North Natomas Community Facilities District No. 4 Special Tax Refunding Bonds, Series E (2013) debt issue.

The rating report from S&P is attached.

City of Sacramento



Janelle Gray
Debt Manager

Attachment: City of Sacramento North Natomas Community Facilities District No. 4 Special Tax Refunding Revenue Bonds, Series E (2013) Report

RatingsDirect®

Summary:

North Natomas Community Facilities District No. 4, California; Special Assessments

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Summary:

North Natomas Community Facilities District No. 4, California; Special Assessments

Credit Profile

US\$20.215 mil rfdg bnds ser 2015F due 09/01/2033

Long Term Rating

BBB+/Stable

New

North Natomas Comnty Facs Dist No. 4 rev rfdg bnds

Long Term Rating

BBB+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'BBB+' long-term rating to North Natomas Community Facilities District No. 4 (CFD), Calif.'s series 2015F special tax refunding bonds. At the same time, we affirmed our 'BBB+' rating on the district's series 2013E bonds outstanding. The outlook is stable.

The rating reflects our view of the district's:

- Moderate assessed value (AV) to lien ratio of about 16.7 when all overlapping debt is included; and
- Moderate aggregate 2015 annual debt service coverage of 1.10x.

Offsetting those factors include:

- Increasing AV in fiscal years 2014 and 2015 to \$2.2 billion and \$2.5 billion, respectively;
- Large and mostly developed tax base; and
- Low historical delinquencies and participation in the county's Teeter plan.

Revenue of special taxes levied on taxable parcels within the CFD secures the bonds. The district is divided into four tax zones, each of which levies taxes to pay its allocated share (determined at the time of sale by the share of bond proceeds the district receives) of the annual costs for the bonds. Annual costs consist of debt service, administrative expenses, replenishment of the reserve fund, delinquencies for the previous fiscal year plus those anticipated in the current fiscal year, and any pay-as-you-go expenditures in the fiscal year. The bonds' cash-funded debt service reserve fund is held at the district level and is required to equal the lowest of either the maximum annual debt service (MADS), 125% average annual debt service, or 10% of principal. Because each tax zone covenants to refill a percentage share of any draws on the district-level debt service reserve fund, we view this fund as providing partial cross-collateralization between the tax zones. The district has no subordinate debt, and the lien is closed except for refunding purposes. Proceeds from the bonds were used to refund certain outstanding special tax bonds for the CFD.

Located in northern Sacramento, North Natomas CFD No. 4 is a large CFD encompassing 1,860 developable acres and 8,770 parcels. It is predominantly residential but includes some commercial property. 8,754 of the district's parcels are classified as developed. The rate and method of apportionment define a developed parcel as one that has issued a

development permit or that has a recorded final small lot subdivision map for residential uses permitting as many as two units per lot. Because this definition includes parcels that do not have completed structures, the district's development is, in our opinion, more accurately measured by the number of parcels with improved AV, which equals 88.5% of all parcels. The CFD's tax base is diverse, with the top 10 taxpayers making up 19% of the fiscal 2015 levy and the top taxpayer, real estate developer KB Home, accounting for 4% of the tax base.

While further tax base development within the district is limited in the near term because the Federal Emergency Management Agency has mapped the district as an AE Zone, effectively putting a de facto building moratorium on the district, we understand President Obama signed the Water Resources Reform and Development Act in June 2014. This authorized necessary remaining levee repairs to be completed in the North Natomas area, and will also likely lift the moratorium in the near term.

Management indicates construction and development will resume this year.

Although fluctuations in AV do not affect the district's special tax levy, AV provides a measure of tax base performance. After four years of declines, AV increased in 2014 and 2015 to \$2.2 billion and \$2.5 billion, respectively. The CFD's AV increased by 8.1% in fiscal 2014 and 12.8% in fiscal 2015, in part due to Proposition 8 adjustments. The value to lien ratio, which we view as a measure of the debt burden, is 27.5 to 1 for the CFD's direct debt. Once overlapping debt is included, the value to lien ratio falls to roughly 16.7 to 1, which we consider good. Total parcels with an overall value to lien ratio of less than 5 to 1 equal 6.2%. The effective tax rates for parcels within the district are moderate, ranging from 1.44% to 1.56% depending on tax zone.

In fiscal 2015, the maximum special tax levy will range from \$343 for condominiums to \$824 for residential parcels larger than 5,000 square feet. Maximum tax rates increase by 2% annually. Debt service on the bonds is structured to similarly escalate annually. Under the Mello-Roos Act, to make up for delinquencies the special taxes levied on residentially-permitted property can increase by only 10% above the estimated levy had such delinquencies never occurred. This limits the district's ability to increase taxes to their maximum rate under the rate and method of apportionment. Assuming taxes were raised to their maximum allowable level and accounting for the cap on residential parcel levy increase, we calculate coverage at MADS on the bonds from total tax levies at 1.1x, which is based on the district's ability to increase the current annual levy by 10% on residences above the amount that would have been levied due to delinquencies or defaults. We calculate that the district can withstand either a permanent tax delinquency equivalent to the amount generated by the district's six largest special taxpayers or a permanent delinquency of special taxpayers with overall value to lien ratios of less than 5 to 1 (representing about 6% of the 2014-2015 maximum tax) or 14.8% of delinquencies annually until the debt service reserve fund is exhausted.

Delinquencies for the district have been historically low. The fiscal 2014 delinquency rate was 0.4%. Delinquencies remained comparatively low through the downturn of the housing market, with the 2009 rate at 2.86%. In addition to the low delinquency rates, the district participates in the county Teeter plan and thus receives 100% of revenue from special taxes levied. The city covenants to pursue foreclosure on properties with greater than \$1,000 in delinquencies, or when total taxes collected are lower than 95% of the district's levy. The district has no foreclosure actions initiated.

Sacramento is the capital of California and is the oldest incorporated city in the state. The city is located in Northern

California, about halfway between San Francisco and Lake Tahoe. City income levels are relatively good, with median household effective buying income at 124% of the national level, and an unemployment rate of 6.4% in March 2015.

Outlook

The outlook reflects our view of the CFD's large, diverse tax base and historically low delinquency rate. We could raise the rating if AV continues to increase, strengthening the district's overall value to lien ratio. We do not anticipate lowering the rating within the next two years given the historically low delinquencies and the district's participation in the county's Teeter plan.

Related Criteria And Research

Related Criteria

USPF Criteria: Special-Purpose Districts, June 14, 2007

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