City of
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ADDITIONAL (VOLUNTARY) DISCLOSURE
RATING AFFIRMED

Dated: September 27, 2016

NOTICE IS HEREBY GIVEN that on September 16, 2016, Standard and Poor's Global Ratings ("S&P") affirmed the long-term 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) and Series F (2015) debt issues.

The rating report from S&P is attached.

City of Sacramento

Brian Wong
Debt Manager

Attachment: S&P Report - North Natomas Community Facilities District No. 4 Special Tax Refunding Revenue Bonds

S&P Global
Ratings

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		
North Natomas Comnty Facs Dist No. 4 rev rfdg bnds		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'BBB+' long-term rating on North Natomas Community Facilities District No. 4 (CFD), Calif.'s series E special tax refunding bonds. The outlook is stable.

The rating reflects our view of the district's:

- Moderate aggregate 2016 annual debt service coverage of 1.x; and
- Moderately concentrated of the top 10 taxpayers at 17%.

Offsetting factors, in our opinion, include:

- Assessed value (AV) increasing 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 Sacramento County's Teeter plan.

The refunding bonds are secured by revenue of special taxes levied on taxable parcels within the North Natomas CFD No. 4. 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 such fiscal year. The bonds' cash-funded debt service reserve fund is held at the district level and is required to equal the lowest of 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 the debt service reserve fund as providing partial cross-collateralization between the tax zones. No subordinate debt exists for the district, and the lien is closed except for refunding purposes. Proceeds from the bonds were used to refund the special tax bonds for the CFD.

Located in northern Sacramento, the North Natomas CFD No. 4 is a large CFD encompassing 1,860 developable acres and 8,770 parcels. The CFD is predominantly residential but includes some commercial property. Of the district's 8,770 parcels, 8,753 are classified as developed. The rate and method of apportionment defines 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 about 92% of all parcels. The CFD's tax base is diverse, with the top 10 taxpayers making up about 17% of the fiscal 2016 levy and the top taxpayer, real estate developer KB Home, accounting for about 4%.

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 has increased in 2014 and 2015 to $2.2 billion and $2.5 billion, respectively. The CFD's AV increased by 8.4% in fiscal 2014 and 14.8% in fiscal 2015, and 4.5% in fiscal 2016 in part due to Proposition 8 adjustments. AV to lien, which we view a measure of the debt burden, is about 40:1 for the CFD's direct debt. Once overlapping debt is included, value-to-lien falls to roughly 28:1, which we consider good. Parcels with overall value-to-liens of less than 10:1 equal about 10%. The effective tax rates for parcels within the district are moderate at about 1.59%.

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 levy 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. If taxes were raised to their maximum allowable level and accounting for the cap on residential parcel levy increase, we calculate that in aggregate, the district's coverage from the total maximum tax would cover 2016 debt service by 1.1x, which we consider good.

Delinquencies for the district have been historically low. The fiscal 2015 delinquency rate was 0.3%. 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. Sacramento 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. It is located in Northern California, about halfway between San Francisco and Lake Tahoe. Residents in the city have relatively good income levels and unemployment levels, with median household effective buying income at 124% of the national level and the March 2015 unemployment rate of 6.4%.

Outlook

The stable outlook reflects our expectation of the continued stability of the district over the next two years, which is reflected in it being mostly developed, residential, and occupied homes. We expect that the good overall direct value-to-lien of the properties will contribute to continued low delinquencies and good debt service coverage.

Upward scenario

Continued development of parcels with occupied homes with limited debt issuance would potentially lead to an upgrade.

Downward scenario

An increase in delinquencies or decreases in AV could put stress on the rating.

Related Research

Special Assessment Bond Ratings Are Trending Up As The U.S. Economic Recovery Continues, March 28, 2016

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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.