City of
SACRAMENTO
Office of the City Treasurer

915 I Street, HCH 3rd Floor
Sacramento CA 95814

John Colville ~ City Treasurer

Phone 916-808-5168
Fax 916-808-5171

EVENT NOTICE PURSUANT TO S.E.C. RULE 15C2-12
RATING CHANGE

Dated: February 26, 2019

NOTICE IS HEREBY GIVEN that on February 25, 2019, Standard and Poor's Global Ratings ("S&P") upgraded the long-term rating to "A-" from "A" with a stable outlook for the Sacramento City Financing Authority 2005 Tax Allocation Bonds, Series A debt issue.

The rating report from S&P is attached.

City of Sacramento

Brian Wong
Debt Manager

Attachment: S&P Press Release – Sacramento City Financing Authority 2005 Tax Allocation Bonds, Series A

S&P Global
Ratings

RatingsDirect®

Summary:

Sacramento City Financing Authority, California
Sacramento Redevelopment Agency; Tax Increment

Primary Credit Analyst:
Li Yang, San Francisco (1) 415-371-5024; li.yang@spglobal.com

Secondary Contact:
Alyssa B Farrell, Centennial (1) 303-721-4184; alyssa.farrell@spglobal.com

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Summary:

Sacramento City Financing Authority, California Sacramento Redevelopment Agency; Tax Increment

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Sacramento City Fincg Auth, California		
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Sacramento City Fincg Auth TAXINCR (FGIC)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
Sacramento City Fincg Auth (Sacramento Redev Agy) Tax Alloc Bnds (Merged Downtown Project-Oak Park)		
Unenhanced Rating	A(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term and underlying rating to 'A' from 'A-' on the Sacramento City Financing Authority, Calif.'s 2005A tax allocation bonds, issued on behalf of the Sacramento Redevelopment Agency. The outlook is stable.

The raised rating reflects our view of the strong growth in historical assessed value (AV) from the agency's merged downtown project area, which has brought debt service coverage on the bonds up to strong levels. Despite the project area's top taxpayers remaining concentrated, we believe the strong coverage levels, combined with the project area's low volatility ratio, would enable it to withstand the loss of the top 10 taxpayers and still maintain 1.0x coverage.

The bonds are secured by a pledge of tax increment, including the former housing set-aside revenue, collected from two project areas--the Merged Downtown Project Area's (MDPA) and Oak Park Project Area (OPPA)--with no cross-collateralization between areas on a weak link basis. As such, based on our criteria, the rating on bonds backed by two separate revenue streams reflects our assessment of the revenue stream that we consider of lower credit quality. The rating on the bonds reflects our assessment of MDPA, which we consider of weaker credit quality.

The rating reflects our view of the following credit factors for MDPA:

- The strong growth in the city of Sacramento's local economy that has experienced good AV growth for both project areas over the past two years, and has access to the broad and diverse Sacramento County economy;
- Strong coverage from pledged revenue generated by the MDPA with maximum annual debt service (MADS) of 2.05x;
- Low base-to-total AV volatility ratio of 0.05; and
- Closed lien except for refunding purposes.

Partly offsetting these foregoing strengths is our view of the MDPA's high taxpayer concentration with the top 10 taxpayers making up roughly 43% of incremental AV.

The MDPA is a small project area geographically, encompassing just 430 acres of primarily commercial properties in downtown Sacramento, though total AV is what we consider sizable at $37 billion as of fiscal 2019. AV has increased over the past five years for the project area, reflecting a stabilization of property values after a few years of declines. Most recently, AV grew by 8.6% in fiscal 2019. The project area's base-to-total AV volatility ratio is, in our opinion, a very low 0.05, suggesting very limited sensitivity in tax-increment revenue to fluctuations in overall AV. Coverage of MADS as of fiscal 2019 reached 2.05x, which we view as strong. The project area has diversified slightly, but remains concentrated despite the growth in AV, in our view, with the 10 leading taxpayers representing 43% of incremental value in fiscal 2018. According to our calculations, at the current coverage levels and the volatility ratio, the project area could withstand a 48% decline in overall AV (the top 10 taxpayers) for MDPA and still achieve 1.00x MADS coverage on the bonds.

The OPPA encompasses 1,305 acres in the historic Oak Park community, south of downtown. The community is home to Sacramento's first suburb, settled in the 1850s. While the area is generally less affluent than the rest of incorporated Sacramento, it has benefited from redevelopment activity and property appreciation during the past several years. AV for the project area has increased in each of the past five fiscal years, most recently rising by 12.6% in fiscal 2019. The project area's tax base remains diverse, in our view, with the leading 10 taxpayers accounting for only 11% of total AV. The base-to-total AV volatility ratio is also what we consider low at only 0.08, suggesting to us limited sensitivity in tax-increment revenue to overall fluctuations in AV. Coverage of MADS attributable to the OPPA remains good, in our opinion, at 1.86x. According to our calculations, at the current coverage levels and the volatility ratio, the project area could withstand a 42.5% decline in overall AV (covers more than the top 10 taxpayers) and still achieve 1.00x coverage of MADS on the bonds.

California's redevelopment agency (RDA) dissolution law requires successor agency (SA) and oversight officials to adhere to deadlines for requesting debt service payment amounts on recognized obligation payment schedules (ROPS) to receive tax revenue. Because the law limits the SA revenue to payment on enforceable obligations on its ROPS, and because it requires more proactive management than under the pre-dissolution flow of funds, we believe an SA's debt management practices after dissolution become more important to credit quality. We understand that the city SA has historically been requesting sufficient reserves on its ROPS to account for the outstanding bonds' uneven debt service payment schedule. With the state of California's recent passage of Assembly Bill (AB) 107, SAs are now required to request money for debt service annually instead of semiannually on their ROPS.

Sacramento is acting as SA to the former RDA after the state legislature and a subsequent court ruling dissolved all RDAs in California in February 2012, pursuant to Assembly Bill (AB) x1 26 and subsequent amending legislation, AB 1484. ABx1 26 and AB 1484 require SA and oversight officials to adhere to deadlines for requesting debt service payment amounts on ROPS. Because the law limits the SA revenue to payment on enforceable obligations on its ROPS and because it requires more proactive management than under the pre-dissolution flow of funds, we believe an SA's debt management practices after dissolution become more important to credit quality. The SA has received its finding of completion, which allows it to reinstate previously rejected loans, spend bond proceeds, and create a long-range property management plan. We understand the agency does not need to transfer any money back to the state Department of Finance. Additionally, we understand the lien is closed except for refunding purposes.

Outlook

The stable outlook reflects our view of the bonds' currently strong debt service coverage that has increased in each of the past five years. Given the agency's limited ability to issue additional debt and the past increases in project area AV, we do not anticipate changing the rating during the two-year outlook horizon.

Upside scenario

If debt service coverage continues to strengthen and if taxpayer concentration diversifies further in the Merged Downtown Project Area, then we could raise the rating.

Downside scenario

However, if AV declines, substantially resulting in debt service coverage that is no longer comparable with that of its similarly-rated peers or if taxpayer concentration worsens over the next two years, then we could lower the rating.

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