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ADDITIONAL (VOLUNTARY) DISCLOSURE
RATING AFFIRMED

Dated: August 21, 2019

NOTICE IS HEREBY GIVEN that on August 16, 2019, Moody's Investor Services ("**Moody's**") affirmed the City of Sacramento's long-term issuer rating at "Aa2", while revising the outlook from stable to positive. At the same time, Moody's also affirmed the rating and outlook of lease revenue bonds issued by the Sacramento City Financing Authority as follows:

- The underlying and insured ratings of the *Lease Revenue Refunding Bonds, Series 1993A* as "A1" with a stable outlook.
- The underlying rating of the *Lease Revenue Refunding Bonds, Series 1993B* as "Aa3" with a stable outlook.
- The underlying and insured ratings of the *2006 Capital Improvement Revenue Bonds, Series B* as "Aa3" with a stable outlook.
- The underlying and insured ratings of the *2006 Refunding Revenue Bonds, Series E* as "Aa3" with a stable outlook.
- The underlying rating of the *2015 Refunding Revenue Bonds (Master Lease Program Facilities)* as "Aa3" with a stable outlook.

City of Sacramento

Brian Wong
Debt Manager

Attachment: Moody's Affirms City of Sacramento, CA's Aa2 Issuer Rating and Aa3 and A1 Lease Revenue Bond Ratings; Revised Outlook to Positive from Stable

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms City of Sacramento, CA's Aa2 issuer rating and Aa3 and A1 lease revenue bond ratings; revised outlook to positive from stable

16 Aug 2019

New York, August 16, 2019 -- Moody's Investors Service has affirmed the City of Sacramento's issuer rating to Aa2 and its lease-backed obligations to Aa3 or A1, depending on essentiality of the leased assets. Concurrently, Moody's also revised the outlook to positive from stable. The city has $645.8 million in outstanding lease revenue bonds, of which Moody's rates $362.5 million Aa3 and $17.3 million A1. The city also has $283.3 million in transient occupancy tax bonds rated A1 for the senior lien and A2 for the subordinate lien, and $50.5 million in A2-rated assessment revenue bonds, which were not affected by this rating action and have a stable outlook.

RATINGS RATIONALE

The city's Aa2 issuer rating reflects the large tax base with strong growth, fueled by positive trends in employment, housing prices, and building activity. The city has room for additional growth, and there is strong demand for both residential and commercial development. The rating also reflects the city's materially strengthened financial position, which will provide flexibility to manage expected expenditure pressures from rising pension and OPEB costs. Positively, the city anticipates a $45 million annual increase in general fund revenues beginning in fiscal 2020, resulting from a voter-approved increase in the transaction and use tax (TUT) rate in November 2018 from a half cent to one cent, which was also made permanent. The city's fixed costs are somewhat elevated, but we note that revenues outside the general fund offset a significant portion of the general fund debt service. The city's debt level is moderate, but pension and OPEB liabilities are elevated. Notably, the city eliminated OPEB benefits for new employees in 2015 and funded an OPEB trust.

The Aa3 lease-backed ratings are 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 leased assets that we view as "more essential." The Aa3 rating applies to the city's 2015 Refunding Revenue Bonds (Master Lease Program Facilities), 2006 Capital Improvement Revenue Bonds, Series B Taxable, and 2006 Refunding Revenue Bonds, Series E (Master Lease Program Facilities), which benefit from the more essential nature of the leased assets within the city's Master Lease Program; and to the city's Lease Revenue Refunding Bonds, Series 1993B, which benefit from the more essential nature of the executive airport and civic center garage, which secure the bonds.

The A1 lease-backed rating is two notches lower than the Aa2 issuer rating. Moody's typically applies a two-notch distinction from a California city's issuer rating reflecting a standard California abatement lease legal structure and leased assets that we view as "less essential." The A1 rating applies to the city's Lease Revenue Refunding Bonds, Series 1993A, which are secured by the city's convention center.

RATING OUTLOOK

The positive outlook reflects our view that the city's financial profile will be maintained at its strengthened position over the next one to two years. We anticipate that new transaction and use tax revenues will enable the city to both fund increased pension costs and build reserves, consistent with its new minimum reserve policy of 17% of general fund and Measure U fund expenditures.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Maintaining strong reserves and liquidity at least in line with current position

- Reduction of debt burden

- Reduction of unfunded pension and OPEB liabilities

- Material improvement to resident wealth measures, including median family income and full value per capita

FACTORS THAT COULD LEAD TO A DOWNGRADE

- An increase in spending that outpaces new transaction and use tax revenues

- Deterioration of fiscal position through deficit spending

- Material erosion of the tax base

- An increase in general fund-supported debt

- Growth in unfunded pension or OPEB liabilities

LEGAL SECURITY

The city's lease-backed obligations are secured by standard abatement leases benefiting from 24-month rental interruption insurance and surety-funded debt service reserves. The Aa3-rated bonds are secured by rental payments for use and occupancy of leased assets under a Master Lease Agreement for use and occupancy of the Executive Airport and Civic Center Garage.

The A1-rated bonds are secured by rental payments for use and occupancy of the city's convention center.

PROFILE

Sacramento serves as the state capital and is located at the confluence of the Sacramento and American Rivers in the northern part of California's Central Valley, about 75 miles northeast of San Francisco. The city encompasses 100 square miles and has an estimated population of 501,344 in 2019. It is the fastest growing large city in the state.

METHODOLOGY

The principal methodology used in the long-term issuer rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the lease ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this 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. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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