

## Sacramento, CA, City of

### Municipal Market Disclosure Information Cover Sheet

**Type of Filing:**

**RATING CHANGE**

Fitch Upgrades Rating with Stable Outlook (Water Revenue Bonds, Series 2017 and Water Revenue Refunding Bonds, Series 2020 & 2023)

**Date of Filing:**

01/30/2025

<b><u>Certification Authorized by</u></b>	<b><u>Disclosure Dissemination Agent Contact</u></b>
Name: Brian Wong Title: Debt Manager Entity: Sacramento, CA, City of	DAC 315 East Robinson Street, Suite 300, Orlando, FL 32801-1674 407 515 - 1100 emmaagent@dacbond.com

This information is also available on DAC's website: [www.dacbond.com](http://www.dacbond.com)

**Signature of Issuer:** Brian Wong /s/

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**This Filing Applies to:**

1. City of Sacramento Water Revenue Refunding Bonds, Series 2023, \$20,985,000 Dated: December 19, 2023

**CUSIPS:** 786089JS2, 786089JT0, 786089JU7, 786089JV5, 786089JW3, 786089JX1, 786089JY9, 786089JZ6, 786089KA9, 786089KB7, 786089KC5, 786089KD3, 786089KE1, 786089KF8

2. City of Sacramento Water Revenue Refunding Bonds, Series 2020 (Federally Taxable), \$188,390,000 Dated: May 6, 2020

**CUSIPS:** 786089JE3, 786089JF0, 786089JG8, 786089JH6, 786089JJ2, 786089JK9, 786089JL7, 786089JM5, 786089JN3, 786089JP8, 786089JQ6, 786089JR4

3. City of Sacramento, Water Revenue Bonds, Series 2017, \$52,610,000, Dated: June 22, 2017

**CUSIPS:** 786089HJ4, 786089HK1, 786089HL9, 786089HM7, 786089HN5, 786089HP0, 786089HQ8, 786089HR6, 786089HS4, 786089HT2, 786089HU9, 786089HV7, 786089HW5, 786089HX3, 786089HY1

**Digital Assurance Certification**

## Filing Certificate

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**DAC transmitted the Rating Change to EMMA/SID (if applicable) on behalf of Sacramento, CA, City of under their SEC Rule 15c2-12 Continuing Disclosure Agreement.**

Transmission Details: P11380895

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Date & Time Stamp: 01/30/2025

Document: Rating Change: Fitch Upgrades Rating with Stable Outlook (Water Revenue Bonds, Series 2017 and Water Revenue Refund)

DAC Bond Coversheet: Yes

Transmitted to: MSRB-EMMA

Total CUSIPs associated with this Filing: 41

Filing made on Series: 2023, 2020, 2017

**Codes:** P (Prerefunded), R (Refunded), U (Unrefunded), E (Escrowed), A (Advance Refunding), D (Defeased), T (Tendered), V (Derivatives), UD (Undetermined), NLO (No Longer Outstanding)

**Red:** Original CUSIPs - filing missed · **Blue:** Non-Original CUSIPs - filing missed · **Green:** Outstanding CUSIPs - filing made · **Black:** Inactive CUSIPs

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1. Issue: City of Sacramento Water Revenue Refunding Bonds, Series 2023, \$20,985,000 Dated: December 19, 2023  
 CUSIP: 786089JS2, 786089JT0, 786089JU7, 786089JV5, 786089JW3, 786089JX1, 786089JY9, 786089JZ6, 786089KA9, 786089KB7, 786089KC5, 786089KD3, 786089KE1, 786089KF8  
 No missing CUSIPs for this bond issue
  2. Issue: City of Sacramento Water Revenue Refunding Bonds, Series 2020 (Federally Taxable), \$188,390,000 Dated: May 6, 2020  
 CUSIP: 786089JE3, 786089JF0, 786089JG8, 786089JH6, 786089JJ2, 786089JK9, 786089JL7, 786089JM5, 786089JN3, 786089JP8, 786089JQ6, 786089JR4  
 No missing CUSIPs for this bond issue
  3. Issue: City of Sacramento, Water Revenue Bonds, Series 2017, \$52,610,000, Dated: June 22, 2017  
 CUSIP: 786089HJ4, 786089HK1, 786089HL9, 786089HM7, 786089HN5, 786089HP0, 786089HQ8, 786089HR6, 786089HS4, 786089HT2, 786089HU9, 786089HV7, 786089HW5, 786089HX3, 786089HY1  
 No missing CUSIPs for this bond issue
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**EVENT NOTICE PURSUANT TO S.E.C. RULE 15c2-12  
RATING CHANGE**

Dated: January 30, 2025

NOTICE IS HEREBY GIVEN that on January 29, 2025, Fitch Ratings (“Fitch”) upgraded the long-term rating to “AA” from “AA-” with a stable outlook for the following Water bond issues:

- Water Revenue Bonds, Series 2017
- Water Revenue Refunding Bonds, Series 2020
- Water Revenue Refunding Bonds, Series 2023

City of Sacramento

Brian Wong  
Digitally signed  
by Brian Wong  
Date: 2025.01.30  
15:23:49 -08'00'

Brian Wong  
Debt Manager

Attachment: Fitch Rating Press Release – City of Sacramento’s Water System



**RATING ACTION COMMENTARY**

**Fitch Upgrades Sacramento, CA's Water System to 'AA'; Outlook Stable**

Wed 29 Jan, 2025 - 5:19 PM ET

Fitch Ratings - San Francisco - 29 Jan 2025: Fitch Ratings has upgraded to 'AA' from 'AA-' the rating to the following city of Sacramento, CA (the city) water system (the system) obligations:

--\$46.2M water revenue bonds, series 2017;

--\$171.5M water revenue refunding bonds, series 2020 and 2023.

In addition, Fitch has assessed the system's Standalone Credit Profile (SCP) at 'aa'. The SCP represents the credit profile of the system on a standalone basis irrespective of its relationship with, and the credit quality of, the city (Issuer Default Rating AA+/Stable).

The Rating Outlook is Stable.

**RATING ACTIONS**

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
Sacramento (CA) [Water]		
Sacramento (CA) /Water Revenues/1 LT	LT	AA Rating Outlook Stable
		Upgrade
		AA- Rating Outlook Positive

[VIEW ADDITIONAL RATING DETAILS](#)

The upgrade to 'AA' from 'AA-' reflects the system's sustained very low leverage, measured as net adjusted debt to funds available for debt service (FADS), that ranged from 4.3x to 5.5x in most years since fiscal 2020 (FYE June 30). Stronger performance was realized after several years of cost containment measures and the system exiting a capital-intensive period. While capital spending may ramp up in upcoming years to around \$25 million annually (relative to slightly over \$11 million on average annually since fiscal 2022), this level of spending should be adequately supported by pay-go funding and keep leverage at a level commensurate with the current rating.

The 'AA' water revenue bond rating reflects the system's 'Very Strong' financial profile in the context of its 'Very Strong' revenue defensibility and 'Very Strong' operating risk profile, both assessed at 'aa'. The system's leverage, measured as net adjusted debt to adjusted FADS, was very low at 4.3x in fiscal 2024 and is projected to increase over the next five years in Fitch's Analytical Stress Test (FAST) rating case as the system funds its capital program on a pay-go basis, potentially approaching 8.0x. However, this level of increase is considered in the upgrade and remains supportive of the current rating.

## **SECURITY**

The bonds are secured by a senior lien on the city's net water system revenues after payment of maintenance and operations expenses.

## **KEY RATING DRIVERS**

### **Revenue Defensibility - 'aa'**

Favorable Service Area, Affordable Rates for the Vast Majority of the Population

The city retains the legal authority to adjust rates as needed without external oversight. Fitch considers the monthly residential water bill affordable for around 82% of the service area population based on standard monthly usage of 7,500 gallons. The favorable service area is characterized by average income levels, a moderate unemployment rate relative to the nation and midrange customer growth. Customer growth registered a five-year compound annual growth rate of 0.9% as of fiscal 2024. Income levels are about 7% above the national median as of 2024. The unemployment rate was 4.7% in 2023, but down from 9.9% in 2020.

### **Operating Risk - 'aa'**

Very Low Operating Cost Burden, Moderate Investment Needs

In fiscal 2024, the system's operating cost burden was considered very low at \$4,089 per million gallons (mg), consistent with the operating risk assessment. The life cycle ratio was very low at 33% in fiscal 2024. Capex to depreciation is robust averaging 101% over the last five fiscal years from 2020 to 2024. Planned capital spending for the next five years should be in line with historical depreciation, allowing for stability in the currently very low life cycle ratio.

The system's estimated capex in 2025 plus planned capex for 2026-2029 totals \$134.9 million, and the entirety is anticipated to be funded through current revenues, development impact fees, grant proceeds, and capital reserve funds. The focus will be on rehabilitating and/or replacing critical infrastructure, including groundwater production facilities, and rehabilitation and improvements at many of the city's drinking water storage reservoirs.

### **Financial Profile - 'aa'**

#### **Leverage to Increase, Yet Remain Manageable**

The system had very low leverage of 6.5x as of fiscal 2022 and continued declining each year reaching 4.3x in fiscal 2024, supportive of the upgrade. The liquidity profile is neutral to the overall assessment with current days cash on hand of 987 and coverage of full obligations (COFO) of 1.7x. Fitch-calculated total debt service coverage was 2.1x in fiscal 2024.

The FAST considers the potential trend of key ratios in a base case and stress scenario over a five-year period. The stress scenario is designed to impose capital costs 10% above expected base case levels and evaluate potential variability in projected key ratios. The FAST reflects Fitch's view of a reasonable scenario, which is generally informed by publicly available and/or management provided information with respect to capital expenditures, user charges and rate of revenue and expenditure growth.

Notable expenses growth was included for fiscal 2025, but could represent a conservative view. In addition, no rate adjustments were included in Fitch's analysis, but the system is likely to evaluate its rate schedule in the next few years and potentially increase rates.

In the base case scenario, the leverage ratio is expected to increase to 7.6x by fiscal 2028 and 7.9x in the same year of the stress case, which is considered the rating case. Beyond that period rate adjustments are possible, and even modest adjustments of 2% keep leverage around 8.0x. The liquidity profile is expected to remain neutral to the assessment over the five-year horizon.

## **Asymmetric Additional Risk Considerations**

No asymmetric additive risk considerations affected this rating determination.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

-- A sustained trend of actual and projected leverage that exceeds 8.0x through Fitch's rating case, assuming revenue defensibility and operating risk assessments remain unchanged.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Actual and projected leverage of approximately 6.0x or less through Fitch's rating case, assuming revenue defensibility and operating risk assessments remain unchanged.

## **PROFILE**

The system provides essential water services to more than 500,000 residents of the city, California's state capital. The system provides some water on a wholesale basis to Sacramento Suburban Water District, Sacramento County Water Agency, California American Water Co. and Natomas Unified School District. The system also provides some water on a wheel basis to Sacramento County Water Agency.

The city has rights to an ample supply of local surface water under high priority water rights that are limited in only the most severe drought conditions. Sacramento draws about 74% of its water supplies from the American and Sacramento rivers based on a five-year average. Another 26% of supplies are provided by local groundwater wells. The city estimates that its reliable supplies equal about 260 million gallons per day (mgd) compared with recent demand of about 84 mgd in fiscal 2024.

The city has contracts with the U.S. Bureau of Reclamation that require the agency to provide sufficient flows to meet city needs before serving the bureau's own Central Valley Project customers from its Folsom Lake reservoir. Ample water supply is treated at two city-owned and operated treatment plants.

Fitch considers the system a related entity of the city given the city's oversight of the system, including the authority to establish rates and the reporting of the system as an enterprise fund of the city. The rating on the water revenue bonds is not currently constrained by the credit quality of the city. However, as a result of being a related entity,



the issue rating could become constrained by a decline in the general credit quality of the city.

## **Updated U.S. Environmental Protection Agency (EPA) Regulations**

The city is addressing new regulations set forth by the U.S. EPA. The EPA's enhanced focus on lead and copper lines and per- and polyfluoroalkyl (PFAS) contaminants has led to the finalized Lead and Copper Rule Improvements (LCRI) along with specific testing requirements for PFAS.

To date, the city has taken one well offline as it exceeded state notification levels and is monitoring for any exceedances based on the finalized rule's limits. The system is in compliance with the LCRI, having published its service line inventory by the October 2024 deadline. No lead service lines were identified.

## **Sources of Information**

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from Lumesis.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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**APPLICABLE CRITERIA**

[U.S. Water and Sewer Rating Criteria \(pub. 29 Feb 2024\) \(including rating assumption sensitivity\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 10 Jan 2025\) \(including rating assumption sensitivity\)](#)

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## [Dodd-Frank Rating Information Disclosure Form](#)

## [Solicitation Status](#)

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Sacramento (CA)

EU Endorsed, UK Endorsed

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