



## **Rating Action: Moody's Ratings assigns Aa3 to the City of Sacramento, CA's 2025 Lease Revenue Refunding Bonds; outlook stable**

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12 Aug 2025

New York, August 12, 2025 -- Moody's Ratings (Moody's) has assigned a Aa3 rating to the City of Sacramento, CA's proposed \$58.8 million of 2025 Refunding Revenue Bonds (Master Lease Program Facilities), issued via the Sacramento City Financing Authority, CA. We maintain the city's Aa2 issuer rating and its other outstanding ratings. Following the sale, the city will have about \$1.2 billion in outstanding debt, consisting of \$472 million lease revenue bonds, \$195 million senior lien transient occupancy tax (TOT) bonds, \$61 million subordinate lien TOT bonds and \$454 million in business-type activities debt, primarily water and wastewater revenue bonds. The outlook is stable.

### **RATINGS RATIONALE**

The Aa2 issuer rating primarily reflects the city's large, expanding tax base, a diverse regional economy anchored by the state government, and the maintenance of a strong financial position. The city expects slight surpluses across governmental funds and enterprise operations in fiscal 2025 (year-end June 30) and fiscal 2026, which will provide a buffer as the city faces structural imbalance beginning in fiscal 2027. Total post-sale leverage is slightly elevated at 290% of operating revenue and is driven largely by pension liabilities.

The Aa3 lease-backed rating is one notch lower than the Aa2 issuer rating. For a California city, we typically apply a one-notch distinction from the issuer rating, reflecting a standard California abatement lease legal structure and the essential nature of the leased assets within the city's Master Lease Program. The city's lease-backed obligations are secured by standard abatement leases benefiting from 24-month rental interruption insurance, surety-funded or cash-funded debt service reserves, and rental payments for use and occupancy of a variety of leased assets under a master lease agreement.

### **RATING OUTLOOK**

The stable outlook reflects our view that the city's financial profile will remain strong, supported by proactive management and a robust economy.

### **FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS**

- Moderation of total leverage to around 200%
- Improved economic measures, including resident income above 100% and assessed value per capita over \$180,000

### **FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS**

- Sustained narrowing of financial reserves to below 35%
- Leverage in excess of 400%

### **PROFILE**

Sacramento is located at the confluence of the Sacramento and American rivers in the northern Central Valley, 75 miles northeast of San Francisco. It encompasses roughly 100 square miles and is the sixth largest city in the state with a population of about 525,000 as of 2023. Sacramento is the state capital of California and the seat of

Sacramento County. The full-service city is governed by a nine-member city council including an elected mayor.

## METHODOLOGY

The principal methodology used in this rating was US Cities and Counties published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425429>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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