

Research Update:

# Sacramento, CA Issuer Credit Rating Affirmed At 'AA'; Lease Revenue Bond Rating Affirmed At 'AA-'

July 23, 2025

## Overview

- S&P Global Ratings affirmed its 'AA' issuer credit rating (ICR) on the City of [Sacramento](#), Calif.
- At the same time, we affirmed our 'AA-' long-term rating and underlying rating (SPUR) on the [Sacramento Public Financing Authority](#)'s and the [Sacramento City Financing Authority](#)'s lease revenue bonds outstanding, issued on behalf of the city.
- The outlook is stable.
- The rating reflects the application of our "[Methodology For Rating U.S. Governments](#)," Sept. 9, 2024.

## Rationale

### Security

The ICR reflects our forward-looking opinion of the city's overall creditworthiness, focusing on its capacity and willingness to meet financial commitments as they come due. The ICR is not specific to any financial obligation.

Lease payments made by Sacramento to the authority for use of the leased asset secure the revenue bonds. We have reviewed the lease under our criteria and view the lease terms as standard. Furthermore, the leased asset meets our minimum requirements for seismic resilience during the term of the bonds. We rate the bonds one notch below our view of the city's general creditworthiness to reflect our view of the risk of nonappropriation inherent to the lease structure.

### Credit highlights

The rating reflects our view of Sacramento's strong economy, robust management profile, and stable financial performance. Although the city's finances have been stable over the past decade, it forecasts material deficits in the next few years, which could alter our view of the city's financial profile.

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The city has posted balanced or positive operations for the past decade. Its favorable results have been driven by consistent growth in its main revenue sources, including property (34% of revenue) and sales (17%) taxes. In addition, Sacramento received approximately \$112 million in pandemic relief during the past few years, which helped offset qualified expenditures and achieve favorable results. The city expects balanced results for fiscal 2025. However, it forecasts material deficits in each of the next four years, which would result in a notably diminished reserve position. The anticipated deficits are primarily caused by increases in salary and general government expenses, an expanded workforce and services, and the reduction in one-time funds related to the pandemic.

To address the potential deficits, Sacramento plans to make material personnel reductions, implement a hiring freeze, deploy one-time committed reserves, and increase fees. As a result, it expects to close the nearly \$62 million (or 10% of revenue) fiscal 2026 deficit and post balanced results. However, while these fiscal adjustments appear to be sufficient to close the budget gap, the city may face continued fiscal challenges in fiscal 2027 and beyond, as personnel expenses continue to rise and sales tax collections slow.

Despite these various budgetary pressures, we believe the city is well positioned to address any financial hurdles in the next few years, supported by its strong track record of positive operations, willingness to make budgetary adjustments, conservative budgeting practices, and its charter, which mandates balanced budgets. The city has approximately \$100 million (or 17% of revenues) that could be used for operational purposes, and another \$220 million that has been committed for various purposes, but that could be used for operations with council approval.

The ratings reflect our assessment of the city's:

- Strong and expanding economy centered in Sacramento, acting as the state capital, with local incomes that are in line with national and county metrics. City officials anticipate continued growth in the near-to-medium term.
- Healthy financial reserve and strong liquidity position, supported by robust retail and economic activity. Although the city's baseline operating assumptions show substantial deficits, it often budgets conservatively and has begun exploring cost-cutting initiatives, which will help it balance its operations. The city has posted balanced or positive results for more than 10 years, in-line with its city charter mandate. Our analysis incorporates approximately \$76 million of the city's committed fund balance, which has been set aside for economic uncertainties.
- Large but manageable debt and long-term liability profile, which we expect will improve over the near term as the city expects to issue approximately \$70 million in lease revenue refunding bonds.
- Prudent and comprehensive financial management policies and practices, including forward-looking budget assumptions, use of five-year financial forecasting, and maintenance of a formal, comprehensive four-year capital plan. It also has policies governing reserves, investments, and debt, and is taking steps to mitigate cyber risk.
- For more information on our institutional framework assessment for California municipalities, see "[Institutional Framework Assessment: California Local Governments](#)," Sept. 9, 2024.

## Environmental, social, and governance

We view the city as having elevated exposure to acute physical risks due to the region's susceptibility to drought, floods, earthquakes, and, to a lesser extent, wildfires that could lead to economic strain. We believe that strong state building codes substantially mitigate seismic risk. In addition, the city's participation in the region's joint powers agency, which is working to provide at least a 100-year level of flood protection, achieve urban standard 200-year flood protection, and ensure the structural integrity of the levee system, mitigates flood risks from the American and Sacramento Rivers. We consider the city's social and governance factors neutral within our credit analysis.

## Outlook

The stable outlook reflects our expectation that Sacramento's financial profile will remain relatively stable despite a forecast operating imbalance, supported by the city's willingness to make budgetary adjustments, strong track record of balanced-to-positive results, and charter mandate, which calls for balanced operational results.

## Downside scenario

Should management be unable to maintain balanced operations, and thus significantly draw on reserves, we could consider lowering the ratings.

## Upside scenario

Should Sacramento's long-term liability profile improve, while the city's financial profile stabilizes and its economic metrics inclusive of local incomes strengthen, we could raise the rating.

## Sacramento, California--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	1.95
Economy	2.0
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	3.75

## Sacramento, California--key credit metrics

	Most recent	2024	2023	2022
<b>Economy</b>				
Real GCP per capita % of U.S.	96	--	96	96
County PCPI % of U.S.	93	--	93	94
Market value (\$000s)	7,54,06,809	7,13,78,461	6,63,83,000	6,15,60,495
Market value per capita (\$)	1,41,282	1,33,735	1,24,375	1,19,470
Top 10 taxpayers % of taxable value	2.4	3.2	3.1	3.1
County unemployment rate (%)	4.8	4.7	4.3	3.9
Local median household EBI % of U.S.	101	--	101	102

## Sacramento, California--key credit metrics

	Most recent	2024	2023	2022
<b>Economy</b>				
Local per capita EBI % of U.S.	92	--	92	95
Local population	5,33,732	--	5,33,732	5,15,281
<b>Financial performance</b>				
Operating fund revenues (\$000s)	--	6,35,811	6,07,187	5,74,158
Operating fund expenditures (\$000s)	--	6,74,277	6,23,256	4,98,315
Net transfers and other adjustments (\$000s)	--	40,435	12,538	12,174
Operating result (\$000s)	--	1,969	(3,531)	88,017
Operating result % of revenues	--	0.3	(0.6)	15.3
Operating result three-year average %	--	5.0	5.8	7.0
<b>Reserves and liquidity</b>				
Available reserves % of operating revenues	--	16.5	13.8	18.4
Available reserves (\$000s)	--	1,04,917	83,706	1,05,390
<b>Debt and liabilities</b>				
Debt service cost % of revenues	--	4.2	4.8	4.8
Net direct debt per capita (\$)	1,516	1,595	1,662	1,723
Net direct debt (\$000s)	8,09,190	8,51,492	8,87,255	8,88,036
Direct debt 10-year amortization (%)	54	43	--	--
Pension and OPEB cost % of revenues	--	16.0	15.0	14.0
NPLs per capita (\$)	--	2,515	2,537	2,537
Combined NPLs (\$000s)	--	13,42,368	13,54,209	13,07,370

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

### Ratings List

#### Ratings Affirmed

#### Local Government

Sacramento, CA Lease Appropriation	AA-/Stable
Sacramento, CA Unlimited Tax General Obligation	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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