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

Dated: June 26, 2018

NOTICE IS HEREBY GIVEN that on June 25, 2018, Standard and Poor's Global Ratings ("S&P") upgraded the long-term rating to "A" from "BBB+" with a stable outlook for the City of Sacramento North Natomas Drainage Community Facilities District No. 97-01, Special Tax Refunding Bonds, Series 2015 debt issue.

The rating report from S&P is attached.

City of Sacramento

Brian Wong
Debt Manager

Attachment: S&P Press Release – Sacramento CFD No. 97-01

S&P Global Ratings

RatingsDirect®

Summary:

Sacramento Community Facilities District No. 97-1; Special Assessments

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Summary:

Sacramento Community Facilities District No. 97-1; Special Assessments

Credit Profile		
Sacramento, California		
Sacramento Comnty Facs Dist No. 97-01, California		
Sacramento (Sacramento Comnty Facs Dist No. 97-01)		
Long Term Rating	A/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term rating to 'A' from 'BBB+' on Sacramento Community Facilities District (CFD) No. 97-1's series 2015 special tax refunding bonds. The outlook is stable.

The rating action reflects the application of our updated methodology, "Special Assessment Debt," published April 2, 2018 on RatingsDirect.

The bonds are secured by per parcel Mello-Roos special tax revenue generated from the City of Sacramento North Natomas Drainage CFD No. 97-01. The district covenants to issue no additional parity debt except for refunding purposes, and to have a reserve fund equal to the sum of the least of 10% of the original principal amount of the bonds, maximum annual debt service on bonds outstanding, or 125% of average annual debt service on bonds outstanding.

The rating reflects our view of the district's:

- Adequate-to-strong economic fundamentals, characterized by good incomes, labor market comparable to that of the state, and historical real estate volatility;
- Adequate-to-strong characteristics, such as size based on total parcels, moderate taxpayer concentration, mature but not fully developed status, and sale of about 86% of total parcels to end users; and
- Adequate financial profile, characterized by the maximum-loss-to-maturity (MLTM) ratio, fully funded debt service reserve, and low delinquencies.

Adequate-to-strong economic fundamentals

The City of Sacramento serves an estimated 498,083 people, and its median household effective buying income is at 95.5% of the national level. County unemployment, which provides a wider view of the local economy, is about 4.3%, slightly higher than the national rate of 4.2%. The city experienced 10-year population growth of 5.7%, compared with the national rate of 8.4%. The district participates in the Sacramento-Roseville-Arden-Arcade metropolitan statistical area (MSA), which we consider broad and diverse.

The local economy's real estate market has been higher than the state and national averages, as measured by the Federal Housing Finance Agency housing price index. According to the index, general real estate prices in the area increased by 19.6% in the past two years, which exceeds 16.2% for the state and 12.9% for the U.S. The district's 10-year volatility was 19.0%, compared with 17.7% for the state. Housing affordability is weaker than that of the nation, but stronger than that of the state, with local median housing prices at 618.4% of median incomes compared with 412.0% for the U.S and 806.0% for the state as a whole. Foreclosure rates in Sacramento are on par with the state's 0.2% but lower than the nation's 0.6%.

In assessing economic fundamentals, we consider the local economy's adequate-to-strong incomes, healthy labor market and population growth, and relatively affordable real estate market.

Adequate-to-strong district characteristics

The district is located in the city's North Natomas Financing Plan Area, part of the greater Natomas Basin in northwestern Sacramento. The district is bounded on the south by the American River, on the north by the Cross Canal, on the west by the Sacramento River, and on the east by the Natomas East Main Drainage Canal. The district contains approximately 4,000 net developable acres. Based on the development status as of June 1, 2018, it includes 18,857 developed parcels. For the fiscal 2017-2018 special tax levy, approximately 16,368 parcels had improvements completed and about 2,489 were unimproved. The developed parcels contribute all of the required special taxes for the district. The district has a planned development of 24,794 residential parcels, and undeveloped parcels currently do not have a special tax levy.

The district's assessed value (AV) has increased in each of the past four years to $6.3 billion. This translates to a good overlapping value-to-lien (includes overlapping debt) ratio, in our view, of 18.4 to 1. About 4.3% of the 2018 assessments will come from parcels with a direct and overlapping value-to-lien ratio of less than 5 to 1. The tax base is diverse, in our opinion, with the top two taxpayers accounting for 7.2% of the fiscal 2018 levy and the top 10 constituting 16.4%. The delinquency rate for fiscal 2017 was low, in our opinion, at less than 1%. At its peak in fiscal 2011, delinquency reached 2.6%, which we consider manageable.

The district characteristics adequate-to-strong score reflects our view of the district's concentration, low delinquencies, sizable tax base, and mature development, with potential to build out further.

Adequate financial profile

Our opinion of the adequate financial profile considers the transaction's limited coverage structure of 1.1x, which is based on state law that limits the levy increase on residential properties to 10% above the amount that would have been levied, if the increase was due to delinquencies or defaults. The debt service reserve is cash funded at the least of the standard three-pronged test. The district does not levy on undeveloped properties. We calculate the district could withstand a maximum permanent delinquency rate or an MLTM ratio of 15.2% over the life of the bonds while meeting all debt service obligations. The financial profile score takes into account that the district can cover its top two taxpayers permanently.

Protecting the bonds is a covenant to pursue foreclosure if delinquent taxes on any single property exceed $1,000 or if total delinquent taxes from the CFD exceed 5% of total taxes due in a given fiscal year. The CFD's participation in the county's Teeter Plan mitigates the risk of delinquency rates.

Outlook

The stable outlook reflects our expectation that the district's economy will remain stable given its access to the broad and diverse Sacramento MSA. We anticipate that delinquencies in the district will remain low and that the financial profile will remain at least at current levels. We do not anticipate changing the rating over the two-year outlook horizon.

Upside scenario

If the district characteristics and financial profile strengthen, such that further development mitigates the district's concentration compared with that of higher-rated peers, we could consider raising the rating.

Downside scenario

If pressure in the local economy or other unforeseen events lead to a rise in delinquencies in a manner that requires the use of the transaction's liquidity support, we could lower the rating.

Related Research

- Criteria Guidance: Special Assessment Debt, April 2, 2018
- Special Assessment Bond Ratings Are Trending Up As The U.S. Economic Recovery Continues, March 28, 2016