

Sacramento, CA, City of

Municipal Market Disclosure Information Cover Sheet

**Type of Filing:** RATING CHANGE

Moody's Downgrades IFS Rating with Negative Outlook October 3, 2024

Moody's revised the rating for FGIC now NPFG, MBIA now National, and National Public Finance Guaranty (NPFG).

**Date of Filing:** 10/08/2024

| Certification Authorized by     | Disclosure Dissemination Agent Contact                      |
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**This Filing Applies to:**

1. Sacramento City Financing Authority, Tax Allocation Revenue Bonds, 2005 Series A (Merged Downtown and Oak Park Projects), \$92,372,235.75 and Taxable Tax Allocation Revenue Bonds, 2005 Series B (Merged Downtown and Oak Park Projects), \$46,750,000, Dated: December 7, 2005  
**CUSIPS:** 785849QG8, 785849QH6, 785849QJ2, 785849QK9, 785849QL7, 785849QM5, 785849QN3, 785849QP8, 785849QQ6, 785849QS2
2. Sacramento County Public Financing Authority, Tax Allocation Revenue Bonds (Sacramento County and City Redevelopment Project), 2003 Series A, \$33,695,587.95, Dated: December 23, 2003  
**CUSIPS:** 786129BY1, 786129BZ8, 786129CA2, 786129CB0, 786129CC8, 786129AV8, 786129CD6, 786129CE4, 786129AW6

**Digital Assurance Certification**

## Filing Certificate

**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: P21401104

|   |   |
|---|---|
| Date & Time Stamp:                        | 10/08/2024  |
| Document:                                 | Rating Change: Moody's Downgrades IFS<br>Rating with Negative Outlook October 3, 2024 |
| DAC Bond Coversheet:                      | Yes   |
| Transmitted to:                           | MSRB-EMMA   |
| Total CUSIPs associated with this Filing: | 19  |
| Filing made on Series:                    | 2005A,B, 2003A  |

**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

- Issue: Sacramento City Financing Authority, Tax Allocation Revenue Bonds, 2005 Series A (Merged Downtown and Oak Park Projects), \$92,372,235.75 and Taxable Tax Allocation Revenue Bonds, 2005 Series B (Merged Downtown and Oak Park Projects), \$46,750,000, Dated: December 7, 2005

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No missing CUSIPs for this bond issue

- Issue: Sacramento County Public Financing Authority, Tax Allocation Revenue Bonds (Sacramento County and City Redevelopment Project), 2003 Series A, \$33,695,587.95, Dated: December 23, 2003

CUSIP: 786129BY1, 786129BZ8, 786129CA2, 786129CB0, 786129AV8, 786129CC8, 786129CD6, 786129CE4, 786129AW6

No missing CUSIPs for this bond issue



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**EVENT NOTICE PURSUANT TO S.E.C. RULE 15c2-12  
RATING CHANGE**

Dated: October 8, 2024

NOTICE IS HEREBY GIVEN that on October 3, 2024, Moody's Investors Service ("**Moody's**") downgraded the insurance financial strength rating of National Public Finance Guarantee Corporation ("**National**"). National serves as the successor bond insurer of Financial Guaranty Insurance Company – the bond insurer at the time of issuance for the two series of bonds listed below. As a result, there has been a change to the insured rating on the following bond issues from "Baa2" to "Baa3":

- 2003 Tax Allocation Revenue Bonds, Series A issued by the Sacramento County Public Financing Authority\*
- 2005 Tax Allocation Revenue Bonds, Series A issued by the Sacramento City Financing Authority\*

\*The City of Sacramento is the Successor Agency to the Redevelopment Agency of the City of Sacramento

Additionally, Moody's also changed the outlook of National from stable to negative.

City of Sacramento

**Brian Wong**  
Digitally signed  
by Brian Wong  
Date:  
2024.10.08  
10:45:42 -07'00'

Brian Wong  
Debt Manager

Attachment: Moody's Rating Action Report dated October 3, 2024



## **Rating Action: Moody's Ratings downgrades IFS ratings of MBIA's insurance subsidiaries**

**3 October 2024**

New York, October 3, 2024 - Moody's Ratings (Moody's) has downgraded the insurance financial strength (IFS) rating of National Public Finance Guarantee Corporation (National) to Baa3 from Baa2 and the IFS rating of MBIA Insurance Corporation (MBIA Corp.) to Caa2 from Caa1. In the same rating action, we affirmed the senior unsecured debt rating of MBIA Inc. (MBIA) at Ba3 and affirmed MBIA Corp.'s preferred stock, preferred stock non-cumulative and surplus notes ratings at C (hyb). The outlooks for the ratings of MBIA and National were changed to stable from negative. The outlook for MBIA Corp. remains negative.

These rating actions also have implications for the various transactions wrapped by National and MBIA Corp. as discussed later in this press release.

### **RATINGS RATIONALE**

The downgrade of National's IFS rating to Baa3 reflects the company's reduced risk-adjusted capital adequacy following adverse credit developments in its insured portfolio, as well as the extraction of \$647 million of capital from National through dividends during 2023, which increased the sensitivity of its credit profile to large single risks. In our opinion, the significant extraction of capital from National highlights the weak alignment of interests between shareholders and policyholders at the company. MBIA expects to make additional extraordinary dividend requests in the future, which could further weaken National's risk-adjusted capital adequacy over time.

The downgrade of MBIA Corp.'s IFS rating to Caa2 reflects the company's stressed liquidity position, the continued reduction in its total cash and invested assets and the significant write-down of its salvage recoverable asset this year. MBIA Corp. reported that it held cash and investments of \$164 million at Q2 2024 on a statutory basis, of which \$28 million was liquid and immediately available to the company. As the firm's claims-paying resources have fallen, the company's operating leverage has increased, making the company vulnerable to any further deterioration in its insured portfolio. We note that MBIA Corp.'s policyholders' surplus is just \$15 million above the minimum regulatory threshold required and the company's longer-term solvency remains dependent on the outcome of the firm's asset recovery efforts.

The affirmation of MBIA's senior debt rating at Ba3 reflects our view that the rating is appropriately positioned at the current level, which is three notches below the Baa3 IFS rating of National, which is consistent with our typical notching practices for U.S. insurance holding company structures. Prior to today's rating actions, the notching differential had been four notches.

### **National Public Finance Guarantee Corporation**

National's Baa3 IFS rating reflects the insurer's capital resources relative to its remaining exposures, the meaningful delinking from its weaker affiliates and the continued amortization of its insured portfolio. Offsetting these strengths is National's run-off status, which results in a weak alignment of interests between shareholders and policyholders, as well as its exposure to below investment grade

credits and large single risks. Approximately 10.4% of its insured book (including accreted interest on capital appreciation bonds (CABs)) was rated below investment grade at Q2 2024, representing approximately 293% of its qualified statutory capital plus gross loss reserves.

Although National's insured portfolio has amortized down to less than \$37 billion of gross par outstanding (including accreted interest on CABs), there are a number of large single risks that are becoming a more concentrated portion of the remaining portfolio. Likewise, the proportion of National's below investment grade exposure has increased as the portfolio has shrunk. Although we estimate National's capital adequacy score remains in the single-A rating category, we believe the reduced amount of capital resources available to mitigate the increasing single risk and below investment grade concentrations following last year's large capital extraction make the company more vulnerable to adverse credit developments in its insured portfolio. The reduction in capital also reduces the firm's core earnings power due to lower prospective investment income going forward.

MBIA Inc.

The Ba3 senior unsecured debt rating of MBIA is three notches below the Baa3 IFS rating of National. MBIA has an adequate liquidity profile stemming from the firm's liquid cash and invested assets held at the holding company level (\$315 million at Q2 2024). We expect ordinary dividend payments from National to continue over the next several years, generally in-line with the firm's net investment income. MBIA's debt burden is slowly improving and the firm's debt service obligations are manageable over the next several years. The notching between MBIA Inc.'s senior debt rating and the IFS rating of its lead insurance subsidiary, National, is three notches, which is consistent with most other US insurance holding company structures.

MBIA Insurance Corporation

MBIA Corp.'s Caa2 IFS rating and negative outlook reflects the firm's lower capital adequacy position as the firm's claims-paying resources have deteriorated due to claims payments and write-downs of its salvage recoverable asset. There remains significant uncertainty associated with the outcomes of ongoing asset recovery efforts and the company's stressed liquidity position. MBIA Corp.'s longer-term viability rests on its ability to recover the substantial majority of the firm's \$170 million of expected salvage recoverables, primarily relating to sales of collateral from the defaulted Zohar I and Zohar II collateralized loan obligation transactions, excess spread recoveries on RMBS securities and by purchasing MBIA Corp. wrapped securities as part of its loss mitigation strategies. Additionally, the firm's thin surplus cushion to the minimum regulatory level required leaves little room for adverse developments in its insured portfolio or further write-downs of its estimated salvage recoverable. Additionally, the company's weak ability to organically generate capital heightens the firm's vulnerability to breaching regulatory capital thresholds as discounted loss reserves accrete higher over time. The inability of MBIA Corp. to realize substantial salvage recoveries over the near term could precipitate a regulatory intervention, which could result in a claims payment freeze, partial claims payments, or rehabilitation proceedings.

The C (hyb) ratings on MBIA Corp.'s surplus notes and preferred stock reflect our expectation that recovery rates on these securities are likely to be very low given their deeply subordinated status and the limited amount of capital resources available at the company.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

National Public Finance Guarantee Corporation

Given National's business and financial profile as a run-off financial guarantor, its rating is unlikely to be upgraded. However, the following factors could positively influence the firm's credit profile: 1)

Favorable resolution of certain defaulted transactions, including the firm's remaining Puerto Rico exposures; and 2) improved risk-adjusted capital adequacy.

Conversely, the following factors could result in a downgrade of National's rating: 1) significant deterioration in the credit quality of its insured portfolio; 2) capital extraction in excess of the firm's ordinary dividend capacity without a commensurate reduction of insured risk; 3) significant additional purchases of MBIA common stock; and 4) provision of material capital support to MBIA Corp.

#### MBIA Insurance Corporation

The following factors could result in an upgrade of MBIA Corp.'s IFS rating: 1) improved capital adequacy and liquidity profile; 2) a reduction in exposure to large single risks; and 3) substantial recoveries from Zohar collateral sales. Conversely, the following factors could result in a downgrade: 1) failure to secure substantial recoveries on Zohar collateral; 2) portfolio losses in excess of current expectations; and 3) further deterioration in the company's liquidity profile.

#### MBIA Inc.

MBIA's Ba3 senior debt rating is currently three notches below the Baa3 IFS rating of National, which is consistent with our typical notching practices for U.S. insurance holding company structures. The notching could be expanded to four or more notches below the IFS rating of National if there were constrained liquidity at the holding company with visible projected cash inflows and existing liquid assets covering less than two years of debt service.

#### TREATMENT OF WRAPPED TRANSACTIONS

Our ratings on securities that are guaranteed or "wrapped" by a financial guarantor are generally maintained at a level equal to the higher of the following: a) the rating of the guarantor (if rated at the investment grade level); or b) the published underlying rating (and for structured securities, the published or unpublished underlying rating). Our approach to rating wrapped transactions is outlined in our methodology "Guarantees, Letters of Credit and Other Forms of Credit Substitution Methodology" (July 2022).

The principal methodology used in these ratings was Financial Guarantors published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/416491>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

MBIA Insurance Corporation and National Public Finance Guarantee Corporation are financial guaranty insurance companies domiciled in New York State and are wholly owned subsidiaries of MBIA Inc. As of June 30, 2024, MBIA Inc. had consolidated gross par outstanding of approximately \$39 billion (including accreted interest on CABs) and total claims paying resources at its operating subsidiaries of approximately \$2.0 billion.

#### REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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