

Sacramento, CA, City of

Municipal Market Disclosure Information Cover Sheet

Type of Filing:
RATING CHANGE

Moody's Upgrades Rating with Stable Outlook

Date of Filing:

10/11/2024

<u>Certification Authorized by</u>	<u>Disclosure Dissemination Agent Contact</u>
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This Filing Applies to:

1. City of Sacramento, TOT Revenue Bonds (Convention Center Complex), \$283,315,000, 2018 Senior Series A, \$195,815,000, 2018 Senior Series B (Federally Taxable), \$20,610,000 and 2018 Subordinate Series C, \$66,890,000, Dated: November 1, 2018

CUSIPS: 786073AE6, 786073AF3, 786073BB1, 786073BC9, 786073AG1, 786073AH9, 786073BD7, 786073BE5, 786073AJ5, 786073BF2, 786073AK2, 786073BG0, 786073AL0, 786073BH8, 786073AM8, 786073AN6, 786073BJ4, 786073BK1, 786073AP1, 786073AQ9, 786073BL9, 786073BM7, 786073AR7, 786073BN5, 786073AS5, 786073BP0, 786073AT3, 786073AU0, 786073BQ8, 786073AV8, 786073BR6, 786073AW6, 786073BS4

Digital Assurance Certification

Filing Certificate

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

Transmission Details: P11355936

Date & Time Stamp:	10/11/2024
Document:	Rating Change: Moody's Upgrades Rating with Stable Outlook
DAC Bond Coversheet:	Yes
Transmitted to:	MSRB-EMMA
Total CUSIPs associated with this Filing:	33
Filing made on Series:	2018A,B,C

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: City of Sacramento, TOT Revenue Bonds (Convention Center Complex), \$283,315,000, 2018 Senior Series A, \$195,815,000, 2018 Senior Series B (Federally Taxable), \$20,610,000 and 2018 Subordinate Series C, \$66,890,000, Dated: November 1, 2018

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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 11, 2024

NOTICE IS HEREBY GIVEN that on October 10, 2024, Moody's Investors Service ("**Moody's**") upgraded the following ratings:

- City of Sacramento 2018 TOT Revenue Bonds, Senior Series A (Convention Center Complex) to "Aa3" from "A1", with stable outlook.
- City of Sacramento 2018 TOT Revenue Bonds, Senior Series B (Convention Center Complex) (Federally Taxable) to "Aa3" from "A1", with stable outlook.
- City of Sacramento 2018 TOT Revenue Bonds, Subordinate Series C (Convention Center Complex) to "A1" from "A2", with a stable outlook.

City of Sacramento

Brian Wong
Digitally signed
by Brian Wong
Date: 2024.10.11
13:31:26 -07'00'

Brian Wong
Debt Manager

Attachment: Moody's Rating Action Report dated October 10, 2024

MOODY'S

RATINGS

Rating Action: Moody's Ratings upgrades Sacramento, CA's TOT revenue bonds and TID assessment revenue bonds; outlook stable

10 Oct 2024

New York, October 10, 2024 -- Moody's Ratings (Moody's) has upgraded the City of Sacramento, CA's senior lien transient occupancy tax (TOT) revenue bonds to Aa3 from A1, subordinate lien TOT bonds to A1 from A2 and assessment revenue bonds to A1 from A2. We have also affirmed the city's Aa2 issuer and Aa3 lease revenue ratings.

This action concludes a review for possible upgrade initiated on July 24, 2024 in conjunction with an update to the US Cities and Counties methodology. 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 in fiscal 2024 (year-end June 30) and fiscal 2025, which will provide a buffer as the city faces structural imbalance beginning in fiscal 2026. Total leverage is elevated and driven largely by pension liabilities.

The Aa3 lease-backed rating is one notch lower than the Aa2 issuer rating. For a California city, Moody's typically applies 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 Aa3 rating on the senior lien TOT revenue bonds is one notch below the issuer rating, reflecting the economic strength of the Sacramento area but the narrow nature of the pledged revenues. Maximum annual debt service (MADS) coverage as of June 2023 was solid at 2.1x and will remain at this level due to a relatively flat debt service schedule. Also incorporated are satisfactory legal provisions.

The A1 rating on the subordinate lien TOT revenue bonds is two notches below the issuer rating, reflecting both the narrow nature of the pledged revenues and the subordinate pledge. MADS coverage as of June 2023 was somewhat lower than that of the senior lien at 1.6x. Also considered are legal provisions which, though satisfactory, are weaker than the senior lien bonds.

The A1 rating on the assessment revenue bonds is two notches below the issuer rating, reflecting the narrow nature of the pledged revenues, somewhat modest MADS coverage of 1.3x and the economic strength of the assessment district, which includes all of Sacramento and neighboring unincorporated areas of Sacramento County (A1 stable), primarily to the east.

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
- Upgrade of the issuer rating (TOT and assessment revenue bonds)
- Improved MADS coverage above 2x (subordinate lien TOT and assessment revenue bonds)

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained narrowing of financial reserves to below 35%
- Leverage in excess of 400%
- Downgrade of the issuer rating (TOT and assessment revenue bonds)
- Sustained decline in revenue leading to MADS coverage below 2x (senior lien TOT)

LEGAL SECURITY

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.

The TOT bonds are secured by a pledge of and lien on TOT revenues generated by the room tax on lodging businesses located within the City of Sacramento, net of a

small portion of the TOT revenues used to support the general fund and visitors' bureau that are not pledged. The bonds are additionally secured by debt service reserve funds for each lien equal to the lesser of a standard three-prong test. The senior lien bonds have a 1.75x MADS additional bonds test (ABT) and the subordinate lien bonds have a 1.15x MADS ABT. The repayment of the bonds is also secured in part by a TOT revenue surplus account, which was established upon issuance, equal to approximately 11% of MADS.

The assessment revenue bonds are secured by a first pledge of and lien on all of the pledged revenues from assessments on the lodging businesses in the district, excluding vacation rentals. However, any assessments paid by vacation rental owners are also available for payment of debt service. There is an ABT of 1.15x MADS. A debt service reserve account was funded with a surety at closing at the lesser of the three-prong test. Additionally, a surplus revenue account was cash funded at 50% of MADS and any draws will be replenished over time from excess revenues. The balance in the surplus revenue account as of September 2024 represents just over 54% of MADS.

PROFILE

Sacramento is located at the confluence of the Sacramento and American rivers in the northern Central Valley, 75 miles northeast of San Francisco (Aaa negative). It encompasses roughly 100 square miles and is the sixth largest city in the state with a population of over 523,000 as of 2022. Sacramento is the state capital of California (Aa2 negative) 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 these ratings 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.

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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