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**Sacramento, CA, City of**

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**Municipal Market Disclosure Information Cover Sheet****Type of Filing:****RATING CHANGE**

Fitch Upgrades Rating with Stable Outlook

**Date of Filing:**

01/16/2025

<b><u>Certification Authorized by</u></b>	<b><u>Disclosure Dissemination Agent Contact</u></b>
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This information is also available on DAC's website: [www.dacbond.com](http://www.dacbond.com)

**Signature of Issuer:** Claudia Lara /s/

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**This Filing Applies to:**

1. Sacramento Public Financing Authority, Lease Revenue Bonds (Golden 1 Center), Series 2015 (Federally Taxable), \$299,995,000, Dated: August 13, 2015

**CUSIPS:** 78605QAJ6

**Digital Assurance Certification**

## Filing Certificate

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**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: P11374094

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Date & Time Stamp:	01/16/2025
Document:	Rating Change: Fitch Upgrades Rating with Stable Outlook
DAC Bond Coversheet:	Yes
Transmitted to:	MSRB-EMMA
Total CUSIPs associated with this Filing:	1
Filing made on Series:	2015

**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

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1. Issue: Sacramento Public Financing Authority, Lease Revenue Bonds (Golden 1 Center), Series 2015 (Federally Taxable), \$299,995,000, Dated: August 13, 2015

CUSIP: **78605QAJ6**

**No missing CUSIPs for this bond issue**

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

Dated: January 16, 2025

NOTICE IS HEREBY GIVEN that on January 16, 2025, Fitch Ratings ("Fitch") upgraded the long-term rating to "AA" from "AA-" with a stable outlook for the Sacramento Public Financing Authority Lease Revenue Bonds, Series 2015 (Golden 1 Center).

The credit report from Fitch is attached.

City of Sacramento

Brian  
Wong

Digitally signed by  
Brian Wong  
Date: 2025.01.16  
14:42:29 -08'00'

Brian Wong  
Debt Manager

Attachment: Fitch Rating Press Release – 2015 LRB (G1C)



RATING ACTION COMMENTARY

Fitch Upgrades Sacramento, CA's Golden 1 Center Bonds to 'AA'; Outlook Stable

Thu 16 Jan, 2025 - 5:18 PM ET

Fitch Ratings - San Francisco - 16 Jan 2025: Fitch Ratings has upgraded the following ratings of the City of Sacramento, CA:

--Golden 1 Center 2015 lease revenue bonds (LRBs) issued by the Sacramento Public Financing Authority to 'AA' from 'AA-'.

In addition, Fitch has affirmed the city's Issuer Default Rating (IDR) at 'AA+'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Sacramento (CA) [General Government]	LT IDR	AA+ Rating Outlook Stable		AA+ Rating Outlook Stable
	Affirmed			
Sacramento (CA) /Issuer Default Rating - General Government/1 LT	LT	AA+ Rating Outlook Stable	Affirmed	AA+ Rating Outlook Stable

Sacramento (CA) /Lease Obligations - Non-Standard/1 LT	LT	AA Rating Outlook Stable	Upgrade	AA- Rating Outlook Stable
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VIEW ADDITIONAL RATING DETAILS

The upgrade of the lease revenue bonds to 'AA' from 'AA-' reflects Fitch's view that the structure is now consistent with a typical lease obligation. Fitch rates the bonds one notch below the city's IDR due to the slightly higher optionality for lease/appropriation payments.

The city's revenue sources intended for debt service have matured from their "prospective" status since the bonds were issued in 2015. As the city anticipated when the bonds were sold, net revenues from its parking system and rental payments from the Sacramento Kings have usually been sufficient to cover debt service. However, the pandemic stressed parking revenues and caused lower lease payments from the Sacramento Kings, which invoked the force majeure clause in the lease agreement with the Sacramento Kings. These reduced revenues caused the city's general fund to temporarily provide some debt service assistance for two years.

The 'AA+' IDR incorporates the city's 'aaa' financial resilience given its high level of reserves relative to its low ability to raise revenues and midrange expenditure control. In fiscal 2019, city voters increased a sales tax supporting general fund services, which helped boost the city's financial cushion.

Despite this additional revenue source and other improving revenues, revenues have started to grow more slowly than expenditures, resulting in a projected \$66 million deficit in fiscal 2025. To close this budget gap, the city council increased charges for services and eliminated vacant positions in the adopted fiscal 2025 budget. Fitch expects the city will continue taking proactive steps to address out-year budget gaps and maintain its reserves at levels that support a 'aaa' financial profile.

The 'AA+' IDR is supported by continued population growth, the city's large size, diverse economy and above-average education retainment levels. The city's unemployment rate consistently tracks above the national rate, and income levels are slightly below Fitch's portfolio median (when adjusted for price parity), resulting in a midrange demographic level assessment.

The city's long-term liability burden is weak given its high debt and net pension liabilities when compared with both resident personal income and total revenues. Fixed costs associated with debt service and adjusted for benefits contributions accounted for about

19% of total governmental expenditures in fiscal 2024, which is on the higher range in Fitch's portfolio.

The IDR incorporates Fitch's application of an Additional Analytical Factor of +1.0 due to the city's economic and institutional strength as the state capital and an anchor within the Sacramento-Roseville-Folsom MSA.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

Inability to align expenditures with revenues, resulting in imbalanced operations and the city's unrestricted fund balances used for general purposes falling below 25% of expenditures and transfers out, the minimum level needed for a 'aaa' financial resilience assessment;

--The long-term liability burden more than doubling when assuming no changes from current personal income levels, or total governmental expenditures or revenues.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--A nearly 15% decrease in the long-term liability burden when assuming no changes from current personal income levels, or total governmental expenditures or revenues;

--A stronger demographic level assessment through the city's unemployment rate sustaining below the national rate combined with median household income levels trending consistently above Fitch's portfolio median.

## **SECURITY**

The LRBs are payable from lease rental payments from the city (the obligor) to the Sacramento Public Financing Authority (the issuer) for use and occupancy of the arena. The city has covenanted to budget and appropriate lease rental payments from any legally available resource. The lease is subject to abatement risk and bondholders lack the right to foreclose on the property in a default.

## **FITCH'S LOCAL GOVERNMENT RATING MODEL**

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio. (The Model Implied Rating will be the Issuer Default Rating except in certain circumstances explained in

the applicable criteria.) The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so forth down to 1.0 (BBB- and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

## **RATINGS HEADROOM & POSITIONING**

Sacramento Model Implied Rating: 'AA+' (Numerical Value: 9.81)

-- Metric Profile: 'AA' (Numerical Value: 8.81)

-- Net Additional Analytical Factor Notching: +1.0

Individual Additional Analytical Notching Factors:

-- Economic and Institutional Strength: +1.0

Sacramento's Model Implied Rating is 'AA+'. The associated numerical value of 9.81 is at the upper end of the 9.0 to 10.0 range for a 'AA+' rating.

## **KEY RATING DRIVERS**

### **FINANCIAL PROFILE**

#### **Financial Resilience - 'aaa'**

Sacramento's financial resilience is driven by the combination of its 'Low' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'Limited' budgetary flexibility assessment.

-- Revenue control assessment: Low

-- Expenditure control assessment: Midrange

-- Budgetary flexibility assessment: Limited

- Minimum fund balance for current financial resilience assessment:  $\geq 25.0\%$
- Current year fund balance to expenditure ratio: 48.6% (2023)
- Lowest fund balance to expenditure ratio for the fiscal-year period 2019-2023: 41.3% Analyst Input (vs. 40.9% actual in fiscal 2019)

### **Revenue Volatility - 'Weak'**

Sacramento's weakest historic three-year revenue performance has a modest negative impact on the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

- Lowest three-year revenue performance (based on revenues dating back to 2005): 8.4% decrease for the three-year period ending fiscal 2012
- Median issuer decline: -4.7% (2023)

Fitch is using fiscal 2024 audited unrestricted general fund balance levels when compared to total general fund expenditures and transfers out.

## **DEMOGRAPHIC AND ECONOMIC STRENGTH**

### **Population Trend - 'Midrange'**

Based on the median of 10-year annual percentage change in population, Sacramento's population trend is assessed as 'Midrange'.

Population trend: 1.1% 2022 median of 10-year annual percentage change in population (58th percentile)

### **Unemployment, Educational Attainment and MHI Level - 'Midrange'**

The overall strength of Sacramento's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are



assessed as 'Midrange' on a composite basis, performing at the 43rd percentile of Fitch's local government rating portfolio. This is due to high education attainment levels offsetting midrange median-issuer indexed adjusted MHI and elevated unemployment rate.

-- Unemployment rate as a percentage of national rate: 130.6% 2023 (20th percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 35.8% (2022) (66th percentile)

-- MHI as a percent of the portfolio median: 94.4% (2022) (42nd percentile)

### **Economic Concentration and Population Size - 'Strongest'**

Sacramento's population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 525,297 (2022) (above the 15th percentile)

-- Economic concentration: 40.8% (2023) (above the 15th percentile)

Demographic and Economic Strength Additional Analytical Factors and Notching: +1.0 notch (for Economic and Institutional Strength)

The one-notch increase for economic and institutional strength reflects the city's role as a core component of the Sacramento-Roseville-Folsom MSA, which has a real metro product equal to 0.8% of U.S. GDP. In conjunction with the city's size, it serves as the state capital providing a stabilizing employment institution.

### **LONG-TERM LIABILITY BURDEN**

#### **Long-Term Liability Burden - 'Weak'**

Sacramento's liabilities to governmental revenue have deteriorated while carrying costs to governmental expenditures and liabilities to personal income remain moderately weak. The long-term liability composite metric in 2023 is at the 32nd percentile, indicating a somewhat elevated liability burden relative to the Fitch's local government rating portfolio.

-- Liabilities to personal income: 6.7% Analyst Input (38th percentile) (vs. 6.6% 2023 Actual)

-- Liabilities to governmental revenue: 212.6% Analyst Input (34th percentile) (vs. 221.7% 2023 Actual)

-- Carrying costs to governmental expenditures: 18.9% Analyst Input (24th percentile) (vs. 19.6% 2023 Actual)

Direct debt, governmental revenues, and governmental expenditures reflect audited fiscal 2024 numbers.

## PROFILE

Sacramento is California's state capital and sixth-largest city with approximately 525,000 residents. The city's economy is driven by the government sector but has been diversifying into healthcare, education and business services.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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## **APPLICABLE CRITERIA**

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

## **ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

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## **ENDORSEMENT STATUS**

Sacramento Public Financing Authority (CA)

EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

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