



CITY OF SALINAS FINANCE COMMITTEE

DATE: AUGUST 12, 2025

DEPARTMENT: FINANCE

FROM: SELINA ANDREWS, FINANCE DIRECTOR
ABE PEDROZA, ASSISTANT FINANCE DIRECTOR

TITLE: S&P GLOBAL RATINGS UPDATE

RECOMMENDED MOTION:

It is recommended that the Finance Committee receive an update on Standard & Poor's (S&P) review of the City's lease revenue bond rating.

EXECUTIVE SUMMARY:

S&P performed a standard surveillance review of the City's Issuer Credit Rating (ICR). Part of their review included analyzing budget and annual report data. This resulted in affirming the City's ICR at AA- and the 2018 lease revenue bond rating at A+. However, the outlook changed from positive to negative.

BACKGROUND:

On December 23, 2024, S&P lowered its long-term rating four notches to BBB+ from AA- on the City's sanitary sewer system revenue debt and placed the rating on CreditWatch with negative implications.

On March 21, 2025, S&P lowered its long-term rating two notches to BBB- from BBB+ on the City's sanitary sewer system revenue debt and removed the rating from CreditWatch.

These downgrades were a result of weak financial performance in the sanitary sewer enterprise fund due to weak cost recovery practices.

On August 5, 2025, S&P affirmed its AA- issuer credit rating and its A+ underlying rating on the City's outstanding lease revenue bonds. However, S&P did revise its outlook to negative from stable due to the City's inadequate sewer rates and the potential sunset of Measure G.

S&P highlights that the City has maintained a healthy general fund reserve position, conservative budget management, and financial management policies that reflect regular budget analysis with realistic assumptions that reflect historical trend analysis.

S&P also cites their negative outlook revision is reflective of their view of the City’s “internal controls of its enterprise funds, particularly in oversight and rate setting practices in the sanitary sewer fund.” Furthermore, S&P states “the City’s multi-year forecast project operating drawdowns throughout the medium-term, which could be further exacerbated by the looming sunset of its major sales tax measure.”

FISCAL AND SUSTAINABILITY IMPACT:

Implementation of updated sewer rates will have a significant impact on the City’s bond ratings in addition to the necessary funding for sewer capital improvements. Similarly, the extension of Measure G will also have significant impacts on our rating in addition to the financial position of the City moving forward without the need to reduce services to the community.

ATTACHMENTS:

SP Global Ratings Report