

**Rating Action: Moody's assigns Aaa to San Francisco, CA's 2023 GOs; outlook stable**

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New York, March 20, 2023 -- Moody's Investors Service has assigned a Aaa rating to the City & County of San Francisco, CA's \$28.85 million General Obligation Bonds (Health and Recovery, 2020), Series 2023A, \$39.1 million General Obligation Bonds (Embarcadero Seawall Earthquake Safety, 2018), Series 2023B, and \$168.4 million General Obligation Bonds (Social Bonds - Affordable Housing, 2019), Series 2023C. Moody's maintains the city's Aaa issuer and outstanding general obligation unlimited tax (GOULT) bond ratings. Moody's also maintains Aa1 and Aa2 ratings on the city's lease-revenue bonds (LRBs) and certificates of participation (COPs). The city has approximately \$23.6 billion in debt outstanding across its governmental and enterprise activities. The outlook remains stable.

**RATINGS RATIONALE**

The Aaa issuer rating reflects San Francisco's strong financial position that has performed well through the pandemic. Operating performance across governmental and enterprise funds through 2022 has been positive and expectations for 2023 are improved relative to expectations, supported by general outperformance of economically sensitive revenues, stable property taxes, and sizeable pandemic aid that have steadied the city's revenue picture. The rating also incorporates several key economic headwinds facing the city including its high office vacancy rate, and abrupt population loss through the pandemic.

The issuer rating also incorporates the city's exceptionally large tax base, its status as a premier technology and innovation ecosystem, very strong property wealth and income profile all of which balance the city's elevated leverage and fixed costs relative to operating revenue. The rating also reflects San Francisco's capable management team which has maintained balanced operations and strong reserves through the recent period of extreme uncertainty.

The Aaa rating on the city's GOULT bonds incorporates the city's general credit characteristics and the unlimited ad valorem property tax pledge supporting the bonds.

**RATING OUTLOOK**

The stable outlook assumes the economic headwinds the city faces will remain manageable in the near term, despite the possibility of more long-term credit implications. Social risks such as income inequality, homelessness, and pandemic-related population decline will persist but remain manageable in the current outlook horizon. The stable outlook also incorporates our assumption that the city will be able to absorb various downward property reassessments in the near term with only a modest impact on the city's finances.

**FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS**

-Not applicable

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS**

-Prolonged weakening of the city's economy including population loss, taxable value declines, and increased social pressures

-Deterioration of the city's financial position to a materially weaker level

-Material increase in debt, pension or OPEB liabilities and related fixed costs

**LEGAL SECURITY**

The GO bonds are paid from a voter-approved, unlimited ad valorem property tax pledge of all taxable property within the city boundaries.

**USE OF PROCEEDS**

The Series 2023A bonds will fund parks, open spaces and recreation facilities while the Series 2023B bonds will fund seismic retrofitting of the city's Embarcadero seawall and other critical infrastructure. The Series 2023C bonds will be used for various purposes related to affordable housing development.

## PROFILE

The City and County of San Francisco is the economic, employment and cultural center of the San Francisco Bay Area and Northern California (Aa2 stable). The city encompasses over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay. Silicon Valley is about a 40-minute drive to the south, and the Napa/Sonoma wine country is about an hour drive to the north. The city has approximately 890,000 residents.

San Francisco's combined city-county organization is unique in California. The city is governed by a board of supervisors, elected from eleven districts, and a mayor who serves as chief executive officer, elected citywide. The city has over 36,000 employees and operates the San Francisco Airport Commission (A1 stable), San Francisco Public Utilities Commission Water Enterprise (Aa2 stable), the Hetch Hetchy Water and Power System, San Francisco Municipal Transportation Agency (Aa3 stable), San Francisco General Hospital, San Francisco Public Utilities Commission Wastewater Enterprise (Aa2 stable), San Francisco Port Commission (Aa3 negative), Laguna Honda Hospital and CleanPowerSF (A2 stable).

## METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties Methodology published in November 2022 and available at <https://ratings.moodys.com/api/rmc-documents/386953>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Joseph Manoleas  
Lead Analyst  
REGIONAL\_WEST  
Moody's Investors Service, Inc.  
405 Howard Street  
Suite 300  
San Francisco 94105  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Thomas Jacobs  
Additional Contact  
REGIONAL\_NE  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653  
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