

RATING ACTION COMMENTARY

Fitch Rates San Francisco, CA's \$554.7MM GOs 'AAA'; Outlook Revised to Negative

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Fitch Ratings - San Francisco - 24 Dec 2024: Fitch Ratings has assigned an 'AAA' rating to the following San Francisco's (City and County) (CA)'s general obligation (GO) bonds:

--\$15,100,000 GO bonds (embarcadero seawall earthquake safety, 2018), series 2025A-1;

--\$104,940,000 taxable GO bonds (embarcadero seawall earthquake safety, 2018), series 2025A-2;

--\$193,870,000 GO bonds (earthquake safety and emergency response, 2020), series 2025B-1;

--\$24,050,000 taxable GO bonds (earthquake safety and emergency response, 2020), series 2025B-2;

--\$67,190,000 taxable GO bonds (social bonds - affordable housing, 2019), series 2025C;

--\$147,345,000 taxable GO bonds (social bonds - affordable housing, 2024), series 2025D.

In addition, Fitch has affirmed the following ratings:

--Issuer Default Rating (IDR) at 'AAA';

--\$2.2 billion outstanding city and county of San Francisco general obligation (GO) bonds at 'AAA';

--\$49 million outstanding finance corporation lease revenue bonds, series 2008-1, 2008-1 (bank bonds), 2008-2, 2008-2 (bank bonds), and 2018B at 'AA+';

--\$16.1 million outstanding finance corporation lease revenue bonds (open space fund-various park project), refunding series 2018A at 'AAA';

--\$1.5 billion in outstanding certificates of participation (COPs) at 'AA+';

--\$562.8 million Transbay Transit District Community Facilities District special tax bonds at 'AAA'.

The Rating Outlook has been Revised to Negative from Stable.

The GO bonds will be sold competitively the week of January 13. The proceeds of the bonds will be used to help finance the Embarcadero Seawall, earthquake safety and emergency response, and affordable housing projects pursuant to their respective voter approved bond measures.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
San Francisco (City & County) (CA) [General Government]	LT IDR AAA Rating Outlook Negative Affirmed	AAA Rating Outlook Stable
San Francisco (City & County) (CA) /General Obligation - Unlimited Tax/1 LT	LT AAA Rating Outlook Negative Affirmed	AAA Rating Outlook Stable
San Francisco (City & County) (CA) /Lease Obligations - Non-Standard/1 LT	LT AAA Rating Outlook Negative Affirmed	AAA Rating Outlook Stable
San Francisco (City & County) (CA) /Lease Obligations - Standard/1 LT	LT AA+ Rating Outlook Negative Affirmed	AA+ Rating Outlook Stable

Transbay Transit Center
Community Facilities
District (CA) [General
Government]

Transbay Transit Center Community Facilities District (CA) /Property Assessment - Mello Roos/1 LT	LT	AAA Rating Outlook Negative	AAA Rating Outlook Stable
	Affirmed		

[VIEW ADDITIONAL RATING DETAILS](#)

The Revision of the Outlook to Negative reflects the persistently large budgetary gaps, which the city is largely closing through the use of various non-recurring resources, including pandemic aid, fund balance and other one-time sources. This is reflected in a -1 notch additional analytical factor that reduces the headroom at the current 'AAA' rating. Stability of the 'AAA' rating is predicated on the city making demonstrable progress in closing the budget gap.

The 'AAA' GO and IDR continues to incorporate the city's 'aaa' financial resilience assessment, which reflects a midrange level of budgetary flexibility along with expectations that available reserves will remain materially above 15% of spending. The city ended fiscal 2024 with a roughly \$84 million operating deficit after transfers resulting in an available fund balance of about 38% of spending. The rating also reflects the city's 'midrange' long-term liability burden, 'weakest' population trend and 'strongest' demographic level.

The rating further reflects the application of two positive additional analytical factor (AAF) notches and one negative AAF. The first positive factor recognizes the city's role as the center of an important and growing MSA with a vital role in the national economy. The city's exceptionally high market value per capita and strong record of voter-approved revenue initiatives underpin a greater capacity to tap into revenue-generating resources and accounts for the second positive AAF.

Finally, Fitch has applied a -1 notch for non-recurring support of ongoing spending as the city grapples with expenditure growth far outpacing revenue growth, which requires the city to balance its recent budgets with significant one-time sources. The updated Five-Year Financial Plan indicates minimal progress in closing the city's budget gap through ongoing measures.

The 'AA+' rating on the COPs and lease revenue bonds is one notch below the IDR, reflecting the slightly higher degree of optionality associated with these lease payments subject to appropriation.

The 'AAA' 2018 lease revenue bond rating reflects the restricted nature of the property tax set-aside, with payments to be made from the city's open space fund, which receives the park dedicated property tax set-aside and is restricted for open space uses.

The 'AAA' CFD rating is based on the city's inclusion, by resolution, of the Transbay CFD special taxes on the Teeter Plan roll, through which the city guarantees 100% remittance of the levied taxes, thereby eliminating collection risk. As such, Fitch believes the security for the bonds is the same as for city's GO bonds.

RATING SENSITIVITIES

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

- Failure to implement available policy measures, as needed, to reduce the structural deficit, resulting in material use of non-recurring measures to balance budgets;
- Expected or actual available reserves below 15% of spending, resulting in an 'aa' financial resilience assessment;
- While not expected in the near term, a roughly 80% increase in long-term liability burden metrics;
- Weakened demographic and economic performance, including but not limited to greater population loss, higher unemployment and lower resident income.

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

- Revision of the Outlook to Stable depends on the city making demonstrable progress in closing its budget gap through ongoing measures.

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

NA

SECURITY

The series 2025 GO bonds are payable from unlimited ad valorem property tax revenue.

The COPs and lease revenue bonds are payable from lease payments made by the city for use and occupancy of various city assets. The city covenants to budget and appropriate for lease payments, which are subject to abatement.

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model (LGRM) generates Model Implied Ratings (MIR) that communicate the issuer's credit quality relative to Fitch's local government rating portfolio (the MIR will be the IDR except in certain circumstances explained in the applicable criteria). The MIR 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 (MP), and a structured framework to account for Additional Analytical Factors (AAFs) not captured in the Metric Profile that can either mitigate or exacerbate credit risks. AAFs are reflected in notching from the MP and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

San Francisco Model Implied Rating: 'AAA' (Numerical Value: 10.66)

-- Metric Profile: 'AA+' (Numerical Value: 9.66)

-- Net Additional Analytical Factor Notching: +1.0 Individual Additional Analytical Notching Factors:

-- Revenue Capacity: +1.0

-- Non-Recurring Support or Spending Deferrals: -1.0

-- Economic and Institutional Strength: +1.0

San Francisco's Model Implied Rating is 'AAA'. The associated numerical value of 10.66 is in the middle of the range for a 'AAA' rating.

KEY RATING DRIVERS

FINANCIAL PROFILE

Financial Resilience - 'aaa'

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

-- Revenue control assessment: Midrange

-- Expenditure control assessment: Midrange

-- Budgetary flexibility assessment: Midrange

-- Minimum fund balance for current financial resilience assessment: $\geq 15.0\%$

-- Current year fund balance to expenditure ratio: 37.9% Analyst Input (vs. 40.2% 2023 Actual)

-- Lowest fund balance to expenditure ratio for the fiscal-year period 2019-2023: 37.9% Analyst Input (vs. 40.2% actual in fiscal 2023)

Revenue Volatility - 'Strongest'

San Francisco's weakest historic three-year revenue performance is neutral to 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 improvement, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 5.7% increase for the three-year period ending fiscal 2010

-- Median issuer decline: -4.7% (2023)

Financial Profile Additional Analytical Factors and Notching: 0.0 notch (for Revenue Capacity and Non-Recurring Support or Spending Deferrals)

Fitch has applied a -1 notch AAF for the city's current reliance on non-recurring measures to balance its fiscal 2025 and 2026 budgets. Should the reliance on one-time measures be sustained or increased, there could be an additional negative notch applied.

The city's exceptionally high market value per capita and strong record of voter approved revenue initiatives underpin a greater capacity to tap into revenue-generating resources.

The negative one notch and positive one notch offset each other, resulting in 0.0 notch adjustment in financial profile.

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

Using fiscal 2024 as the lowest available fund balance.

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Weakest'

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

Population trend: 0.2% Analyst Input (17th percentile) (vs. 0.5% 2022 median of 10-year annual percentage change in population)

Unemployment, Educational Attainment and MHI Level - 'Strongest'

The overall strength of San Francisco's demographic and economic level indicators (unemployment rate, educational attainment and median household income [MHI]) in 2023 are assessed as 'Strongest' on a composite basis, performing at the 81st percentile of Fitch's local government rating portfolio. This is due to relatively very high education attainment levels and median-issuer indexed adjusted MHI, midrange unemployment rate.

-- Unemployment rate as a percentage of national rate: 91.7% 2023 (60th percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 59.8% (2022) (95th percentile)

-- MHI as a percent of the portfolio median: 152.2% (2022) (89th percentile)

Economic Concentration and Population Size - 'Midrange'

San Francisco's population in 2022 was of sufficient size to qualify for Fitch's highest overall size category but this is offset by the somewhat concentrated economy.

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: 808,988 Analyst Input (above the 15th percentile) (vs. 807,774 2022 Actual)

-- Economic concentration: 64.7% Analyst Input (from 5th to 10th percentile) (vs. 63.8% 2023 Actual)

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

A 1.0 notch uplift has been applied under the demographic and economic strength additional analytical factor reflecting Fitch's view of San Francisco's economic importance and resilience, as the city center of the San Francisco-Oakland-Berkeley, CA Metropolitan Statistical Area. The MSA plays a vital role in the national economy, accounting for 3.3% of the US GDP in 2022 according to BEA data. San Francisco is also one of several predominant employment centers within the state and home to numerous institutional anchors.

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

Using 2023 census data for population which is the most current available.

LONG-TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Midrange'

San Francisco's carrying costs to governmental expenditures has improved while liabilities to personal income remain moderately weak and liabilities to governmental revenue remain moderately strong. The long-term liability composite metric in 2023 is at the 57th percentile, roughly in line with Fitch's local government rating portfolio.

-- Liabilities to personal income: 8.0% Analyst Input (30th percentile) (vs. 7.2% 2023 Actual)

-- Liabilities to governmental revenue: 116.5% Analyst Input (79th percentile) (vs. 110.5% 2023 Actual)

-- Carrying costs to governmental expenditures: 12.3% Analyst Input (68th percentile) (vs. 13.5% 2023 Actual)

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

The city's fiscal 2024 audited direct long-term liability has been adjusted to reflect debt issued since the fiscal 2024 audit as well as the current issuance. In addition, fiscal 2024 data was used for governmental revenue, expenditures, debt service and Fitch-adjusted net pension liability.

PROFILE

The city is the economic and cultural center of the nine-county San Francisco Bay Area. Despite being essentially built out, population growth rate exceeded the state and nation between 2010 and 2020 as parts of the city, including former military bases and former industrial areas, were redeveloped with increased density. However, with the onset of the pandemic in March 2020, the city lost population as people relocated while working remotely. It is unclear to what degree these residents will return or if population growth will resume.

The city's economic profile benefits from exceptional income and wealth indicators; per capita personal income is over two and a half times the national average, and assessed value per capita for fiscal 2024 is about \$426,000. The city's largest private employers include

Salesforce, Wells Fargo & Company, Sutter Health, Uber Technologies, and Kaiser Permanente. Between 2008 and 2020, growth in technology jobs drove rapid labor force and employment gains.

As noted, the city's post-pandemic economic recovery has been tepid. According to the city's Office of Economic Analysis, the average weekly in-office attendance is less than half pre-pandemic levels, among the lowest in the country. Bridge crossings into the city remain below pre-pandemic numbers. BART, the inter-county transit system, shows ridership at just one-third pre-pandemic levels, and the citywide MUNI bus and light rail system has less than 60% of pre-pandemic levels.

In addition, employment growth in the San Francisco metropolitan statistical area has been mixed since the pandemic. Leisure and hospitality currently employ fewer people than in 2019, while the health care and government sectors have experienced growth.

Professional, scientific, and technical services, information and finance and insurance have added jobs while the other remaining private sectors have lost jobs since 2019. Leisure and hospitality weakness is driven by fewer conventions and lower levels of travel from China.

The city also serves as a major tourist and convention destination, but tourism remains low as evidenced by 2023 hotel revenue approximating 75% of 2019 hotel revenue. Many of the city's industries, particularly the technology sector, have allowed varying levels of work from home practices, and several firms have announced layoffs, all of which have reduced economic activity in the city's commercial areas.

Sources of Information

In addition to sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from DRIVER by Solve.

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

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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)

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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

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