



## Rating Action: Moody's assigns Aa1 to City of San Francisco's (CA) 2023 COPs; outlook negative

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06 Oct 2023

New York, October 06, 2023 -- Moody's Investors Service has assigned Aa1 ratings to the City and County of San Francisco's (CA) Certificates of Participation, Series 2023A (Affordable Housing and Community Facilities Projects) (Federally Taxable) and Certificates of Participation, Series 2023B (Multiple Capital Improvement Projects) (Tax-Exempt). The expected par amounts are \$103.9 million and \$79.3 million, respectively. Moody's maintains the Aaa issuer rating and Aa1 lease rating on outstanding certificates of participation related to essential facilities. Post-sale, the city will have roughly \$1.6 billion in outstanding lease-backed obligations. The outlook is negative.

### RATINGS RATIONALE

The Aaa issuer rating incorporates the city's currently robust financial profile, strong management practices, and diverse revenue sources supported by a favorable property tax structure. These credit qualities position San Francisco well to manage its near-term post pandemic challenges including changes in employment conditions, tourism patterns, retail behavior, and a weakened commercial real estate market. These shifts present moderately elevated uncertainty about the city's ability to adjust to an evolved economic environment, but the city's enduring credit factors give it the time and resources to adapt. The rating also incorporates the city's exceptionally large tax base, its status as a premier technology and innovation ecosystem, and a very strong property wealth and resident income profile which balances the city's elevated leverage and fixed costs.

The Aa1 rating of the city's outstanding lease-backed obligations reflects the standard one notch distinction from the city's Aaa issuer rating, which we apply to abatement leases secured by more essential assets and to equipment leases where the term matches the useful life of the leased assets.

### RATING OUTLOOK

The negative outlook continues to reflect the various near term financial and economic headwinds facing San Francisco. After a period of stable financial performance through the pandemic the city expects draws on reserves in fiscal 2023 and across budget years 2024 and 2025. The city also projects out-year deficits through 2028, although the city regularly identifies future budget gaps as part of the forecasting process. The deficits largely reflect the underlying sluggish performance of the city's economic recovery, particularly its downtown.

Prolonged weakness in the city's commercial real estate market, stubbornly slow to rebound office worker attendance, and low downtown utilization continue to weigh on the broad economic vitality of San Francisco's core business, retail, and tourism districts. The tepid post-pandemic economic progress informs a sluggish forecast for core revenue performance outpaced by expenditure growth in the coming years.

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

- Greater certainty regarding long-term economic recovery or reinvention
- Meaningful financial outperformance relative to expectations
- Reduction of long-term liabilities or fixed cost burdens

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

- Meaningful fund balance and reserve drawdowns consistent with forecast
- Inability to develop long-term solutions for the city's most pressing economic challenges
- Material growth to long-term liabilities

## LEGAL SECURITY

The Aa1-rated obligations are secured by rental payments under standard abatement lease agreements for assets that we view as more essential or for equipment with a strong lease structure where the lease term matches the useful life of the leased assets.

The leased assets for the current issuances are portions of the city's Laguna Honda hospital complex and the San Bruno jail facility, which Moody's considers essential to government operations.

## USE OF PROCEEDS

The city intends to use proceeds of the 2023A certificates for various affordable housing and community facilities projects while the 2023B certificates will be used for various capital improvement projects to city-owned buildings, facilities, streets and other public works.

## 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 negative). 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 831,000 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), Hetch Hetchy Water and Power, 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 stable), 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/mc-documents/386953>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

## REGULATORY DISCLOSURES

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