MOODY'S
INVESTORS SERVICE

Rating Action: Moody's Upgrades the City of County of San Francisco, CA's Lease Revenue Bond/COPs to Aa2; outlook is stable

Global Credit Research - 10 Oct 2016

New York, October 10, 2016 -- SUMMARY RATING RATIONALE

Moody's Investors Service has upgraded the rating of the City and County of San Francisco, CA's Lease Revenue Bonds and Certificates of Participation (COPs) to Aa2 from Aa3 for those secured by "more essential assets."

We have also upgraded to Aa2 from A1 the rating on the city's Equipment Leases, including the Lease Revenue Bonds, Series 2011A (Equipment Program), Series 2012A (Equipment Program), and Series 2013A (Equipment Program), because of the strong lease structure where the lease term matches the useful life of the leased assets.

We have also upgraded to Aa2 from Aa3 rating on the city's Lease Revenue Refunding Bonds, Series 2008-1 (LOC); Lease Revenue Refunding Bonds, Series 2008-2 (LOC); Lease Revenue Refunding Bonds, Series 2008-1 (LOC) (Bank Bonds); Lease Revenue Refunding Bonds, Series 2008-2 (LOC) (Bank Bonds); Refunding Certificates of Participation, Series 2011A (Moscone Center South Refunding Project); and Refunding Certificates of Participation, Series 2011B (Moscone Center South Refunding Project) despite of the "less essential" nature of the leased assets securing these bonds, because of the demonstrated, stable non-pledged revenue source that provides strong coverage of debt service payments.

The Aa2 rating is one notch lower than Moody's Aa1 general obligation bond rating for the city. The notching reflects a standard legal structure for a California abatement lease financing and the leased assets that we view as "more essential." The notching also reflects the strong legal features of California general obligation bonds that are not shared by lease revenue debt.

The Aa2 rating on the city's Lease Revenue Refunding Bonds, Series 2008-1 (LOC); Lease Revenue Refunding Bonds, Series 2008-2 (LOC); Lease Revenue Refunding Bonds, Series 2008-1 (LOC) (Bank Bonds); Lease Revenue Refunding Bonds, Series 2008-2 (LOC) (Bank Bonds); Refunding Certificates of Participation, Series 2011A (Moscone Center South Refunding Project); and Refunding Certificates of Participation, Series 2011B (Moscone Center South Refunding Project) is also one notch lower than Moody's Aa1 general obligation bond rating for the city. The notching reflects the demonstrated, stable non-pledged revenue source that provides strong coverage of debt service payments and the standard legal structure for a California abatement lease financing, despite the leased assets that we view as "less essential." The notching also reflects the strong legal features of California general obligation bonds that are not shared by lease revenue debt.

This action concludes a review undertaken in conjunction with the publication on July 26, 2016 of the Lease, Appropriation, Moral Obligation, and Comparable Debt of US State and Local Governments Methodology.

Rating Outlook

The stable outlook on the lease revenue bonds reflects the stable outlook on the city's fundamental credit factors.

Factors that Could Lead to an Upgrade

Improvement of the general credit profile of the issuer

Factors that Could Lead to a Downgrade

Deterioration in the general credit profile of the issuer

Legal Security

The lease revenue bonds and COPs are individually secured by lease payments made by the city for use and occupancy of the city's "more essential" leased assets. The city's equipment leases benefit from a strong lease structure where the lease term matches the useful life of the leased assets.

The leased assets for the Lease Revenue Refunding Bonds, Series 2008-1 (LOC); Lease Revenue Refunding Bonds, Series 2008-2 (LOC); Lease Revenue Refunding Bonds, Series 2008-1 (LOC) (Bank Bonds); Lease Revenue Refunding Bonds, Series 2008-2 (LOC) (Bank Bonds); Refunding Certificates of Participation, Series 2011A (Moscone Center South Refunding Project); and Refunding Certificates of Participation, Series 2011B (Moscone Center South Refunding Project) are various portions of the city's Moscone Convention Center, which are deemed by Moody's to be "less essential" to the city's operations and programs. However, these bonds all benefit from the demonstrated strength and stability of the city's hotel tax revenues, which while not legally pledged, is the administrative revenue source for debt service payments on these bonds.

Methodology

The principal methodology used in this rating was Lease, Appropriation, Moral Obligation, and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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