

# RatingsDirect®

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## Summary:

# San Francisco City & County, California; Appropriations; General Obligation; Joint Criteria

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### Credit Profile

US\$33.425 mil certs of part (Port Facs Proj) ser 2013C due 03/01/2043

*Long Term Rating* AA/Stable New

US\$4.435 mil certs of part (Port Facs Proj) ser 2013B due 03/01/2043

*Long Term Rating* AA/Stable New

### San Francisco City & Cnty GO

*Long Term Rating* AA+/Stable Upgraded

## Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'AA+' from 'AA' on San Francisco City & County, Calif.'s general obligation (GO) bonds outstanding and raised its long-term rating and SPUR to 'AA' from 'AA-' on the city's lease revenue bonds and certificates of participation (COPs). The raised ratings are based on our recently released local GO criteria. At the same time, Standard & Poor's assigned its 'AA' rating to the city's series 2013B and 2013C COPs. The outlook is stable.

The COPs represent an interest in base rental payments made by the city, as lessee, to the Trustee (U.S. Bank National Association), as lessor, for the use of certain city facilities. We understand that the city intends to use the COP proceeds to fund construction and renovation of multiple piers owned and operated by the Port Commission of the City and County of San Francisco. Under the lease agreement, the city has covenanted to annually budget and appropriate base rental payments. Lease payments are triple net, without right of set-offs, and the city is responsible for the maintenance, taxes, and utilities of the leased property. The city can abate payments in the event of damage to, or the destruction of, the assets. To mitigate the risk of abatement in such a case, the city has covenanted to maintain at least 24 months' rental-interruption insurance coverage. In addition, leased assets meet the seismic risk standards under our criteria. The debt service reserve requirement under the trust agreement is the lowest of 10% of the principal amount of the COPs, maximum annual debt service, or 125% average annual debt service. The leased assets consist of the Laguna Honda Hospital south and east residences, and link building.

Unlimited ad valorem taxes levied on taxable property within the city secure the GO bonds. The city board of supervisors has the power and obligation to levy these taxes without limitation as to rate or amount upon all taxable property in the city for the bonds' repayment.

The ratings reflect our assessment of the following factors for the city:

- Very strong economy, which benefits from participation in the broad and diverse economy of the San Francisco-Oakland-Hayward metropolitan statistical area (MSA);

- Strong budgetary flexibility, with 2012 audited reserves at 13% of general fund expenditures;
- Adequate budgetary performance, which takes into account a budgeted general fund deficit for fiscal 2014 and the deferral of capital improvements;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very strong management conditions with strong financial policies; and
- Our view of a tempering factor is the weak debt and contingent liabilities, driven mostly by the city's large retiree benefit obligations.

### **Very strong economy**

We consider the city's economy to be very strong with participation in the broad and diverse economy of the San Francisco-Oakland-Hayward MSA. The city's economy is a prominent employment center for the Bay Area, and is a finance and business services center for the west. The city is also a major convention and tourist destination. The preliminary unemployment rate for July 2013 is 5.9% (not seasonally adjusted), according to the Bureau of Labor Statistics. Consistent job growth has reduced the annual unemployment rate from 7.3% for 2012, and from 7.7% for July 2012. Projected per capita effective buying income for the city is 165% of the U.S. Assessed value grew about 4% for both fiscal 2013 and fiscal 2014 to \$172.5 billion, or \$213,076 per capita.

### **Strong budget flexibility**

In our opinion, the city's budgetary flexibility is strong, with reserves improving to 13% of general fund expenditures for fiscal 2012. Reserves include unassigned, assigned, and committed for budget stabilization general fund balance. General fund expenditures have been adjusted upward for recurring transfers to the San Francisco General Hospital, Laguna Honda Hospital, and Municipal Transportation Authority, which we view as ongoing support by the general fund. Reserves have improved significantly from deficit general fund results between fiscal 2008 and fiscal 2010, which resulted in a negative 1% unreserved general fund balance for fiscal 2010.

### **Adequate budgetary performance**

The city's budgetary performance has been adequate overall, in our view, with a surplus of over 4% for the general fund in fiscal 2011 and fiscal 2012, after recovering from a series of deficits through fiscal 2010. Total governmental funds operating results were also positive at 4.8%. For fiscal 2013, the city expects positive general fund results. The city's general fund budget for fiscal 2014 includes a drawdown, net of transfers and capital outlay, of 3% of expenditures. However, the city's actual performance has yielded better-than-budgeted results in recent years.

### **Very strong liquidity**

Supporting the city's finances is liquidity we consider very strong, with total government available cash as a percent of total governmental fund expenditures and as a percent of debt service that exceed 15% and 120%, respectively. We believe the city has exceptional access to external liquidity. The city has issued bonds frequently during the past 15 years, including GO bonds, revenue bonds, and commercial paper (CP).

### **Very strong management conditions**

We view the city's management conditions as strong, with strong financial practices. The city has policies that direct financial reserves, capital spending, debt, and investment management, as well as comprehensive budget planning and reporting to the mayor, controller, and board of supervisors. The administration placed a proposition on the November 2009 ballot, which voters approved, to expand financial policies. The city charter now requires a two-year budget and

a five-year financial plan. The city also adopted into policy its practice of maintaining a \$25 million general reserve, which would be increased gradually to 2% of general fund revenues by fiscal 2017. In addition, a budget stabilization reserve was created, which, together with the "rainy day" reserve, would equal no more than 10% of general fund revenues. The stabilization reserve would be funded through the dedication of 75% of volatile revenues, including real property transfer tax receipts in excess of the five-year annual average, funds from the sale of assets, and year-end unassigned general fund balances not assumed to be appropriated in the subsequent year's budget.

### Weak debt & contingent liability profile

In our opinion, the city's debt and contingent liabilities profile is weak due to what we consider to be large pension and other postemployment benefit obligations, the contributions for which exceeded 10% of total governmental funds expenditures for fiscal 2012. The city participates in the California Public Employees' Retirement System and the San Francisco Employees' Retirement System to provide pension benefits for employees.

Total governmental funds debt service is 7% of total governmental funds expenditures, and net direct debt is 41% of total governmental funds revenue (and slated to rise). The city's medium-term debt plans include the issuance of about \$349 million of GO bonds and \$255 million of COPs during the next two years, which would raise the net direct debt to roughly 48% of total governmental funds revenue. In addition, the city has \$250 million of CP authorization, \$67.2 million of which is outstanding.

### Strong institutional framework

We consider the Institutional Framework score for California cities as strong. See Institutional Framework score for California.

## Outlook

The stable outlook reflects our view of the city's very strong economy and strong budgetary flexibility, which is supported by very strong management conditions. We do not expect to revise the ratings within the next two years because we do not anticipate a significant improvement to the city's large retiree benefit obligation and we believe the city will maintain strong budgetary flexibility and very strong liquidity.

## Related Criteria And Research

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Financial Management Assessment, June 27, 2006
- Institutional Framework Overview: California Local Governments

### Ratings Detail (As Of October 8, 2013)

San Francisco City & Cnty certs of part (Moscone Ctr Imp)		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty certs of part (Multiple Capital Improvement Projs)		
<i>Long Term Rating</i>	AA/Stable	Upgraded

**Ratings Detail (As Of October 8, 2013) (cont.)**

San Francisco City & Cnty go imp proj ser 1995A		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
San Francisco City & Cnty rfdg certs of part		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty rfdg certs of part ser 2004 (San Francisco Courthouse Proj) (MBIA of Illinois)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
San Francisco City & Cnty rfdg certs of part (Moscone Center North Rfdg Proj)		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty rfdg certs of part (Moscone Center South Rfdg Proj)		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty COPs ser 2009A (Mult Cap Imp Projs)		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty COPs fed Taxable BABs - Direct Pymt (525 Golden Gate Ave - Sfpuc Office Proj) ser 2009D		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty COPs (Multiple Cap Imp Proj) ser 2009B		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty COPs (525 Golden Gate Ave - Sfpuc Office Proj) ser 2009C		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty GO bnds (Clean & Safe Neighborhood Parks Bonds, 2012) ser 2013A due 06/15/2033		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
San Francisco City & Cnty GO bnds (Earthquake Safety & Emergency Response, 2010) ser 2013B due 06/15/2033		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
<b>San Francisco City &amp; Cnty certs of part (City Office Bldgs - Multiple Prop Proj )</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
<b>San Francisco City &amp; Cnty certs of part (Juvenile Hall Replacement Proj) ser 2003</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
<b>San Francisco City &amp; Cnty certs of part (30 Van Ness Ave Prop) ser 2001A</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
<b>San Francisco City &amp; Cnty GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
<b>San Francisco City &amp; Cnty GO (MBIA of Illinois)</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
<b>San Francisco City &amp; Cnty Fin Corp, California</b>		
San Francisco City & Cnty, California		
San Francisco City & Cnty lse rev bnds (Equip Prog)		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty Fin Corp (San Francisco City & Cnty) lse rev bnds ser 2008A		
<i>Long Term Rating</i>	AA/Stable	Upgraded

<b>Ratings Detail (As Of October 8, 2013) (cont.)</b>		
San Francisco City & Cnty Fin Corp (San Francisco City & Cnty) lse rev bnds (Equip Prog)		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty Fin Corp (San Francisco City & Cnty) lse rev bnds (Equip Prog)		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty Fin Corp (San Francisco City & Cnty) lse rev bnds (San Francisco City & Cnty) (Equip Prog) ser 2010A due 04/01/2016		
<i>Long Term Rating</i>	AA/Stable	Upgraded
San Francisco City & Cnty Fin Corp (San Francisco City & Cnty) lse rev rfdg bnds (Moscone Ctr Exp Proj) ser 2008-1		
<i>Long Term Rating</i>	AAA/A-1	Affirmed
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
San Francisco City & Cnty Fin Corp (San Francisco City & Cnty) lse rev rfdg bnds (Moscone Ctr Exp Proj) ser 2008-2		
<i>Long Term Rating</i>	AAA/A-1+	Affirmed
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
San Francisco City & Cnty Fin Corp (San Francisco City & Cnty) lse rev rfdg bnds (911 Information-Comm System) ser 2010-R1		
<i>Long Term Rating</i>	AA/Stable	Upgraded
<b>San Francisco City &amp; Cnty Fin Corp lse (Citywide Emergency Radio System) ser 1998-I</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
<b>San Francisco City &amp; Cnty Fin Corp lse (Comb Emergency Communications Sys Equip) ser 1998</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
<b>San Francisco City &amp; Cnty Fin Corp lse (Open Space Fund - Var Pk Projs) ser 2006</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
<b>San Francisco City &amp; Cnty Fin Corp (San Francisco City &amp; Cnty) (Open Space Fund - Var Pk Projs) ser 2007</b>		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
<b>San Francisco City &amp; Cnty Redev Agy, California</b>		
San Francisco City & Cnty, California		
San Francisco City & Cnty RDA (San Francisco) lse rev bnds (George R.Moscone Conv Ctr) lse 1992		
<i>Long Term Rating</i>	AA/Stable	Upgraded

Many issues are enhanced by bond insurance.

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