

FITCH RATES CITY & COUNTY OF SAN FRANCISCO, CA'S \$382MM GOS 'AA+'; OUTLOOK STABLE

Fitch Ratings-San Francisco-25 April 2018: Fitch Ratings has assigned a 'AA+' rating to the following City and County of San Francisco, CA (the city) general obligations (GO) bonds:

- \$189.7 million GO bonds (earthquake safety and emergency response, 2014) series 2018C;
- \$142.3 million taxable GO bonds (affordable housing, 2015) series 2018D;
- \$50.1 million GO bonds (public health and safety, 2016), series 2018E.

Proceeds of series 2018C bonds will be used to make various improvements to improve fire, earthquake and emergency response. Proceeds of series 2018D bonds will be used to finance the construction, development, acquisition, and preservation of housing affordable to low- and middle-income households. Proceeds of series 2018E bonds will be used to protect public health and safety and improve community medical and mental health care services, earthquake safety, and emergency medical response.

The GOs are scheduled to sell competitively on May 8, 2018.

The Rating Outlook is Stable.

SECURITY

The GOs are payable from an unlimited ad valorem property tax pledge.

ANALYTICAL CONCLUSION

The city's 'AA+' Issuer Default Rating (IDR) and GO bond rating reflect its very strong revenue growth prospects and operating performance, partially offset by limitations in expenditure flexibility and independent revenue-raising ability. Strong budgetary and financial policies provide a foundation for maintaining ample reserves and financial flexibility throughout economic cycles.

Economic Resource Base

The city is the economic and cultural center of the nine-county San Francisco Bay area. Despite being essentially built out, the population continues to grow, as parts of the city, including former military bases and former industrial areas, are redeveloped with increased density. The city's economic profile benefits from good wealth levels; per capita personal income is almost twice the national average and market value per capita is over \$250,000. The city's largest private employers include Wells Fargo & Co., Salesforce, California Pacific Medical Center, PG&E Corp. and Gap, Inc.

KEY RATING DRIVERS

Revenue Framework: 'aa'

Very strong economic growth has been generating revenue growth well in excess of CPI and U.S. GDP. This strength is partially offset by the city's limited independent revenue-raising ability.

Expenditure Framework: 'aa'

Recent expenditure growth has lagged the unusually strong revenue growth. However, a relatively restrictive workforce framework, sharply rising retiree costs and a large proportion of baselines and set-asides limit spending flexibility in a downturn.

Long-Term Liability Burden: 'aa'

Long-term liabilities are moderate relative to the city's personal income. Based on the city's debt issuance plans, its amortization rate and the expected growth of personal income, Fitch expects the liability burden to remain in the moderate range.

Operating Performance: 'aaa'

The city's gap-closing ability is exceptionally strong, evidenced by robust reserve levels relative to low expected revenue volatility. Furthermore, the city has demonstrated its ability to curb expenditure growth through negotiated labor concessions when necessary. Charter- and ordinance-approved financial policies support maintenance of financial flexibility through economic cycles.

RATING SENSITIVITIES

Financial Flexibility: An unexpected shift in the city's financial flexibility, including a reversal of funding of rainy day reserves as well as inability to manage rising carrying costs could negatively pressure the rating. Positive rating action is limited by the city's lack of independent revenue-raising capacity, just adequate spending flexibility, and moderate liabilities.

CREDIT PROFILE

As the economic and cultural center of the San Francisco Bay area, the city benefits from high wealth levels, low unemployment, and strong economic growth. Taxable assessed valuation has increased approximately 57% since fiscal 2008. Technology employment has been especially strong in this economic expansion and now accounts for about 20% of payroll in the city. Recent job growth appears to be slowing, which may be more a result of the limitations of infrastructure and full employment than a sign of a slowing economy. The city's tourism sector has performed exceptionally well during the economic expansion, though hotel taxes have moderated recently. Property taxes and business taxes more than offset softness in budgeted hotel and real property transfer taxes.

The city's available fund balance (including rainy day funds) at the end of fiscal 2017 totaled \$1.9 billion. This was a 31% increase over fiscal 2016 available fund balance and equaled a very high 43% of fiscal 2017 spending. According to the city's six-month budget status report, reserve balances are expected to increase in fiscal 2018 by about \$42 million.

For further information on the city, please see Fitch's press release dated March 7, 2018, "Fitch Rates City & County of San Francisco, CA's \$253.7MM GOs 'AA+'; Outlook Stable", available at www.fitchratings.com.

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Date of Relevant Rating Committee: Mar. 6, 2018

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

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Additional information is available on www.fitchratings.com

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria -- Effective 5/31/2017 - 4/3/2018 (pub. 31 May 2017)

<https://www.fitchratings.com/site/re/898466>

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