

Rating Action: Moody's assigns Aaa to San Francisco, CA's GO Bonds Series 2018C, Series 2018D (Taxable), and Series 2018E

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New York, April 24, 2018 -- Moody's Investors Service has assigned a Aaa to the City and County of San Francisco, CA's \$189.7 million Tax-Exempt General Obligation (GO) Bonds (Earthquake Safety and Emergency Response Bonds, 2014), Series 2018C; \$142.3 million Taxable GO Bonds (Affordable Housing, 2015), Series 2018D; and \$50.1 million Tax-Exempt GO Bonds (Public Health and Safety, 2016), Series 2018E. The outlook remains stable.

RATINGS RATIONALE

The Aaa rating reflects the city's large and diverse tax base with strong long-term growth resulting from commercial and residential development, as well as an unusually strong socioeconomic profile, which has improved in tandem with the economy and tax base. The rating further reflects the city's very strong financial profile, which has greatly benefited from the economic expansion and is stronger than any point in the past decade. Long-term projections indicate that expenditure growth will outpace revenue growth, but this is mitigated by the city/county's demonstrated record of conservative budgeting and financial management practices; here in particular, the charter amendments governing pension and health care benefits and funding are critical tools that should enable San Francisco to maintain its currently very strong credit position. While the city net direct debt level is typical of a California city, an above-average portion of the debt is GO bonds, which is a positive. The city maintains a moderate combined pension, OPEB, and lease burden. The GO rating incorporates the strength of the voter-approved, unlimited property tax pledge securing the bonds and the well-established levy and collection history for the debt service payment.

RATING OUTLOOK

The outlook on the city's long-term ratings is stable. The outlook recognizes the city's large and diverse tax base, which is fundamentally sound, and the city's very strong financial position, which should remain stable given the financial policies implemented by city management.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Deterioration of the city's financial position
- Unanticipated and material weakening of the city's economy for a prolonged period of time
- Material increase in debt, pension or OPEB liabilities consistent with a lower rating level

LEGAL SECURITY

The GO bond offering is secured by a voter-approved, unlimited ad valorem property tax pledge of all taxable property within the city boundaries.

USE OF PROCEEDS

Proceeds of Series 2018C will be used to fund projects authorized by the voters who approved Proposition A (2014) to improve fire, earthquake and emergency response by improving and/or replacing deteriorating cisterns, pipes, and tunnels, and related facilities to ensure firefighters a reliable water supply for fires and disasters; improving and/or replacing neighborhood fire and police stations; replacing certain seismically-unsafe police and medical examiner facilities with earthquake-safe buildings.

Proceeds of Series 2018D will be used to fund projects authorized by the voters who approved Proposition A (2015) to finance the construction, development, acquisition, and preservation of housing affordable to low-

and middle-income households through programs that will prioritize vulnerable populations such as San Francisco's working families, veterans, seniors, disabled persons; to assist in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; to repair and reconstruct dilapidated public housing; to fund a middle-income rental program; and to provide for homeownership down payment assistance opportunities for educators and middle-income households

Proceeds of Series 2018E will be used to fund projects authorized by the voters who approved Proposition A (2016) to protect public health and safety, improve community medical and mental health care services, earthquake safety, and emergency medical response; to seismically improve, and modernize neighborhood fire stations and vital public health and homeless service sites; to construct a seismically safe and improved San Francisco Fire Department ambulance deployment facility; and to pay related costs.

PROFILE

The City and County of San Francisco is the economic, employment and cultural center of the San Francisco Bay Area and northern California. 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's population is an estimated 877,000 as of 2016.

San Francisco's city-county organization is unique in California, 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 32,000 employees and operates the San Francisco International Airport, San Francisco Municipal Transportation Agency, Port Commission, and Public Utilities Commission.

METHODOLOGY

The principal methodology used in these ratings was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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