FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Outlook on San Francisco, CA to Stable; Rates $192M GOs 'AAA'; Affirms Outstanding

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Fitch Ratings - San Francisco - 13 Jul 2026: Fitch Ratings has revised the Rating Outlook on the city and county of San Francisco, CA's Issuer Default Rating (IDR) and outstanding GO bonds to Stable from Negative.

Fitch has also assigned a 'AAA' rating to the following city and county of San Francisco, CA obligations:

--$185,615,000 tax-exempt general obligation (GO) bonds (Healthy, Safe, and Vibrant San Francisco 2024), series 2026 A-1;

--$6,500,000 GO bonds (Healthy, Safe, and Vibrant San Francisco 2024), series 2026 A-2.

The Rating Outlook on the new GO bonds is Stable.

The bonds are expected to be sold through competitive bidding the week of July 20.

In addition, Fitch has affirmed the city and county's IDR and outstanding GO bonds at 'AAA'.

RATING ACTIONS

ENTITY / DEBT	RATING TYPE	RATING	RATING ACTION	PRIOR

San Francisco (City & County) (CA) [General Government]	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Negative
San Francisco (City & County) (CA) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Negative

VIEW ADDITIONAL RATING DETAILS

The Outlook revision to Stable from Negative reflects San Francisco's shift in closing projected budget gaps through sizable ongoing expenditure cuts, along with growing recognition of its post-pandemic economic and fiscal environment and constraints. The 'AAA' IDR and GO bond rating reflect the city and county's superior financial resilience and strong demographic and economic trends.

The rating incorporates two Additional Analytical Factors:

--The city's high market value per capita coupled with voters' willingness to approve new taxes, providing additional revenue capacity;

--An additional positive one-notch Additional Analytical Factor recognizes the city as the powerhouse within the high-producing Bay Area economy.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Failure to implement available policy measures and continue progress in reducing the structural deficit, resulting in available reserves moving closer to or below 15% on a sustained basis;

--Changes in federal policy that lead to significant increases in deficits, resulting in reductions of reserves outside those already set aside by the city to address anticipated changes;

--The inability of the city's mass transit systems to secure new ongoing funding sources, shifting significant spending to the city that pressures the budget and/or causes sharp service cuts that threaten the city's economy;

--Weakened demographic and economic performance including, but not limited to, greater population loss, rising unemployment and lower resident income.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Positive rating factors are not applicable as 'AAA' is the highest possible rating.

SECURITY

The GO bonds are payable from unlimited ad valorem property tax revenue.

FITCH'S LOCAL GOVERNMENT RATING MODEL

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio. (The Model Implied Rating will be the Issuer Default Rating except in certain circumstances explained in the applicable criteria.) The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so forth down to 1.0 (BBB- and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

San Francisco Model Implied Rating: 'AAA' (Numerical Value: 11.49)

-- Metric Profile: 'AA+' (Numerical Value: 9.49)

-- Net Additional Analytical Factor Notching: +2.0

Individual Additional Analytical Notching Factors:

--Revenue Capacity: +1.0

--Economic and Institutional Strength: +1.0

San Francisco's Model Implied Rating is 'AAA'. The associated numerical value of 11.49 is at the upper end of the range for a 'AAA' rating.

KEY RATING DRIVERS

FINANCIAL PROFILE

Financial Resilience - 'aaa'

San Francisco's financial resilience is driven by the combination of its 'Midrange' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'Midrange' budgetary flexibility assessment.

-- Revenue control assessment: Midrange

-- Expenditure control assessment: Midrange

-- Budgetary flexibility assessment: Midrange

-- Minimum fund balance for current financial resilience assessment: >=15.0%

-- Current year fund balance to expenditure ratio: 38.5% (2025)

-- Lowest fund balance to expenditure ratio for the fiscal-year period 2021-2025: 37.9% (2024)

Revenue Volatility - 'Strongest'

San Francisco's weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 4.7% increase for the three-year period ending fiscal 2025

-- Median issuer decline: -3.6% (2025)

Financial Profile Additional Analytical Factors and Notching: +1.0 notch (for Revenue Capacity)

Fitch has removed the -1 notch Additional Analytical Factor for the city's previously large projected deficits in the absence of ongoing budget solutions. The city primarily relied on one-time measures as it analyzed the post-pandemic recovery trends, as well as potential effects on city finances. Budgets now indicate acceptance of the new normal evolving after the pandemic, with more reliance on ongoing budget solutions. The city began shifting toward more ongoing solutions throughout fiscal 2025 and fiscal 2026, with calls to reduce department budgets, implement hiring freezes, and reduce vacant positions.

The mayor's proposed fiscal 2027 and 2028 budget relies on available one-time resources, as well as shifts materially toward reducing ongoing expenditures through headcount and service adjustments. The city continues to sharply reduce projected deficits through strict budgetary management. Fitch expects the city will continue showing greater reliance on reducing the structural deficit through a combination of ongoing expenditure adjustments and better revenue performance. Should the reliance on one-time measures be sustained or increased, or projected deficits are realized, Fitch may reapply the negative notch and suggest negative rating pressure.

The city's exceptionally high market value per capita of $450,000 and strong record of voter-approved revenue initiatives underpin a greater capacity to tap into revenue-generating resources than suggested by the Metric Profile.

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Weak'

Based on the median of 10-year annual percentage change in population, San Francisco's population trend is assessed as 'Weak'.

Population trend: 0.4% 2024 median of 10-year annual percentage change in population (22nd percentile)

Unemployment, Educational Attainment and MHI Level - 'Strong'

The overall strength of San Francisco's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2025 are assessed as 'Strong' on a composite basis, performing at the 78th percentile of Fitch's local government rating portfolio. This is due to relatively very high education attainment levels and median-issuer indexed adjusted MHI, midrange unemployment rate.

-- Unemployment rate as a percentage of national rate: 95.3% 2025 (53rd percentile), relative to the national rate of 4.3%

-- Percent of population with a bachelor's degree or higher: 60.4% (2024) (95th percentile)

-- MHI as a percent of the portfolio median: 146.8% (2024) (87th percentile)

Economic Concentration and Population Size - 'Midrange'

San Francisco's population in 2024 was of sufficient size to qualify for Fitch's highest overall size category but this is offset by the somewhat concentrated economy.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 820,945 (2024) (above the 15th percentile)

-- Economic concentration: 60.0% (2025) (from 5th to 10th percentile)

Demographic and Economic Strength Additional Analytical Factors and Notching: +1.0 notch (for Economic and Institutional Strength)

A 1.0-notch uplift has been applied under the demographic and economic strength Additional Analytical Factor, reflecting Fitch's view of San Francisco's economic importance and resilience as the city center of the San Francisco-Oakland-Berkeley, CA, metropolitan statistical area (MSA). The MSA plays a vital role in the national economy, accounting for 3.3% of the U.S. GDP in 2023, according to BEA data. San Francisco is also one of several predominant employment centers within the state and home to numerous institutional anchors.

Analyst Inputs to the Model

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts or nonrecurring events that may otherwise skew the time series.

The analyst input for the economic concentration metric reflects the use of the median for all counties statewide for several economic sectors where personal income data are not reported.

LONG-TERM LIABILITY BURDEN

Long-Term Liability Burden - 'Midrange'

San Francisco's carrying costs to governmental expenditures has deteriorated while liabilities to personal income remain moderately weak and liabilities to governmental revenue remain moderately strong. The long-term liability composite metric in 2025 is at the 51st percentile, roughly in line with Fitch's local government rating portfolio.

-- Liabilities to personal income: 7.8% Analyst Input (31st percentile)

-- Liabilities to governmental revenue: 117.0% Analyst Input (78th percentile) (vs. 116.8% 2025 Actual)

-- Carrying costs to governmental expenditures: 14.4% Analyst Input (53rd percentile) (vs. 14.3% 2025 Actual)

The city's fiscal 2025 audited direct debt has been adjusted to reflect debt issued since the fiscal 2025 audit, including three series of COPs issued in November 2025, two GO bond series issued in October and November 2025, and the current GO bond issuance. Direct debt was also reduced by scheduled amortization of outstanding principal through fiscal 2026. Personal income uses 2024 data due to 2025 data being unavailable at this time. Direct debt service was adjusted to include the steady levels of the new bond issuances. Total governmental expenditures were adjusted to approximate the additional level of debt service.

PROFILE

San Francisco benefits from a strong economic resource base with information technology being the largest sector. The Greater Bay Area also has large healthcare, biotechnology, higher education, retail, professional services, finance, tourism, and governmental sectors.

Sources of Information

In addition to sources of information identified in Fitch's applicable criteria specified below, this action was informed by data from DIVER by Solve.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

CLIMATE VULNERABILITY SIGNALS

The results of our Climate.VS screener did not indicate an elevated risk for San Francisco (City & County) (CA) [General Government].

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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APPLICABLE CRITERIA

U.S. Public Finance Local Government Rating Criteria (pub. 01 May 2026) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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San Francisco (City & County) (CA)	EU Endorsed, UK Endorsed

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