CREDIT OPINION
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City & County of San Francisco, CA

Update to credit analysis

Summary

The City & County of San Francisco, CA (Aa1 stable) benefits from its robust financial position, characterized by strong reserves, conservative budgeting practices, and diverse revenue sources, which we expect will support stable operating performance despite ongoing budgetary pressures. While assessed value growth will continue to be hampered by successful valuation appeals on commercial real estate, the financial impact on the city will be mitigated by annual reserves for anticipated refunds, lower revenue assumptions in future budgets, and a declining appeals backlog.

Although the city faces projected structural deficits and plans to use reserves in its biennial budget, management's history of prudent fiscal planning and scenario analysis is expected to sustain reserve levels consistent with the Aa1 rating in the near term. While the city benefits from its very large and affluent tax base, the economic recovery is slower than in other parts of the region. Leverage remains manageable given that most debt is self-supporting enterprise debt and fixed costs are expected to remain affordable.

Credit strengths

» Currently robust financial position supported by conservative budget management and strong financial policies and practices

» Large tax base coupled with very strong resident wealth and incomes

Credit challenges

» Weakened post-pandemic economy, particularly in the city's central business district, weighing on major tax revenues

» Projected decline in reserves over the city's forecast period

» Rising income inequality amidst a high cost of living

» Somewhat-elevated leverage, though largely attributed to the airport, water and sewer enterprises

Rating outlook

The stable outlook reflects our expectation that the city will continue making necessary expenditure cuts and outperform conservative budget projections to materially reduce the structural gap between its revenues and expenditures. Governmental fund reserves and strong financial policies provide flexibility to maintain a financial position consistent with the current rating level. Management has identified potential risks to federal and state funding, as well as the potential reversal of the economic recovery underway, and has a track record of making adjustments when needed.

Factors that could lead to an upgrade

- Greater certainty regarding long-term economic recovery or reinvention
- Meaningful financial outperformance relative to expectations
- Reduction of long-term liabilities or fixed cost burdens

Factors that could lead to a downgrade

- Meaningful fund balance and reserve draw downs consistent with forecast
- Inability to develop long-term solutions for the city's most pressing economic challenges
- Material growth to long-term liabilities

Key indicators

Exhibit 1
San Francisco (City & County of) CA

	2022	2023	2024	2025	Aa Medians
Economy					
Resident income ratio (%)	154.1%	153.2%	151.0%	N/A	114.1%
Full Value ($000)	$307,712,666	$331,431,694	$346,366,619	$348,713,889	$3,130,196
Population	851,036	836,321	830,235	N/A	22,330
Full value per capita ($)	$361,574	$396,297	$417,191	N/A	$140,110
Annual Growth in Real GDP	-2.3%	2.8%	3.4%	N/A	1.9%
Financial Performance					
Revenue ($000)	$13,159,446	$13,865,184	$15,068,127	$15,720,311	$57,424
Available fund balance ($000)	$6,044,482	$6,059,086	$6,340,644	$6,846,010	$31,108
Net unrestricted cash ($000)	$11,583,701	$11,665,090	$11,591,382	$12,980,448	$43,921
Available fund balance ratio (%)	45.9%	43.7%	42.1%	43.5%	56.8%
Liquidity ratio (%)	88.0%	84.1%	76.9%	82.6%	80.3%
Leverage					
Debt ($000)	$23,617,558	$24,657,438	$25,875,172	$28,486,270	$38,979
Adjusted net pension liabilities ($000)	$22,802,010	$17,237,535	$15,970,291	$14,185,319	$36,275
Adjusted net OPEB liabilities ($000)	$7,001,861	$5,468,360	$5,434,172	$5,136,087	$3,698
Other long-term liabilities ($000)	$1,496,278	$1,604,773	$1,672,935	$2,097,041	$1,773
Long-term liabilities ratio (%)	417.3%	353.2%	324.9%	317.5%	175.0%
Fixed costs					
Implied debt service ($000)	$1,549,682	$1,649,446	$1,712,845	$1,790,803	$2,605
Pension tread water contribution ($000)	$194,619	$614,025	$720,175	N/A	$1,547
OPEB contributions ($000)	$252,146	$259,969	$278,894	$301,173	$167
Implied cost of other long-term liabilities ($000)	$96,080	$104,500	$111,477	$115,783	$122
Fixed-costs ratio (%)	15.9%	19.0%	18.7%	18.6%	9.6%

For definitions of the metrics in the table above please refer to the US Cities and Counties Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published US Cities and Counties Median Report.
The real GDP annual growth metric cited above is for the San Francisco-Oakland-Berkeley, CA Metropolitan Statistical Area.
Sources: US Census Bureau, San Francisco (City & County of) CA's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The City & County of San Francisco is the economic, employment and cultural center of the San Francisco Bay Area and Northern California. With about 831,000 residents, the city encompasses over 93 square miles, of which 49 square miles are land and the balance comprising tidelands and a portion of San Francisco Bay. Its combined city-county organization is unique in California, with governance by a board of supervisors elected from eleven districts and a mayor elected citywide who serves as chief executive officer.

Detailed credit considerations

Economy is recovering slowly though city continues to benefit from significant resident wealth and incomes

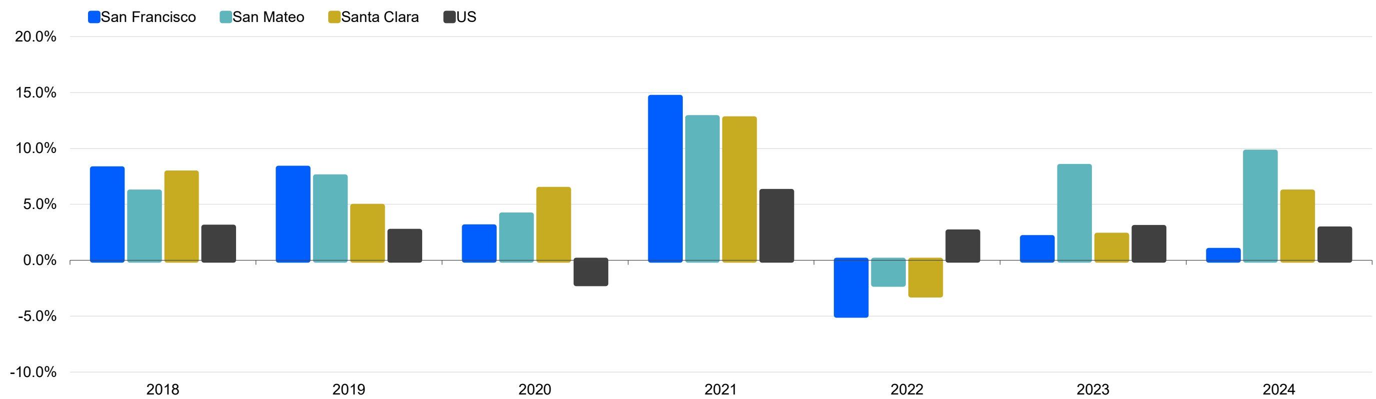
San Francisco will continue its slow economic recovery, driven by shifts in employment, commuting, retail behavior, and commercial real estate use. While the city is home to multiple AI firms, growth in this booming sector is yet to be evident in available economic data for the city, which will produce productivity gains but will have a more muted effect on the city's employment, office occupancies or retail activity. Office-based industries had generated over 70% of the county's GDP prior to the pandemic, but the shift to hybrid and remote work and the relocation of firms outside of San Francisco is evident in the city lagging in GDP growth behind other tech-dominated Bay Area counties and in the stagnation of the city's tax base.

For 2024, San Francisco outpaced the US in real GDP growth by 0.5% over five years. In contrast, San Mateo County and Santa Clara County outpaced the US by 4.0% and 2.3%, respectively.

Exhibit 2

San Francisco's economic growth remains positive but now lags behind Silicon Valley

Real GDP annual growth, 2018-2024



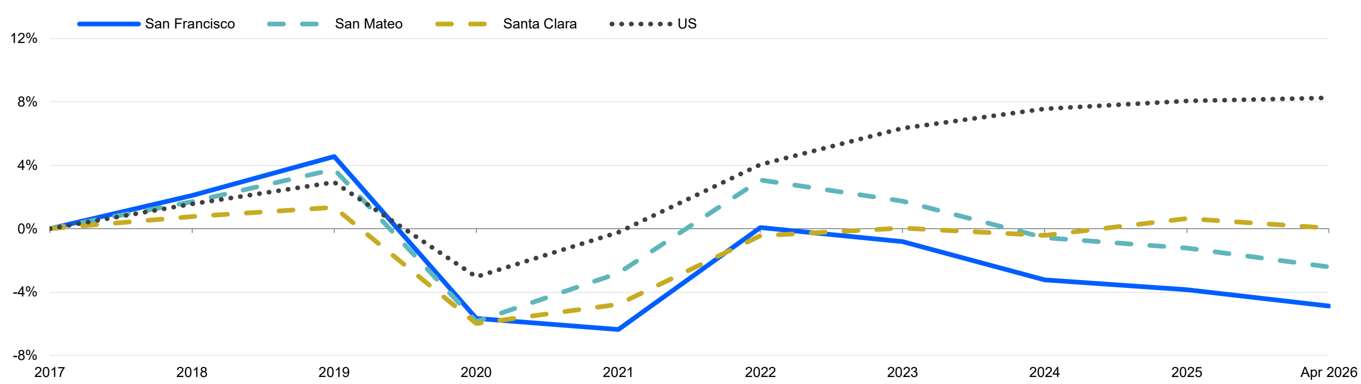
Source: US Bureau of Economic Analysis, Moody's Ratings

As recently as 2023, San Francisco had the highest GDP per job in the Bay Area at $463,000, a significant strength. However, with San Francisco leading the region in net job losses, San Mateo County's greater GDP gains have earned it the higher productivity metric in 2024 at $491,000 per job.

Exhibit 3

San Francisco is leading the region in net job losses since 2023

Cumulative percentage change in employment by county, annual average 2018-2025 and monthly unadjusted April 2026



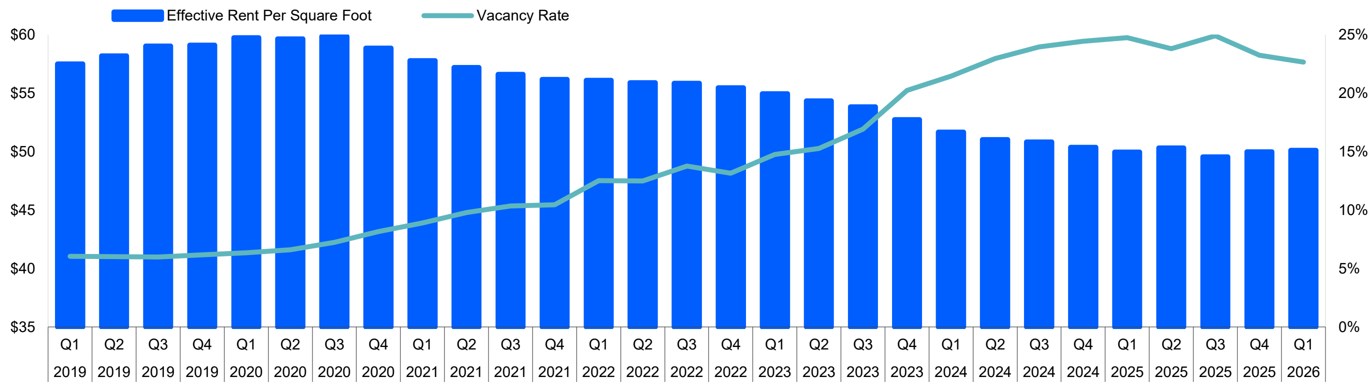
Source: California Employment Development Department, US Bureau of Labor Statistics

San Francisco is likely to see improved GDP growth in 2025 and 2026, though improvements in commercial real estate were muted in 2025, which will continue going forward. In third quarter of 2025, the city's office vacancy rate peaked at 24.9% and per square foot effective rates bottomed out at $49.56. Rents and vacancy rates for office space will improve, but are unlikely to return to pre-pandemic levels in the next decade.

Exhibit 4

Commercial real estate metrics are poised for improvement in 2026 and beyond

San Francisco office vacancy rates and effective rents, Q1 2019 to Q1 2026



Source: Moody's CRE

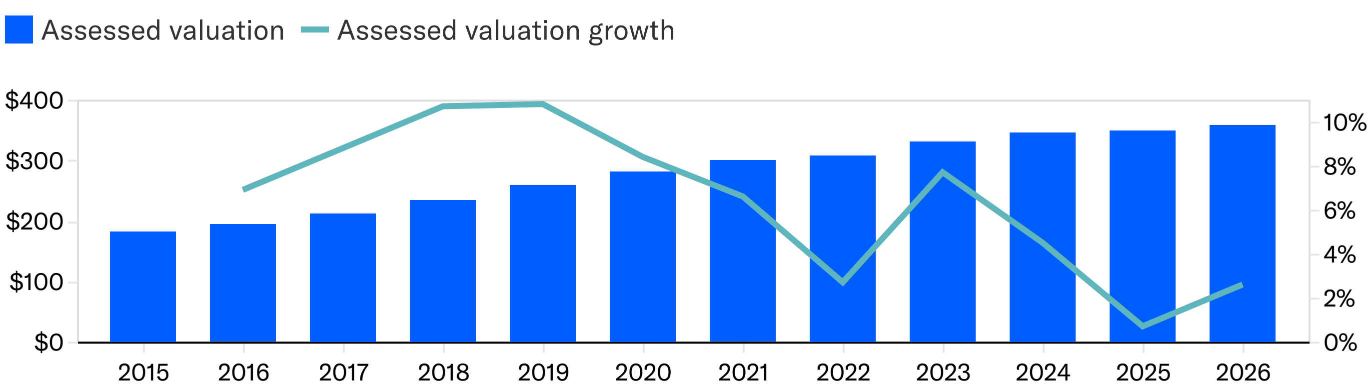
The city also benefits from strong resident incomes, which were 151.0% of the US in 2024. As of April 2026, the unemployment rate in San Francisco was 3.5%, lower than the state at 5.3% and the US at 4.2%. However, total employment in the city remains below pre-pandemic levels, with the greatest job losses in leisure, hospitality and retail.

The city's large tax base has marked positive growth for over two decades, mainly due to the residential real estate market, which makes up about two-thirds of the total tax base. As of fiscal 2026, the city's total assessed value (AV) was $357.8 billion, with a per capita AV of $431,000.

Exhibit 5

Commercial real estate valuation declines are reflected in stagnating total assessed valuation

Valuations as of January 1 are used for the tax roll starting July 1 each year



Source: City & County of San Francisco, Moody's Ratings

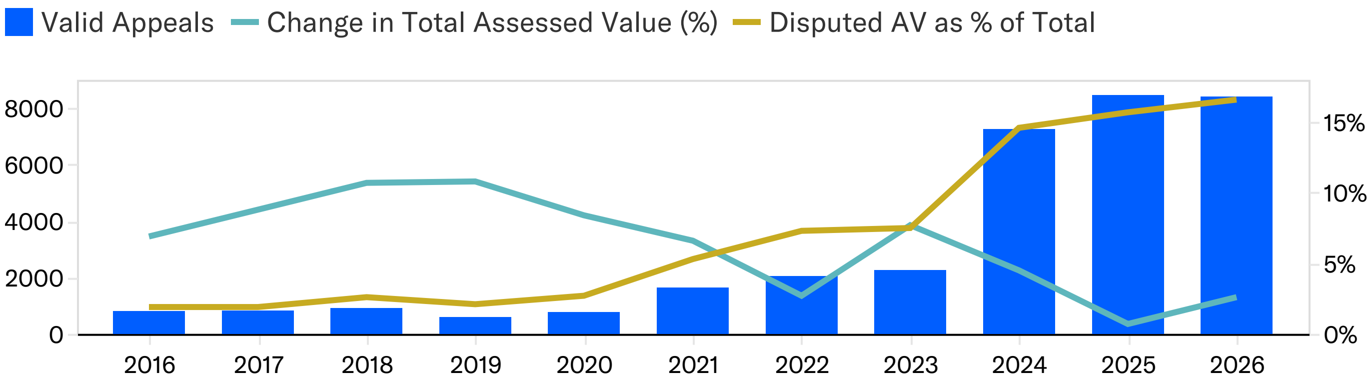
While the valuation metrics for the city's office sector are improving in 2026, as discussed above, these improvements are unlikely to be reflected in the city's total AV until fiscal 2028 or 2029. Proposition 13 has prevented a sharp market decline from affecting AV because many commercial properties were already assessed below market value. However, a significant amount of office space is located in newer properties developed just before the pandemic that have nearly equal market and assessed values, which made them less protected from decline and more susceptible to valuation appeals by their owners.

Since fiscal 2021, the city has had record highs for the number and disputed amount of valuation appeals. Management reports that successful appeals are resulting in 20% to 30% reductions in value affecting multiple tax years. Because it takes as long as three years for the city to resolve complex valuation appeals, there are likely to be AV adjustments for several years and therefore stagnant growth in the overall tax base. Positively, the city prudently has been increasing its set aside of property tax receipts for potential refunds totaling $406 million for the next two fiscal years, an uncommon practice among California counties.

Exhibit 6

Assessed value appeals correspond to the very slow tax base growth, but likely have peaked

Assessed value growth and appeal data, fiscal 2016-2026



Source: City & County of San Francisco, Urbics LLC

Finances benefit from growing enterprise revenues with slower growth in tax revenues

The city's economically sensitive tax revenue streams improved in fiscal 2026, though their growth rates will remain slow.

Exhibit 7

Economically sensitive general fund revenues began recovering in fiscal 2026, next two years are budgeted conservatively

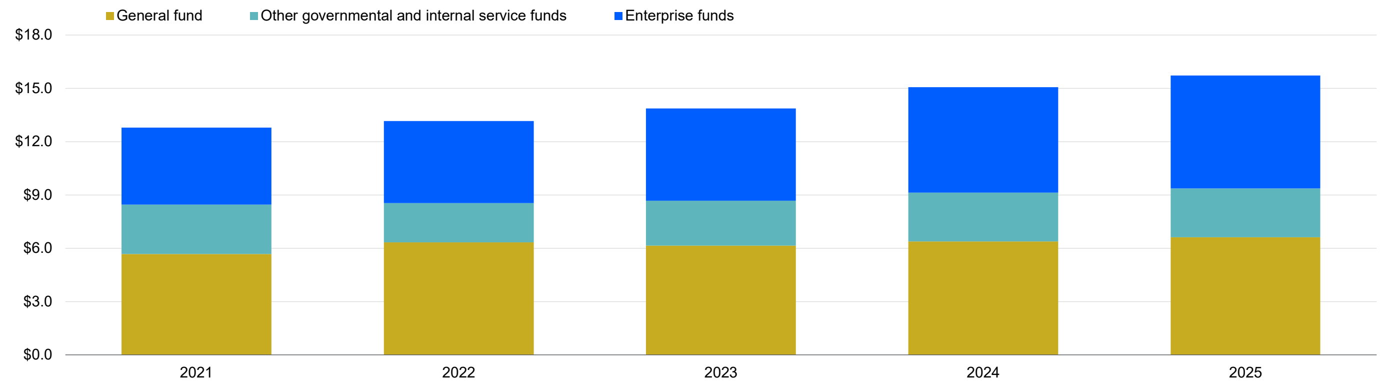
Selected general fund revenues ($ billion), fiscal 2024-2028

	2024 Actual	2025 Actual	2026 Estimate	2027 Budget	2028 Budget
Property taxes	$2.5	$2.5	$2.4	$2.4	$2.4
Business taxes	$1.0	$1.1	$1.3	$1.6	$1.5
Hotel tax	$0.3	$0.3	$0.3	$0.3	$0.3
Real property transfer tax	$0.2	$0.3	$0.4	$0.4	$0.4
Sales and use tax	$0.2	$0.2	$0.2	$0.2	$0.2
Utility users tax	$0.1	$0.1	$0.1	$0.1	$0.1
Other revenues	$2.1	$2.1	$1.8	$2.1	$2.2

Source: City & County of San Francisco

Given the slow growth since the pandemic in taxes and other governmental revenues, the city's business-type activities are becoming a greater portion of primary government revenues in recent years. While the city is legally restricted from using certain enterprise revenues for governmental purposes, the city's enterprises are largely operated at full cost recovery, which reduces the burden on the city's general fund.

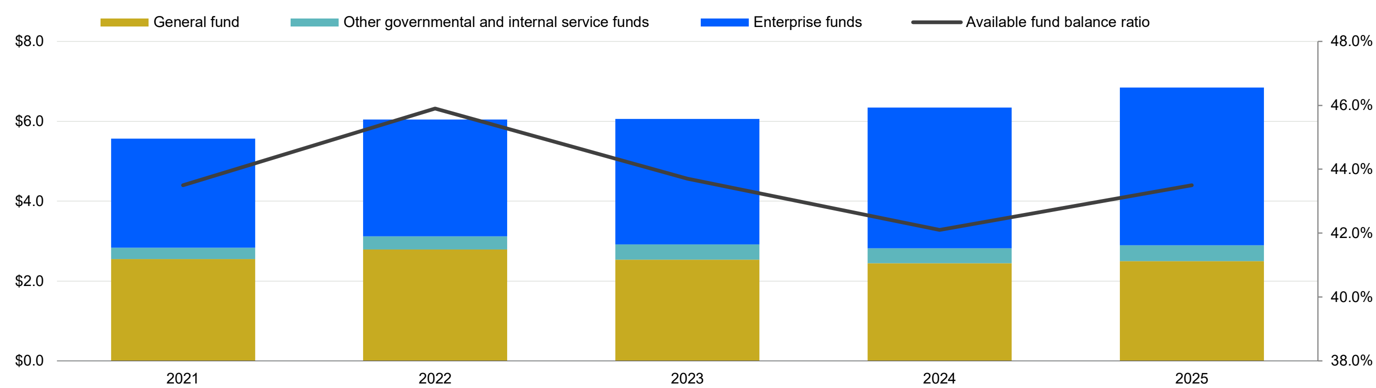
Exhibit 8
Cost-recovery enterprise revenues growing more rapidly than governmental revenues
Revenues by fund type ($ billion), 2021-2025



Source: Audited financial statements

Despite slow revenue growth, the city's financial profile remains robust due to strong fiscal management. Viewed in isolation, the general fund available balance ratio was 37.8% of revenue, which is a low point for recent years but still consistent with the rating level. The city's proposed budget projects general fund shortfalls of $160.1 million in 2027 and $536.1 million in 2028, reducing the general fund balance to roughly 28% of revenues over the two-year budget. However, the city has a history of outperforming budget projections, including fiscal 2025, where the city budgeted a draw on reserves but instead had a small surplus.

Exhibit 9
Governmental fund balances relatively stable but enterprise fund net current assets rising
Available fund balances and net current assets



Source: Audited financial statements

Fiscal 2025 operations were overall balanced across governmental and enterprise funds. The city ended the year with $2.9 billion in available governmental fund balance, a nominal increase, or 30.9% of revenue which was the same as the prior year as a percentage of revenue. Based on combined governmental and proprietary funds, the city increased its available fund balance and unrestricted net asset position to $6.8 billion, representing 43.5% of revenue, an improvement from the prior year. Additionally, the city benefits from $3.7 billion in restricted fund balance held in other governmental funds, legally restricted to voter-approved initiatives.

San Francisco operates several large enterprises, including the Municipal Transportation Agency (Muni), General Hospital Medical Center (SF General), and Laguna Honda Hospital, which receive charter-mandated general fund support due to operating deficits. These transfers are routine and manageable relative to the city's overall budget, but operational challenges could increase credit pressure if support needs to grow. The city also maintains business-type activity funds for water, wastewater, power, and airport systems, which have sound cash positions and do not receive routine transfers.

Liquidity

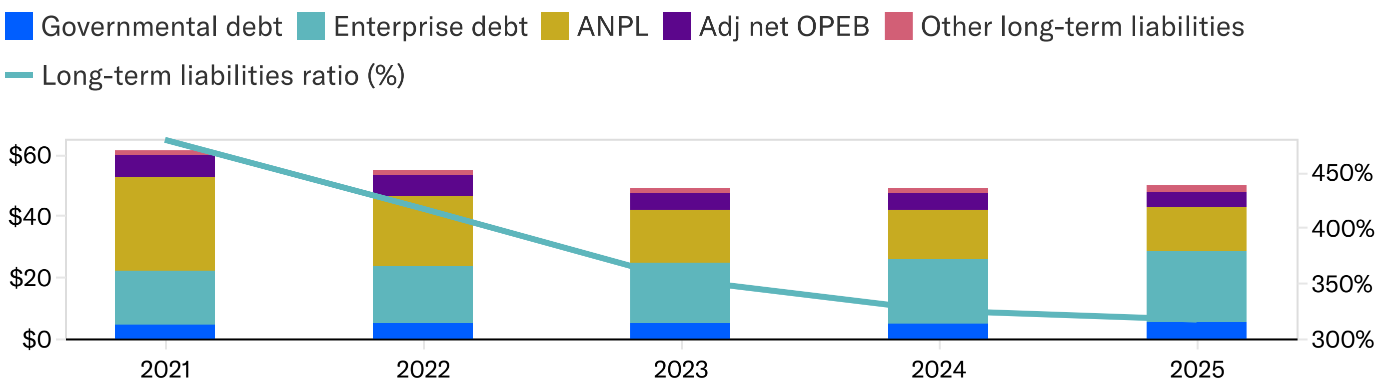
The city maintains very strong liquidity, with unrestricted cash in governmental funds and business-type activity funds of $9.0 billion and $4.0 billion, respectively, for fiscal 2025. These equated to 82.6% of primary government total revenues.

Leverage will remain above-average but manageable

San Francisco's leverage will remain above average for the next several years as the city continues to invest in infrastructure across its general government and enterprise systems. At fiscal year end 2025, debt totaled $28.5 billion, about 81% of which is fully self-supported by enterprise funds. The long-term liabilities ratio was 317.5% of revenue, with about 64% of leverage attributed to its enterprise funds. The city's fixed costs ratio will remain manageable at 14.0% of revenue.

Exhibit 10

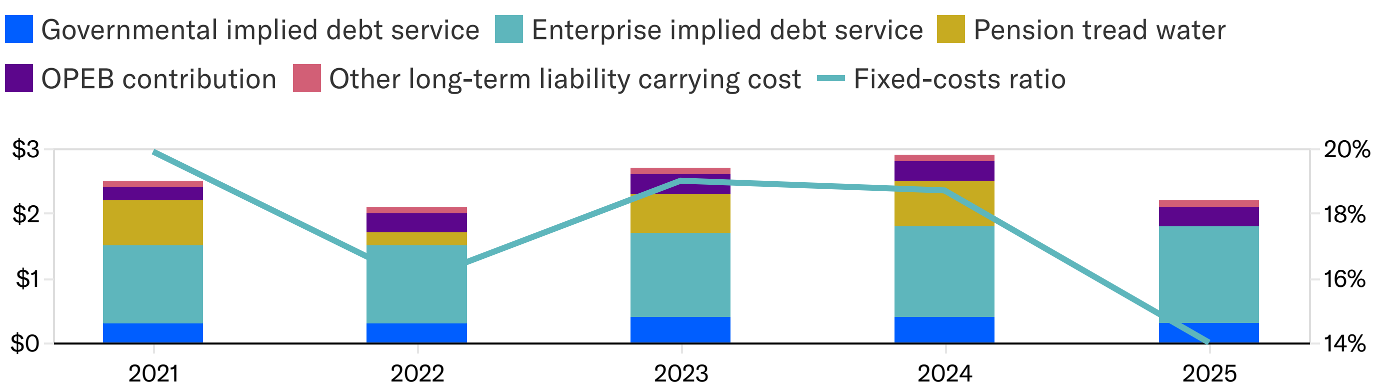
Long-term liabilities are declining and largely attributable to full cost-recovery enterprises
Debt, pensions, OPEB and other liabilities ($ billion), fiscal 2021-2025



Source: Audited financial statements, Moody's Ratings

Exhibit 11

Fixed costs are moderating and largely paid from cost-recovery enterprise revenues
Fixed costs ($ billion) fiscal 2021-2025



Source: Audited financial statements, Moody's Ratings

Pensions and OPEB

The vast majority of employees participate in the San Francisco Employee Retirement System (SFERS), a multi-employer cost sharing plan administered by the city on behalf of itself and other agencies. A small number of city employees participate in the California Public Employee Retirement System (CalPERS).

Compared to other California cities and counties, particularly those participating in CalPERS, San Francisco's pension liability is below average. This is because of voter-approved changes to the city's pension and funding formulas in a series of ballot measures in 2008, 2011 and 2013.

The city's reported net liability for retiree healthcare (OPEB) is substantial. However, voter-approved changes to the city's OPEB plan have slowed the growth in the liability by creating a much lower cost tier of benefits for employees hired after January 2009. These changes to OPEB benefits have resulted in a significant decline in the annual contributions as a percentage of payroll. The voter-approved charter amendments also mandated increased funding of an OPEB trust by both the city and employees. The city's OPEB cost as a percentage of payroll will begin declining in 2029 and the actuarial liability will be fully funded by 2043. Codification in the city's charter of this plan to control OPEB costs and the unfunded liability is unusual among municipalities and a credit positive.

San Francisco Port Commission

The Port Commission (Aa3 stable) benefits from markedly strengthened revenue, which has fully rebounded since the pandemic, given improvement to rents and parking revenue, the resumption of cruise business and significant increase in commercial rent from the master lease of Pier 70. Net revenue reached its highest point ever in fiscal 2025, bringing debt service coverage to 17.9 times, well above pre-pandemic levels. (This coverage includes revenue and debt from the community facilities districts formed by the commission and incorporated into financial statements.)

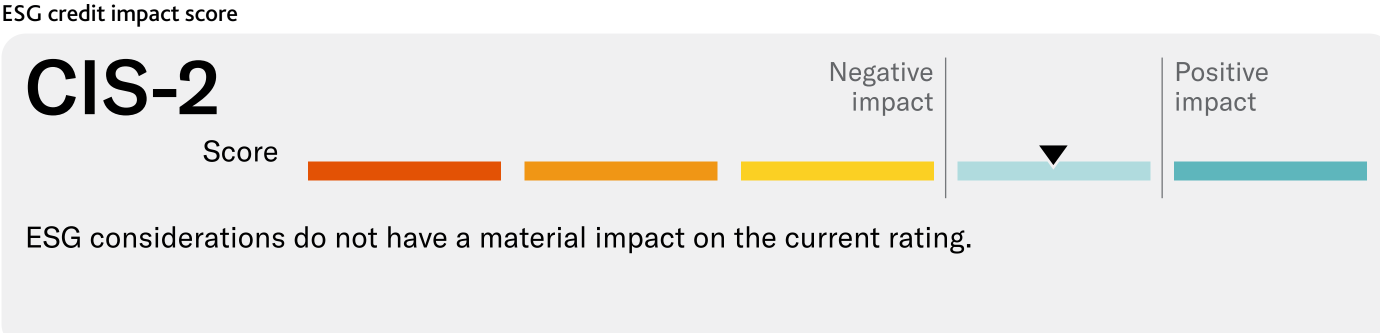
Market position is strong given prime waterfront commercial destination, which has attracted new development on the south waterfront. Revenue sources are relatively diverse and stable, primarily from waterfront properties developed for commercial, recreation and entertainment uses, as well as select maritime purposes. The port's real estate portfolio benefits from relatively low vacancy rates with only a limited office space component.

The port maintains strong liquidity building cash on hand to over 1,800 days, although this likely includes general obligation bond proceeds from the city's 2023 issuance, which are restricted for use on the seawall project being managed by the commission.

ESG considerations

San Francisco (City & County of) CA's ESG credit impact score is CIS-2

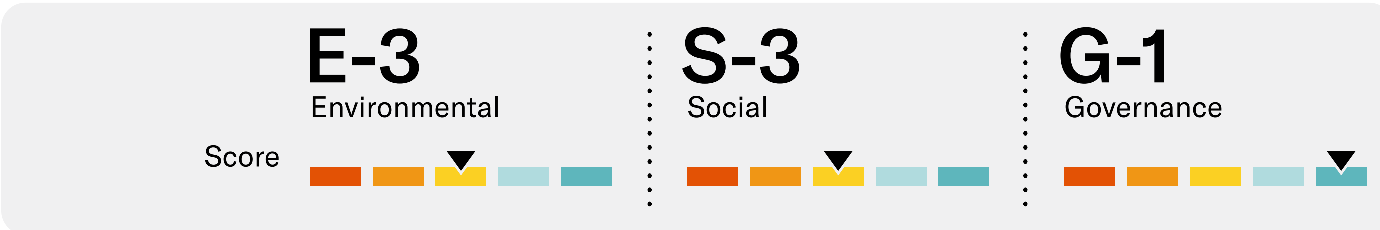
Exhibit 12
ESG credit impact score



Source: Moody's Ratings

The City & County of San Francisco's **CIS-2** indicates that ESG factors have low impact on the credit score, reflecting above average exposure to both environmental and social risks counterbalanced by very strong governance.

Exhibit 13
ESG issuer profile scores



Source: Moody's Ratings

Environmental

San Francisco's primary environmental risk is elevated exposure to sea level rise, for which the city is actively planning and implementing seawall improvements to mitigate this costly, long-range challenge. Left unaddressed, sea level rise would become material to the city's credit profile. The city, like most communities in California, has risk associated with water availability given its own limited watershed and regular cycles of drought across the state. Largely mitigating this risk is the city's proactive water management planning and strong levels of stored water. Positively, the city benefits from its desirable location on the California coast.

Social

San Francisco has elevated exposure to the lingering effects of the coronavirus pandemic, which have taken the form of a shift in employment patterns, property values and GDP. While the city benefits from a highly educated population, which supports strong resident wealth measures and economic competitiveness and growth, income inequality is among the highest in the nation, which has been a driver of the city's prioritization of affordable housing and programs to address homelessness. The city has demonstrated the ability to raise discretionary revenue for social programs, as evident from the recent voter authorization of specific business tax measures to fund homeless programs and a bond measure for affordable housing. While the city’s population has resumed slow growth after a considerable decline in the pandemic, it is hampered by a high cost of living and housing. Health and safety metrics collectively show low risk to the city. While San Francisco residents have higher than average life expectancy and the city has lower than average violent crime, San Francisco does have a high property crime rate, which somewhat offsets other positive factors.

Governance

San Francisco's very strong governance profile supports its rating. The city's charter provides a strong institutional structure, including policies for multiple budgetary reserves and changes to funding for the city's retirement systems, which have allowed the city to build its financial flexibility and effectively implement policies and programs. The city's budget management is very strong, particularly in its revenue forecasting.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard that summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 14
San Francisco (City & County of) CA

	Measure	Weight	Score
Economy			
Resident income ratio	151.0%	10.0%	Aaa
Full value per capita	431,014	10.0%	Aaa
Economic growth metric	0.5%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	43.5%	20.0%	Aaa
Liquidity ratio	82.6%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	317.5%	20.0%	A
Fixed-costs ratio	18.6%	10.0%	A
Notching factors			
Additional Strength in Local Resources	0.5		
Scorecard-Indicated Outcome			Aa1
Assigned Rating			**Aa1**

The Economic Growth metric cited above compares the five-year CAGR of real GDP for San Francisco-Oakland-Berkeley, CA Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.
Sources: US Census Bureau, San Francisco (City & County of) CA's financial statements and Moody's Ratings

Appendix

Exhibit 15

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the US Cities and Counties Methodology .

Source: Moody's Ratings

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