Research Update:

City And County Of San Francisco, CA Series 2026B/C/D/E/F GO Bonds Assigned 'AA+' Rating; Outlook Is Negative

October 6, 2026

Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the City and County of San Francisco, California's (the city) anticipated $83.475 million series 2026B general obligation (GO) bonds (Health and Recovery, 2020), $134.895 million series 2026C GO bonds (Earthquake Safety and Emergency Response, 2020), $107.54 million series 2026D taxable GO bonds (Social Bonds – Affordable Housing, 2019), $45.255 million series 2026E taxable GO bonds (Social Bonds – Affordable Housing, 2024), and $47.465 million series 2026F taxable GO bonds (Social Bonds – Affordable Housing, 2016 – Preservation and Seismic Safety).
- The outlook is negative.

Primary Contact

Li Yang
San Francisco
1-415-371-5024
li.yang
@spglobal.com

Secondary Contact

Sarah Sullivant
Austin
+ 1 (415) 371 5051
sarah.sullivant
@spglobal.com

Rationale

Security

Revenue from unlimited ad valorem taxes levied on all taxable property within the city, without limitation as to rate or amount, secures the new and GO bonds outstanding. Bond proceeds will be used to fund projects that were approved by voters for the bonds' respective propositions, including earthquake and seismic safety projects and affordable housing projects.

Credit highlights

The rating reflects a recovering local economy that has gained momentum in recent months, driven in part by the artificial intelligence (AI) investment boom, which has spurred rising home prices, increased foot traffic and transit usage, and new office leases that contribute to reducing office vacancy rates. The rating also accounts for management's recent efforts to address structural imbalances through widespread departmental spending cuts, as reflected in the adopted two-year budget, as well as the continued growth of the primary general fund revenue streams.

Office metrics are trending positively, with vacancy rates declining to 32% from 32.6% in second-quarter 2026. This marks the fourth consecutive quarterly decrease, driven primarily by robust

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office space demand from AI firms. However, despite this momentum, vacancy rates remain among the highest for major U.S. metropolitan areas. Retail and broader economic activities have trended upward in recent years, bolstered by large-scale events such as conventions, music festivals, and the FIFA World Cup. The AI sector—anchored by major companies headquartered in the city such as Anthropic and OpenAI—is expected to be a primary driver of future growth, potentially contributing further to housing demand, property values, and business tax revenues.

The city's adopted two-year budget for fiscal years 2027–2028 aims to reduce general fund expenditures by approximately $300 million through measures such as staffing reductions implemented toward the end of fiscal 2026, increasing operational efficiency without reducing city services, and the elimination of more positions through attrition in fiscal 2027. The $300 million in savings also assumes $81.5 million of reductions in salaries and benefits in fiscal 2028, although specific cuts have not yet been identified. Filled positions were eliminated during the latter half of fiscal 2026 and in the two-year budget, the first time that this has occurred under the current administration. The elimination of filled positions—rather than just vacant ones—represents a more meaningful and sustainable approach to fiscal management, in our view.

The city recently reached a tentative labor agreement with a majority of its labor unions, providing a 12% wage increase spread over a four-fiscal-year period (fiscal year 2027-28 through fiscal year 2030-31) with a guarantee of no layoffs for certain employees through fiscal 2029. Managements expects that these agreements, if ratified by the union and approved by the board of supervisors, would enhance operational stability by mitigating the risk of labor unrest and service disruptions. While the agreement includes a no-layoff guarantee for certain employees that, in our view, reduces the city's short-term structural flexibility, the phased implementation of wage increases allows for more predictable budgetary planning. Overall, we believe the long-term impact on the city's structural balance will depend on the continued strength of revenue streams to offset the increased fixed personnel costs.

The adopted two-year budget relies on the successful passage of two key tax measures in November 2026: Proposition H ('Stronger Muni for All'), a parcel tax projected to generate $166 million annually for transit, and Proposition RTM, a regional sales tax expected to contribute an additional $155 million annually. Failure to pass these measures would likely result in general fund subsidies for transit, increasing budgetary pressure. Furthermore, other pending ballot measures present potential shifts in the city's financial profile. Proposition I would reduce general fund revenues by $1 million and reallocate $120 million of existing revenue to a special fund for affordable housing, potentially exacerbating the current structural imbalance. Conversely, Proposition J, which proposes eliminating the foreclosure exemption for real property transfer taxes, could generate an estimated $100 million to $150 million in annual revenue if passed. We note that the passage of Proposition I and Proposition J is not assumed in the two-year budget.

City management has budgeted to set aside funds in a special reserve fund (State and Federal Emergency Reserve) to cover the projected loss in federal funding that is primarily used to fund Medi-Cal and CalFresh programs that the city maintains. We understand the city intends to continue funding the majority of these programs, absent federal funding, with its own funds for the time being. However, the city also notes that funding these programs without federal support is not sustainable in the long run, and future program reductions may be necessary. While we expect reserves will likely be used to a certain extent, we believe the city will continue to maintain very robust reserves during the next two years.

Projected fiscal 2026 figures indicate stronger-than-expected performance across several key revenue streams. Most significantly, business tax revenues are projected to exceed budget by $202 million (18%), while property tax revenues are expected to outperform budget by $27 million.

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Driven by robust commercial real estate activity, real property transfer taxes are projected to surpass budget by $108.7 million, or 41%. In addition, sales and hotel taxes are anticipated to exceed budgeted figures by $34.3 million. The budget for fiscal 2027 is predicated on this continued growth, specifically accounting for business tax revenues that are budgeted 38% higher than previous fiscal 2026 assumptions. While strong growth in business taxes has supported a faster-than-expected fiscal recovery, the city's heavy concentration in the technology sector exposes it to significant revenue volatility. The general fund five-year forecast in the city's May 2026 nine-month report reflected a two-year budget deficit of $606.9 million for fiscal years 2027 and 2028, an improvement from the $642.8 million two-year deficit from the March 2026 joint report. This improvement is primarily driven by better-than-expected revenue performance and slower hiring and spending. With the cuts included in the two-year adopted budget, this gap would fall even further, which we would view as evidence of strong fiscal management.

Overall, we believe the city still has a very strong financial position that is bolstered by the recent general fund surplus reported in fiscal 2025, including its maintenance of general fund reserves of approximately $2.62 billion, or about 39.5% of general fund revenues. We believe these sizable reserves will continue to temporarily cushion the city's overall credit profile against the forecast deficits in the near term, as well as potential volatility in business taxes. We also expect the city will continue to take further actions to address the projected budget gap to avoid a substantial weakening of existing reserves in the medium term.

The rating further reflects our view of the city's:

- Per capita gross county product and local incomes that are stronger than the national average, coupled with resilient residential real estate demand that supports very high home prices. However, we believe the local economy, particularly the downtown corridor continues to see a slow recovery, coupled with high office vacancy rates and tourism that still lags pre-pandemic levels.
- Five-year forecast that continues to project annual deficits through fiscal 2030. However, the declining magnitude of these deficits reflects its ongoing efforts to address this structural imbalance as well as growth in economically sensitive revenues.
- Very strong reserve levels in the general fund that would help the city weather the projected deficits during the next two years, although reserve levels are at risk of declining at an accelerated rate in the longer term should the city fail to restore structural balance.
- City management that maintains robust institutionalized policies and practices, including for financial planning and forecasting, as well as formal policies for investment, debt, and reserves.
- Very weak debt and contingent liability profile characterized by a large pension and other postemployment benefits (OPEB) obligation and the likelihood of additional GO bonds under existing authorizations, although offset by a levy rate policy that constrains new issuances.
- For more information on our institutional framework assessment for California municipalities, please see "Institutional Framework Assessment: California Local Governments," Sept. 9, 2024.
- For more information on the city's credit profile, see our analysis, Feb. 11, 2026.

Outlook

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The negative outlook reflects our view that there is a one-in-three chance that we could lower the rating during the two-year outlook period. We believe the city continues to face challenges that prevent its major revenue streams from growing at a pace to match ongoing costs, as evidenced by its five-year forecast that continues to reflect large, structural deficits. We also recognize that the city has decreased spending through reductions in staffing levels across all departments, as well as improving downtown economic activity that management projects will continue into fiscal 2027. We believe city management and its governing board will need to continue implementing significant spending cuts to restore fiscal stability to avoid substantial draws on existing reserves.

Downside scenario

We could lower the rating within the two-year outlook period if the city fails to adopt structural measures, including sustainable revenue increases or expenditure reductions, that would meaningfully reduce the structural imbalance in its two-year budget. A lack of management willingness or ability to enact sustainable spending cuts, leading to consecutive deficits and a decline in reserves or liquidity, could also trigger a downgrade.

Upside scenario

A return to a stable outlook would be supported by significant progress in restoring long-term structural balance to general fund operations without excessive reliance on reserves. In addition, a faster-than-anticipated economic recovery that bolsters primary revenue growth would support a stable outlook. Ultimately, a return to stable is contingent upon management's ability to implement effective budgetary adjustments and avoid material general fund deficits during the two-year outlook period.

San Francisco City and County, California--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.71
Economy	2.0
Financial performance	4
Reserves and liquidity	1
Management	2.05
Debt and liabilities	4.50

San Francisco City and County, California--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	415	--	415	422
County PCPI % of U.S.	235	--	235	232
Market value ($000s)	357,842,539	348,713,889	346,366,619	331,431,694
Market value per capita ($)	432,959	421,914	419,074	398,376
Top 10 taxpayers % of taxable value	4.1	3.5	3.5	3.5
County unemployment rate (%)	3.7	4.1	3.9	3.4
Local median household EBI % of U.S.	162	--	162	175
Local per capita EBI % of U.S.	196	--	196	212

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San Francisco City and County, California--key credit metrics

	Most recent	2025	2024	2023
Local population	826,505	--	826,505	831,958
Financial performance				
Operating fund revenues ($000s)	--	6,619,395	6,377,784	6,213,441
Operating fund expenditures ($000s)	--	5,443,711	5,412,315	6,089,498
Net transfers and other adjustments ($000s)	--	(1,122,065)	(1,049,996)	(380,949)
Operating result ($000s)	--	53,619	(84,527)	(257,006)
Operating result % of revenues	--	0.8	(1.3)	(4.1)
Operating result three-year average %	--	(1.6)	(0.6)	(0.4)
Reserves and liquidity				
Available reserves % of operating revenues	--	39.5	40.2	42.6
Available reserves ($000s)	--	2,615,726	2,562,609	2,646,963
Debt and liabilities				
Debt service cost % of revenues	--	7.3	7.0	6.7
Net direct debt per capita ($)	7,979	6,976	6,538	6,625
Net direct debt ($000s)	6,816,354	5,765,828	5,403,465	5,511,519
Direct debt 10-year amortization (%)	54	52	49	--
Pension and OPEB cost % of revenues	--	11.0	11.0	11.0
NPLs per capita ($)	--	5,664	5,214	4,800
Combined NPLs ($000s)	--	4,681,458	4,309,330	3,993,584

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$107,540,000 City And County of San Francisco, Taxable General Obligation Bonds, (Social Bonds - Affordable Housing, 2019), Series 2026D, dated: October 22, 2026, due: June 15, 2036	
Long Term Rating	AA+/Negative
US$134,895,000 City And County of San Francisco City, Tax-Exempt General Obligation Bonds, (Earthquake Safety And Emergency Response, 2020), Series 2026C, dated: October 22, 2026, due: June 15, 2046	
Long Term Rating	AA+/Negative
US$45,255,000 City And County of San Francisco, Taxable General Obligation Bonds, (Social Bonds - Affordable Housing, 2024), Series 2026E, dated: October 22, 2026, due: June 15, 2027	
Long Term Rating	AA+/Negative
US$47,464,550 City And County of San Francisco, Taxable General Obligation Bonds, (Social Bonds - Affordable Housing, 2016 - Preservation And Seismic Safety), Series 2026F, dated: October 22, 2026, due: June 15, 2066	
Long Term Rating	AA+/Negative
US$83,475,000 City And County of San Francisco, Tax-Exempt General Obligation Bonds, (Health And Recovery, 2020), Series 2026B, dated: October 22, 2026, due: June 15, 2046	
Long Term Rating	AA+/Negative

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