

Research Update:

San Francisco, CA Series 2025G GO Bonds Assigned 'AA+' Rating; Series 2025R/-R2/-R3 COPs Assigned 'AA' Rating

October 29, 2025

Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the City and County of San Francisco (hereinafter, the city), Calif.'s anticipated \$87.73 million general obligation (GO) bonds (Health and Recovery, 2020), series 2025G.
- S&P Global ratings also assigned its 'AA' long-term rating to the city's anticipated \$269.95 million refunding certificates of participation (COPs), series 2025R, and its anticipated series 2025-R1 and series 2025-R2 refunding COPS, with a combined par amount of \$18.82 million.
- The outlook is negative.

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 outstanding GO bonds. Bond proceeds for the series 2025G will be used to fund various projects, including supportive housing facilities, shelters, mental health facilities, and improvements to parks, open spaces, and recreation facilities. Projects may also include improvements to city streets or other public properties. This series of bonds represents the fourth series of GO bonds under the voter-approved 2020 Health and Recovery GO Bond Measure, which has a total authorization of \$487.5 million.

Base rental payments by the city, as lessee, to the U.S. Bank Trust Co. N.A., the lessor, for the use of various facilities of the city, as the leased assets secure the 2025R, 2025-R1, 2025-R2 COPs. We note that these assets have been fully constructed and meet our minimum requirements for seismic resilience during the term of the COPs. Although the COPs do not have the added security of a debt service reserve fund, we believe the payment schedule mitigates risk related to late budget adoption, with sufficient time between the beginning of the fiscal year and the Oct. 1

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debt service payments. We have reviewed the lease under our criteria and view the lease terms as standard. We rate the series 2025R, 2025-R1, and 2025-R2 COPs one notch below our view of the city's general creditworthiness to reflect our view of the appropriation risk inherent to the lease structure. Series 2025R COP proceeds will be used to refund the city's outstanding series 2017B COPs for debt service savings. The series 2025-R1 and series 2025-R2 COPs will be used to refund the city's outstanding series 2013B&C Port COPs for debt service savings.

Credit highlights

The 'AA+' GO rating with a negative outlook reflects the continued challenging, but improving, revenue environment facing the city and county (the city) and our view that the city's five-year forecast continues to reflect large-but-improving general fund deficits from fiscal years 2026 through 2029.

We recognize that the city has made efforts to lower spending over the past several months, including reductions in full-time equivalent (FTE) positions across almost all departments, including approximately 360 positions in the general fund. Management indicates that these cuts have been approved in the city's adopted two-year budget (Fiscal years 2026 and 2027) and that this administration remains committed to increasing operational efficiency to reduce projected structural deficit spending in the future.

Management indicates that economic activity continues to slowly recover in recent months with an increase in foot traffic in the city's downtown corridor that could stem from an increase in return-to-office mandates from major firms in downtown San Francisco. The city has also benefited from higher visitor volume and convention activity in recent months, with major events such as the Dead & Company concert, the Stern Grove Festival, and the Outside Lands Music Festival. The city reports that office vacancy rates continue to remain flat overall in fiscal 2025, although we will continue to monitor any potential impacts from new office leases within the city, particularly from emerging industries such as the Artificial Intelligence (AI) sector.

The city's updated two-year budget forecast from its Nine-Month Budget Status Report, published May 12, 2025, reflects a reduction in the two-year budget gap to \$781.5 million from \$817.5 million (6% of two-year general fund revenues) that was reported in the city's recent March Five-Year Update. In addition, we note that the city's recently adopted two-year budget attempts to close this gap and assumes a use of reserves of \$34 million and \$71 million in 2026 and 2027, respectively. We understand the primary factors that contributed to this reduction in projected deficits is a concerted effort by the current administration to cut spending across city departments, as well as stronger business tax revenues reflecting increased economic activity in the downtown corridor. While we view this reduction as a credit strength, we believe the city's overall five-year forecast continues to reflect large ongoing structural deficits with a projected deficit in the general fund of about \$650 million-\$700 million in fiscal 2028 and growth subsequent years. Other risks that factor into our credit analysis and our negative outlook include potential fiscal effects from federal policy changes such as freezing federal funding that would significantly affect the city's funding of health care services as well as further delays in Federal Emergency Management Agency-related reimbursement funding. Ongoing federal tariffs and rising costs might also affect retail and commercial activity within the city and changes to federal immigration policies and enforcement could also have an impact on overall visitor volume and tourism levels.

We believe, however, that San Francisco still maintains a very strong financial position based on its recent fiscal 2024 audit, including its maintenance of very strong general fund reserve levels that represent approximately \$2.56 billion, or about 40.2% of general fund revenues. We believe

these sizable reserves will at least temporarily cushion the city's overall credit profile against the forecasted deficits in the near term. 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.

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.
- Downtown corridor that continues to see a very slow recovery, coupled with high office vacancy rates and tourism that still lags pre-pandemic levels. We also believe the city's economy has faced worsening trends in recent years, as evidenced by the closure of certain major commercial and retail businesses.
- Evidence of a structural imbalance, as reflected by another general fund deficit in fiscal 2024 based on audited figures as well as a long-term five-year forecast that shows annual deficits through fiscal 2030.
- 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. In addition, we believe pension and OPEB costs will likely rise in the near term due to weaker investment returns.
- For more information on our institutional framework assessment for California municipalities, please see "[Institutional Framework Assessment: California Local Governments](#)," Sept. 9, 2024, on RatingsDirect.
- For more information on the city's credit profile, see our [analysis](#), Dec. 18, 2024.

Environmental, social, and governance

San Francisco's exposure to environmental factors (in terms of physical risks), primarily from earthquakes and sea level rise, are a key risk in the region. The city, however, has managed its seismic risk through robust building codes and is working to mitigate sea-level rise through an assessment of vulnerable areas and capital improvements that have included debt-financed seawall construction.

The city's social-capital risk factors include affordable housing needs and a significant population of people experiencing homelessness, partially due to high housing costs. We expect housing and homelessness services will figure prominently in management's budget decisions and we expect affordable housing will be a common use of debt proceeds for the foreseeable future.

The city's governance benefits from the transparency and reporting of timely and public disclosures regarding policy and budgetary challenges as well as the use of a well-established financial forecasting practice that uses input from an independent economist. We have seen evidence of governance challenges related to financial management, including differences

between city management and the board of supervisors, that could limit the city's ability to make financial decisions in a timely manner.

Outlook

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, 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 2026. We believe city management and its governing board will need to continue implementing significant spending cuts to restore fiscal stability in order to avoid substantial draws on existing reserves.

Downside scenario

We could lower the rating within the two-year outlook period if we believe management and the city's governing board lack the ability or willingness to make significant and sustainable spending cuts, resulting in further consecutive operating deficits in fiscal 2025 and beyond that lead to a material reduction in the city's general fund reserves or liquidity. We could also lower the rating if the city's local economy, particularly its downtown office corridor, fails to sufficiently recover to the extent that it results in what we believe will be a prolonged loss in property tax and business tax revenues, resulting in a material deterioration in overall credit quality.

Upside scenario

We could revise the outlook to stable if the city restores balance to general fund operations without significantly drawing on reserves, for example if it enacts sufficient budgetary cuts to offset stagnant economic recovery and revenue growth. We could also revise the outlook to stable if the city's local economy recovers faster than anticipated, resulting in stronger growth in its major revenues that eliminates near-term deficits, with projected growth in reserves consistently during the next several years.

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	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	432	--	432	430
County PCPI % of U.S.	232	--	232	232

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

	Most recent	2024	2023	2022
Market value (\$000s)	351,321,331	369,172,183	331,431,694	307,712,666
Market value per capita (\$)	424,091	445,639	398,376	349,026
Top 10 taxpayers % of taxable value	4.0	3.2	3.5	3.6
County unemployment rate (%)	3.9	3.9	3.4	2.6
Local median household EBI % of U.S.	162	162	175	173
Local per capita EBI % of U.S.	196	196	212	215
Local population	828,410	828,410	831,958	881,632
Financial performance				
Operating fund revenues (\$000s)	--	6,377,784	6,213,441	6,369,348
Operating fund expenditures (\$000s)	--	5,412,315	6,089,498	5,686,275
Net transfers and other adjustments (\$000s)	--	(1,049,996)	(380,949)	(448,034)
Operating result (\$000s)	--	(84,527)	(257,006)	235,039
Operating result % of revenues	--	(1.3)	(4.1)	3.7
Operating result three-year average %	--	(0.6)	(0.4)	0.7
Reserves and liquidity				
Available reserves % of operating revenues	--	38.4	42.6	45.5
Available reserves (\$000s)	--	2,448,070	2,646,963	2,901,009
Debt and liabilities				
Debt service cost % of revenues	--	7.0	6.7	7.3
Net direct debt per capita (\$)	7,960	6,523	6,625	6,293
Net direct debt (\$000s)	6,594,477	5,403,465	5,511,519	5,548,035
Direct debt 10-year amortization (%)	54	49	--	--
Pension and OPEB cost % of revenues	--	11.0	11.0	12.0
NPLs per capita (\$)	--	5,212	4,800	3,522
Combined NPLs (\$000s)	--	4,317,757	3,993,584	3,105,252

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\$15.75 mil rfdg certs of part (Port Facilities Project (amt)) ser 2025-R2 dtd 12/23/2025 due 03/01/2043

Long Term Rating AA/Negative

US\$269.95 mil rfdg certs of part (Multiple Capital Improvement Projects) ser 2025R dtd 11/20/2025 due 04/01/2041

Long Term Rating AA/Negative

US\$3.07 mil rfdg certs of part (Port Facilities Project) ser 2025-R1 dtd 12/23/2025 due 03/01/2038

Long Term Rating AA/Negative

US\$87.73 mil taxable GO bnds (Health And Recovery) ser 2025G dtd 11/19/2025 due 06/15/2027

Long Term Rating AA+/Negative

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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