

Research Update:

San Francisco City and County Series 2026A-1 And 2026A-2 GO Bonds Assigned 'AA+' Rating; Outlook Negative

June 30, 2026

Overview

- S&P Global Ratings assigned its 'AA+' long-term rating to the **City and County of San Francisco's** (the city) anticipated \$185.615 million series 2026 A-1 general obligation (GO) bonds (Health, Safe and Vibrant San Francisco, 2024) and anticipated \$6.5 million series 2026 A-2 taxable GO bonds (Health, Safe and Vibrant San Francisco, 2024).
- 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 GO bonds outstanding. Bond proceeds for the series 2026 A-1 and 2026 A-2 will be used to fund various projects such as healthcare service facilities, including the Chinatown Public Health Center; critical repairs and improvements to the Zuckerberg General Hospital and the Laguna Honda Hospital; and pedestrian and street safety upgrades. This series of bonds represents the second series of GO bonds under the voter-approved Proposition B (2024), which has a total GO bond authorization of \$390 million.

Credit highlights

The city continues to make progress in reducing its ongoing structural imbalance by implementing widespread spending cuts across almost all departments, while at the same time enjoying strong growth in business taxes. The city's proposed 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 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. For the first time under the current administration, filled positions were eliminated during the latter half of fiscal 2026 and in the two-year budget. The elimination of filled positions—rather than just vacant

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ones—represents a more meaningful and sustainable approach to fiscal management, in our view.

The proposed budget also demonstrates, in our view, the administration's commitment to restoring structural balance and its alignment with the board of supervisors. Historically, the city has eliminated vacant positions as a primary tool for budgetary stabilization, resulting in a consistent year-over-year decline in unfilled positions. Given the very low number of vacant positions in 2026, we believe the city has limited flexibility to further eliminate unfilled positions for fiscal relief. We understand the mayor is willing to propose further layoffs to meet budgetary targets, and we would consider alignment across the government on budget strategy to be a positive credit consideration. We note that the proposed two-year budget assumes the passage of a parcel tax (Stronger Muni for All) in November 2026 that would generate an additional \$160 million annually to fund the city's transit system, and a regional sales tax measure that would generate \$150 million for transit. Should these taxes fail, the city's general fund will likely be required to subsidize transit costs, creating additional budgetary pressure.

The general fund five-year forecast in the city's March 2026 joint report reflected a two-year budget deficit of \$642.8 million for fiscal years 2027 and 2028, a \$293.8 million improvement from the forecast provided in December 2025. This improvement is primarily driven by better-than-expected revenue performance and slower hiring and spending. With the cuts included in the proposed two-year budget, this gap would fall even further, which we would view as evidence of strong fiscal management coupled with extraordinary growth in business tax revenues, which are highly sensitive to the technology sector.

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.

Fiscal 2026 year-to-date 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. 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 proposed 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.

While the overall pace of recovery remains slow, the city's economy continues to show signs of improvement in fiscal 2026. Office metrics are trending positively, with vacancy rates decreasing to 32.6% in the first quarter of 2026; however, this metric remains among the highest for major U.S. metropolitan areas. Retail and broader economic activities have trended upward over recent years, bolstered by large-scale events such as conventions, music festivals, and the World Cup. The artificial intelligence (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.

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. 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.
- For more information on the city's credit profile, see our [analysis](#), Feb. 11, 2026.

Environmental, social, and governance

San Francisco's exposure to environmental factors (in terms of physical risks), primarily from earthquakes and sea-level rise, is a key risk in the region. The city, however, has partially 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 includes input from an independent economist. We have seen evidence of governance challenges in previous administrations related to financial management, including differences between city management and the board of supervisors. Should these challenges occur within the current administration and the board of supervisors, we believe this 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, 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

We could revise the outlook to stable if the city makes significant progress in restoring balance to general fund operations sustainably without significantly drawing on reserves. We could also revise the outlook to stable if the city's local economy recovers faster than anticipated, resulting in stronger growth in its primary revenues – including more stable property taxes - that eliminate 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	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	415	--	415	422

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

	Most recent	2025	2024	2023
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
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)	6,594,477	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\$185,615,000 San Francisco City and County, California, General Obligation Bonds (Healthy, Safe and Vibrant San Francisco, 2024), Series 2026A-1, dated: Date of Delivery, due: June 15, 2046

Long Term Rating AA+/Negative

US\$6,500,000 San Francisco City and County, California, Taxable General Obligation Bonds, (Healthy, Safe and Vibrant San Francisco, 2024), Series 2026A-2, dated: Date of Delivery, due: October 1, 2026

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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