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## Summary:

# Successor Agency to the San Francisco City & County Redevelopment Agency, California; Tax Increment

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| Credit Profile | | |
|---|---|---|
| US$125.0 mil tax alloc rfdg bnds (Mission Bay North Redev Proj) ser 2016A due 08/01/2041 | | |
| *Long Term Rating* | A/Stable | New |

## Rationale

Standard & Poor's Ratings Services assigned its 'A' long-term rating to the San Francisco City & County Redevelopment Agency (RDA), Calif.'s series 2016A tax allocation refunding bonds. The outlook is stable.

The rating reflects our view of the project area's good growth in assessed value (AV) over the past few years, resulting in steady increases in coverage up to strong levels in fiscal 2016. Additionally, the continued residential and commercial development, coupled with San Francisco's very strong local economy and wealth indicators, further support the credit.

The rating reflects our view of:

- A small project area spanning only 65 acres that is primarily built out and fully participates in the San Francisco local economy, reflecting very high income and wealth indicators;
- A very low volatility ratio of only 0.02, indicating that tax-increment revenues are less susceptible to overall declines in AV;
- Positive growth in project area AV over the past few years; and
- An additional bonds test (ABT) requiring 1.25x coverage of maximum annual debt service (MADS).

The bonds are secured by a first lien of tax-increment revenues net of pass-through and housing set-aside funds generated from the Mission Bay North project area.

The Mission Bay North Project Area is a very small, though strategically located, area encompassing 65 acres in the city. The area is bounded by Third Street and Townsend on the northeast and the China Basin Canal and 7th Street on the south and west; it is easily accessible by Interstate 280 and the CalTrain northern terminus. AT&T Park bounds the project area on the north, and the developing University of California at San Francisco, Mission Bay campus bounds it to the south. The project area has undergone substantial commercial and residential development, resulting in a good growth in project area AV over the past few years. When completed, development would include 2,964 residential and retail units consisting of 2,161 market-rate units and 674 affordable units. Sixty thousand square feet of office space was recently completed, and one development site remains for a planned 129 condominium units.

The project area has gone from being a mostly vacant former industrial site to a high-density residential neighborhood that is almost fully developed and resident-occupied. AV has grown rapidly over the past few years, following the trend in rapid commercial and residential developments in the project area. Project area AV most recently increased by 2.6% and 4.4% in fiscal years 2015 and 2016, respectively, ending at $1.6 billion in total AV in 2016. The leading 10 taxpayers consist mainly of residential building owners, who account for what we consider a moderate concentration of 38% of incremental AV, based on the fiscal 2016 tax roll. The project area was newly formed in October 1998; the base year over the current AV (the volatility ratio) is, in our view, very low, at only 0.02.

We consider overall coverage of debt service strong, at 1.93x MADS after the current issuance, based on pledged revenues projected for fiscal 2016 by the agency. The ABT is 1.25x. We calculate that, based on the volatility ratio, if the agency were to issue bonds to the maximum ABT, the project area could withstand a decline of 19.7% in total AV and maintain 1x MADS coverage. The potential decline in AV is enough to cover the loss of the project area's two top largest taxpayers.

The trust indenture permits the agency to issue additional parity bonds subject to the limitations set forth by AB 1X 26 and AB 1484, provided pledged revenues are sufficient to cover annual debt service on all parity obligations by at least 1.25x MADS. We note that the Successor Agency (SA) received its finding of completion from the State Department of Finance (DOF) on May 29, 2013. The SA has also completed its asset transfer review and is not required to remit any funds back to the county or DOF.

Because the law limits the SA revenue to payment on enforceable obligations and requires more proactive management than under the pre-dissolution flow of funds, we believe an SA's debt management practices after dissolution have become more important to credit quality. Dissolution law requires SA and oversight officials to adhere to deadlines for requesting debt service payment amounts and subordinating pass-through payments when necessary.

Following the transition to an annual recognized obligation payments schedule (ROPS) cycle in 2016, we believe that some of the administrative risk associated with semi-annual ROPS requests will be diminished; however, property taxes will continue to be disbursed by counties semi-annually, requiring active cash management on the part of agency officials tasked with depositing revenues in keeping with indenture provisions.

San Francisco, with an estimated population of 845,602, covers 49 square miles on a peninsula bounded by the Pacific Ocean to the west and the San Francisco Bay to the east. The city is one of the nine counties in the Bay Area, the residents of which have access to major industries that include manufacturing, high-technology, semiconductors, and food processing. The city and county has a projected per capita effective buying income of 184% of the national level and per capita market value of $229,887. Overall, market value grew by 6.9% over the past year to $194.4 billion in 2016. The city and county's unemployment rate was 4.4% in 2014.

## Outlook

The stable outlook reflects Standard & Poor's expectation that the agency will retain sufficient levels of coverage of MADS, and AV will likely continue to rise as additional developments are completed. The outlook also reflects our expectation that the long-term prospects for property values in the project area will likely remain strong, given its strategic location and very strong local economy. We do not expect to change the rating over the next two years.

### Upside scenario

Should the agency close the lien for the Mission Bay North project area, preventing any additional bonds to be issued except for refunding purposes, then we could raise the rating.

### Downside scenario

Should the agency experience a sudden decline in AV, resulting in substantially lower coverage levels, then we could lower the rating.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Special-Purpose Districts, June 14, 2007
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Related Research

- Revisiting The Dissolution Of California Redevelopment Agencies, June 11, 2013

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 www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.