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Summary:

Successor Agency to the San Francisco City and County RDA, California; Tax Increment

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Credit Profile		
US$86.25 mil tax alloc bnds (Mission Bay South Redev Proj) ser 2016C due 08/01/2043		
Long Term Rating	A-/Stable	New
US$45.0 mil tax alloc bnds (Mission Bay South Redev Proj) ser 2016B due 08/01/2043		
Long Term Rating	A-/Stable	New
Successor Agy to the San Francisco City and Cnty RDA TAXINCR		
Long Term Rating	A-/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term and underlying rating (SPUR) to 'A-' from 'BBB+' on the Successor Agency (SA) to the San Francisco City and County Redevelopment Agency (RDA), Calif.'s series 2014 tax allocation bonds (TABs), issued for the Mission Bay South project area. At the same time, Standard & Poor's assigned its 'A-' long-term rating to the agency's series 2016B and series 2016C refunding bonds. The outlook is stable.

The rating action reflects our view of the project area's very strong growth in assessed value (AV) in the project area, reporting double-digit increases due to substantial commercial and residential developments. The rating action also reflects our view of the agency's future plans for additional development in the project area, which we believe is likely to result in continued increases in project area AV during the next few years.

The ratings also reflect our view of the project area's:

- Location in San Francisco local economy, reflecting very high income and wealth indicators;
- Very strong AV growth during the past few years due to continued commercial and residential development in the project area;
- Good maximum annual senior lien debt service (MADS) coverage of 1.60x based on fiscal 2016 AV after the proposed issuance of debt;
- Very low volatility ratio of 0.04;
- High concentration in the project area's top 10 taxpayers at 73% of incremental in fiscal 2016; and
- Adequate additional bonds test (ABT) at 1.25x MADS with existing owner participation agreements (OPAs) and additional debt plans.

The bonds are secured by tax-increment revenues less housing set-aside funds generated from the Mission Bay South Project area. Statutory pass-through payments have been subordinated to the outstanding 2009D, 2011D, and 2014 bonds. We note that the outstanding bonds secured by the project area have historically been used to reimburse a property developer for the project area under an existing OPA between the agency and the developer. As a result, the agency has the ability to issue new money bonds for the purpose stated above, which is permitted by AB 1484 under

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section 34177.5(a)(4). The bonds are secured by stand-alone reserve accounts with a reserve requirement equal to the lessor of MADS, 125% of average annual debt service or 10% of par. We understand the refunding series 2016C bond proceeds will be used to refund the agency's outstanding series 2009D and 2011D bonds. The rating on these aforementioned bonds is subject to discontinuation after they are fully refunded.

The Mission Bay South project was formed in 1998 on a 238-acre site just across Mission Creek from the Mission Bay North project area, connected by the Third and Fourth street bridges. The project area currently houses office space, residential condominiums, and biotech research facilities. We anticipate that the presence of the University of California, San Francisco (UCSF)--which has chosen to situate its 43-area research campus and specialty women's and children's hospital there--and major developers, such as Alexandria Real Estate, will support continued expansion and growth. The project area is currently slated for 5 million square feet of office and lab space; 163,000 square feet of retail space; 3,440 residential units; and a 250-room hotel.

Project area AV has demonstrated significant, double-digit growth during the past five years with the exception of a 1.5% decrease in fiscal 2012. We understand that the AV decline in fiscal 2012 was a result of certain Proposition 8 AV reductions that more than offset new AV construction growth. Regardless, AV increased substantially in each of the past four fiscal years, most recently rising by 21.8% in fiscal 2016, ending with a total project area AV of $2.57 billion. With a base-year AV of $97 million, the volatility ratio is 0.04, which we consider very low. Pledged tax-increment revenues in fiscal 2016 reached roughly $19.7 million, sufficient to provide 1.60x senior lien MADS coverage after the proposed issuance of bonds, which we consider good. The leading 10 taxpayers have a combined AV of approximately $1.8 billion in 2016, which amounts to a concentration we consider high at 73% of the project area total incremental AV.

The leading taxpayer is a property developer, Alexandria Real Estate, which makes up roughly 27% of incremental AV. 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% in total AV and maintain 1.00x MADS coverage. The potential decline in AV does not cover the loss of the project area's largest taxpayer.

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 understand that the agency plans to issue additional bonds to reimburse the developer under the existing OPA at some point in the future. We note that the 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 payment 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 of land. The city is located 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, 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, the city and county's 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 our view of the project area's affluent tax base, which has seen much demand for commercial and residential developments. Its very strong growth in AV continues to strengthen the outstanding bonds' coverage, which adds further rating stability.

Upside scenario

Should the project area's tax base continue to further diversify during the next few years or if the agency loses its ability to issue additional new money debt, effectively closing the lien, then we could raise the rating.

Downside scenario

However, if the agency encounters cash-flow issues related to the mismanagement of ROPS items or fails to comply with the debt management covenants set forth in the indenture, or if coverage is significantly diluted due to the issuance of new debt or refunding of other obligations, we could lower the ratings.

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