S&P Global Ratings

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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$90.0 mil tax alloc bnds (Affordable Housing Projects) ser 2017A due 08/01/2046		
Long Term Rating	A/Stable	New
US$37.0 mil tax alloc bnds (Transbay Infrastructure Projects) ser 2017B due 08/01/2046		
Long Term Rating	A/Stable	New
San Francisco City & Cnty Redev Fincg Auth, California		
San Francisco City & Cnty Redev Agy, California		
San Francisco City & Cnty Redev Fin Auth (San Francisco City & Cnty Redev Agy) tax allocation rev rfdg bnds		
Long Term Rating	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A' long-term rating to the Successor Agency (SA) to the San Francisco City and County Redevelopment Agency (RDA), Calif.'s tax allocation bonds, series 2017A and 2017B. At the same time, S&P Global Ratings affirmed its:

- 'AA-' rating and underlying rating (SPUR) on the City and County of San Francisco Redevelopment Financing Authority's outstanding tax allocation revenue bonds, and
- 'A+' rating on the SA's series 2014B and 2014C subordinate tax allocation revenue bonds.

The outlook on all ratings is stable.

The rating on the series 2017A and 2017B bonds reflects our view of:

- Pledged tax increment revenue derived from 10 mixed-use project areas encompassing over 2,000 acres and $19 billion in assessed value (AV) throughout central, downtown, and southeastern San Francisco;
- The very strong historical AV growth, with additional development continuing in certain key areas; and
- The additional bonds test (ABT) requiring at least 1.25x maximum annual debt service (MADS) on the 2017A and 2017B bonds and any parity debt.

Partially offsetting these strengths, in our view, is our expectation of additional parity debt and our view of taxpayer concentration, coupled with exposure to acute event risk given the city and county's location near major fault lines.

The 'AA-' rating on the senior authority bonds and the 'A+' rating on the series 2014B and 2014C bonds reflect our view of the tax base, a closed lien except for refunding, and all-in MADS coverage of 3.42x and 2.24x, respectively.

The series 2017A and 2017B bonds are secured by a third, subordinate lien on residual redevelopment property tax trust fund (RPTTF) revenue from 10 project areas, excluding the agency's Mission Bay project areas. The 2017 series A and B bonds are subordinate to certain of the agency's senior loan agreements securing the authority bonds (for more information, see our summary analysis published Dec. 4, 2014, on RatingsDirect), and to the SA's series 2014 B and C subordinate bonds, which are secured by a second lien on tax increment/RPTTF revenues from the project areas (for more information, see our summary analysis published Dec. 4, 2014). The series 2017A and 2017B bonds will have debt service reserves funded by a surety at the lowest of MADS, 10% of principal, or 125% of average annual debt service.

The agency can issue additional senior debt (including on parity with the series 2014 bonds and the senior loan agreements) only for refunding purposes. The series 2017A and 2017B indenture has a 1.25x MADS ABT. We expect that the agency will issue additional debt on parity with the 2017A and 2017B bonds to finance its remaining development obligations for affordable housing and the Transbay project area. However, we note that the agency's ability to issue additional tax increment debt is limited by statute, as well as practical and political constraints.

The 10 contributing project areas are:

- Bayview Hunters Point Project Area A and Project Area B, Zone 2;
- Golden Gateway Project Area;
- Hunters Point Hill Residential District (Hunter's Point Shipyard Project Area);
- India Basin Project Area;
- Rincon Point-South Beach Project Area;
- South of Market Project Area;
- Transbay Project Area;
- Western Addition Project Area A-2; and
- Yerba Buena Center Project Area D-1.

The 10 project areas are distributed throughout the downtown and southeastern quadrant of the city and county. Together, they encompass 2,363 acres and $19.6 billion in AV, including 43% commercial and 36% residential. Another 5.4% of AV is industrial, and 11.4% is unsecured, consisting mostly of industrial and other equipment.

Together, the project areas have experienced consistent AV growth since 2008, including during the recession. Most recently, combined AV grew 7.9% in fiscal 2016, with a three-year average growth rate of 7.2% annually. The fastest-growing project area of the 10 is the Transbay project area ($4.07 billion in AV in 2017), where the new Transbay tower and terminal are being constructed. We expect the rate of AV growth will continue over the next several years as redevelopment activity in the Transbay and other project areas continues.

The taxing base in the combined project areas is somewhat diverse, in our view, with the top 10 taxpayers making up 26.2% of 2017 total AV. The largest taxpayer, Boston Properties (7.4% of total 2017 AV), is the owner of the Embarcadero Center developments, a cluster of large office and retail properties in the heart of the financial district. No other single taxpayer makes up more than 5% of AV. Currently open taxpayer appeals pose a relatively small risk to tax increment revenue, in our view, although they are numerous: Currently there are 213 pending assessment appeals, with 161 residential appeals coming from the Millennium Tower due to greater-than-anticipated settling and tilting. According to the fiscal consultant, if all the requested reductions in AV from the tower property were granted, a reduction of up to $2.1 million (1.2%) of fiscal 2017 tax increment revenue could result. We do not anticipate the loss from currently outstanding appeals to exceed 2.5% of fiscal 2017 AV.

All-in MADS coverage of debt service for the series 2017A and 2017B bonds is 2.14x, and the bonds have a 1.25x MADS ABT. We calculate that, at 1.25x coverage and 0.12 volatility ratio, the combined project areas could withstand a decline of 17.54% in total AV and maintain 1x MADS coverage. However, we note that the agency's ability to issue additional tax increment debt is limited by statute to financing existing enforceable obligations. Furthermore, the agency's future debt plans are limited in part by throughput constraints as well as other practical and political limitations on the use of future tax increment revenue to repay additional debt. Therefore, while we expect that the agency will likely issue additional parity debt through 2030, we do not expect coverage to reach the minimum level specified in the ABT as a result.

We understand that dissolution law and Senate Bill (SB) 107, the San Francisco-specific tax increment financing legislation, eliminated redevelopment plan limits with respect to cumulative tax increment revenue and time limits relating to the payment of enforceable obligations.

The agency, officially known as the Office of Community Infrastructure and Investment (OCII), became the acting SA to the former redevelopment agency following the dissolution of California RDAs in 2011. Subsequent to dissolution, the state legislature passed SB 107, which specifically authorizes the City and County to issue additional debt secured by tax increment revenues to finance certain projects. To our knowledge, the City and County is alone among SAs in its ability to continue issuing tax increment debt to finance new redevelopment projects.

The trust indenture permits the agency to issue additional parity bonds, provided pledged revenues are sufficient to cover annual debt service on all parity obligations by at least 1.25x MADS. The SA received its finding of completion from the State Department of Finance on May 29, 2013. The SA has also completed its asset transfer review by the state Controller's Office, with no findings that we believe could result in an interruption in tax increment revenue.

Dissolution law limits the SA revenue to payment on enforceable obligations and requires more proactive management than under the pre-dissolution flow of funds. SA and oversight officials must adhere to deadlines for requesting debt service payment amounts and subordinating pass-through payments when necessary, and property taxes continue to be disbursed by counties semiannually, requiring active cash management on the part of agency officials tasked with depositing revenues in keeping with indenture provisions. The series 2017A and 2017B indenture requires the SA to request, for distribution Jan. 1 of each calendar year, amounts sufficient to pay full annual principal and interest on the bonds and all senior and parity obligations.

San Francisco, with an estimated population of 867,000, 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 technology, business services, hospitality, manufacturing, and food processing. Median household effective buying income in the city and county is equal to 139% of the national median, which we consider very strong. The city and county's unemployment rate was 3.3% in 2016.

Outlook

The stable outlook reflects our expectation that MADS coverage on the bonds will remain at least good over the next two years, and incorporates our expectation of additional parity debt as well as further gains in AV. We do not expect to change the ratings over the two-year outlook horizon.

Upside scenario

We could raise the rating on the series 2017A and 2017B bonds should our expectations for additional parity debt change, MADS coverage increase, and tax base concentration decrease. We could raise the ratings on senior obligations should additional growth continue to improve coverage.

Downside scenario

Should the agency experience a sudden decline in AV, resulting in coverage levels falling substantially below the ABT, then we could lower any of the ratings.

Related Research

- Revisiting The Dissolution Of California Redevelopment Agencies, June 11, 2013
- Following A Decade Of Change, The Tax Increment Sector Shows Improving Credit Quality, March 28, 2016

Ratings Detail (As Of February 24, 2017)		
Successor Agy to the San Francisco City and Cnty RDA TAXINCR		
Long Term Rating	A+/Stable	Affirmed
San Francisco City & Cnty Redev Fincg Auth, California		
San Francisco City & Cnty Redev Agy, California		
San Francisco City & Cnty Redev Fincg Auth TABs hsg (Bayview Hunters B, South of Market, Transbay, Yerba)		
Long Term Rating	AA-/Stable	Affirmed
San Francisco City & Cnty Redev Fincg Auth TABs (Bayview Hunters B, Golden Gate, India, Rincon Point/SouthBeach, South of Market,Transbay)		
Long Term Rating	AA-/Stable	Affirmed
San Francisco City & Cnty Redev Fincg Auth TABs (Bayview, Transbay, Western A2)		
Long Term Rating	AA-/Stable	Affirmed
San Francisco City & Cnty Redev Fincg Auth (BV Hunters B,MBay N.,MBay S.,Rincon Point/S.Beach,Transbay,W. A2) TABs hsg		
Long Term Rating	AA-/Stable	Affirmed
San Francisco City & Cnty Redev Fincg Auth (San Francisco City & Cnty Redev Agy) tax alloc rev bnds (San Francisco Redev Projs) (MBIA)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
San Francisco City & Cnty Redev Fing Auth TABs hsg (Golden Gate, Transbay,Western A2)		
Long Term Rating	AA-/Stable	Affirmed
San Francisco City & Cnty Redev Fincg Auth rfdg tax increment (Cross-collateralized six proj areas)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
San Francisco Redev Fincg Auth (San Francisco Redev) tax incre		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Ratings Detail (As Of February 24, 2017) (cont.)
Many issues are enhanced by bond insurance.

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.