S&P Global Ratings

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Summary:

Successor Agency to the San Francisco City and County Redevelopment Agency; Tax Increment

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Credit Profile		
US$118.18 mil taxable subord tax alloc rfdg bnds (San Francisco Redevelopment Projects) ser 2017D due 08/01/2041		
Long Term Rating	AA-/Stable	New
US$20.315 mil subord tax alloc rfdg bnds (San Francisco Redevelopment Projects) ser 2017E due 08/01/2041		
Long Term Rating	AA-/Stable	New
Successor Agy to the San Francisco City and Cnty RDA TAXINCR		
Long Term Rating	AA-/Stable	Upgraded
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	Upgraded
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	Upgraded
San Francisco City & Cnty Redev Fincg Auth TABs (Bayview, Transbay, Western A2)		
Long Term Rating	AA/Stable	Upgraded
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	Upgraded
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	Upgraded
San Francisco City & Cnty Redev Fing Auth TABs hsg (Golden Gate, Transbay,Western A2)		
Long Term Rating	AA/Stable	Upgraded
San Francisco City & Cnty Redev Fin Auth (San Francisco City & Cnty Redev Agy) tax allocation rev rfdg bnds		
Long Term Rating	AA/Stable	Upgraded
San Francisco City & Cnty Redev Fincg Auth rfdg tax increment (Cross-collateralized six proj areas)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
San Francisco Redev Fincg Auth (San Francisco Redev) tax incre		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term rating to 'AA' from 'AA-' on the San Francisco Redevelopment Authority's (RDA) senior-lien revenue obligations, issued for the merged project areas, and its long-term rating to 'AA-' from 'A+' on the Successor Agency (SA) to the San Francisco City and County RDA's subordinate-lien tax allocation bonds, series 2014B and 2014C, issued for the merged 10 project areas. At the same time, S&P Global Ratings assigned its

'AA-' long-term rating to the SA's series 2017D and 2017E bonds.

The upgrades reflect our view of the recent increases in assessed valuation (AV) in the combined project areas, which in fiscal 2017 alone totaled 14%, as well as the amendment of the indenture to require the agency to request 100% of annual debt service for the second- and third-lien bonds on the first recognized obligated payment schedule request of the year. In our view, this covenant to request full annual debt service up front mitigates the risk of a major delinquency or other liquidity event during the year.

In addition, S&P Global ratings affirmed its 'A' rating on the SA's third-lien (2017A and 2017B series) tax allocation revenue bonds.

The outlook on all ratings is stable.

The ratings on the senior-lien bonds and the subordinate-lien series 2017D and 2017E bonds reflect our view of:

- Pledged tax increment revenue derived from 10 mixed-use project areas encompassing over 2,200 acres and $22 billion in AV throughout central, downtown, and southeastern San Francisco;
- Exceptionally strong historical AV growth, with additional development continuing in certain key areas; and
- Very strong, 2.8x maximum annual debt service (MADS) coverage on subordinate-lien debt and 6.01x coverage on senior-lien debt, with the ability to withstand the loss of more than half of the tax base before drawing on reserves, coupled with a lien that is legally closed except to refund senior and parity obligations.

Partially offsetting these strengths, in our view, is the 10 project areas' exposure to acute event risk given the city and county's location near major fault lines, as well as what we consider to be significant and persistent taxpayer appeals.

The 'A' rating on the third-lien (2017A and 2017B) bonds reflects our view of the tax base and an open lien with a 1.25x additional bonds test.

The series 2017D and 2017E bonds are secured on a parity with the agency's series 2014B and 2014C bonds by a subordinate lien on residual redevelopment property tax trust fund revenue from 10 project areas, excluding the agency's Mission Bay project areas. The 2017D and 2017E and parity bonds are subordinate to the agency's senior loan agreements securing the Redevelopment Financing Authority bonds, which have a first lien on tax increment revenue from the associated project areas. (For more information, see our summary analysis published Dec. 4, 2014, on RatingsDirect). The series 2017D and 2017E bonds will each 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 is limited in its ability to issue additional debt on parity with the series 2014 and 2017 (second-lien) bonds and the senior loan agreements to refunding only. We expect that the agency will issue additional debt on parity with the third-lien bonds to finance its remaining development obligations for affordable housing and the Transbay project area.

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 2,263 acres and $22.4 billion in AV, including 45% commercial and 36% residential. Another 5.0% of AV is industrial, and 10.8% is unsecured, consisting mostly of industrial and other equipment.

Together, the project areas have experienced consistent AV growth since 2008, including during the Great Recession. Most recently, combined AV grew 7.9% in fiscal 2016, and 14.3% in fiscal 2017. 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 25.4% of 2017 total AV. The largest taxpayer, Boston Properties (6.6% 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.

We note that there is significant AV subject to appeal ($2 billion, or roughly 10% of total AV) throughout the project areas that could dampen AV and tax increment revenue growth, depending on how the appeals are resolved. The agency's fiscal consultant estimates a potential reduction in value from pending appeals of $21 million, or less than 0.1% of total AV, based on historical success rates; however, of the roughly $2 billion currently under appeal, about $1.1 billion may have a different likelihood of success given the specific facts and circumstances involved. If all the requested reductions in AV were granted, a reduction of up to $1.1 billion (4%) of fiscal 2017 tax increment revenue could result.

All-in MADS coverage, inclusive of the senior-lien debt service, for the series 2017D and 2017E bonds is 2.8x, with additional debt limited to refunding only. We calculate that, at 2.8x coverage and 0.11 volatility ratio, the combined project areas could withstand a decline of 57% in total AV and maintain 1x MADS coverage. (Coverage on the senior-lien debt is 6.01x.) The city and the 10 project areas are located in an active fault zone, with the risk of severe earthquakes leading to loss of AV. We note that following the most recent major earthquake that affected the city--the 1989 Loma Prieta earthquake, which registered a 6.9 on the Richter scale--the AV of the city as a whole continued to grow year over year. While the 10 pledged project areas are somewhat concentrated in the east-central part of the city and may be more exposed to localized risk, we believe that the effect of Loma Prieta on the city as a whole provides a useful point of comparison for the stress scenario highlighted above, and generally expect that the likelihood of a loss of AV in excess of 55% in the 10 project areas is low.

There are no contractual pass-through payments due before debt service on the bonds, and the agency has subordinated statutory pass-throughs to debt service on the subordinate-lien bonds.

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, became the acting SA to the former RDA 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 remaining enforceable obligations, restricted to the third lien in both the merged project areas and Mission Bay project areas, neither of which are pledged to the 2017D and 2017E financing. 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 for refunding of senior and parity debt only, 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 predissolution 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 revised 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 on all ratings 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 on the third-lien bonds 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 rating on the senior- and third-lien bonds should AV and coverage continue to improve to levels no longer commensurate with those of similarly rated peers; we could raise the rating on the third-lien bonds should our expectation of additional debt be minimal.

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
- Years After The Dissolution Of California Redevelopment Agencies, Tax Allocation Bond Ratings Are Stronger Than Ever, July 11, 2017

Ratings Detail (As Of October 16, 2017)		
Successor Agy to the San Francisco City and Cnty RDA tax alloc bnds (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Successor Agy to the San Francisco City and Cnty RDA TABs (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Successor Agy to the San Francisco City and Cnty RDA TABS (Affordable Hsg Projs) TAXINCR		
Long Term Rating	A/Stable	Affirmed
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.capitaliq.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.