S&P Global
Ratings

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Summary:

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

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Credit Profile		
US$130.44 mil taxable third lien tax alloc bnds(affordable Hsg Proj Social Bnds)ser 2021A dtd 10/27/2021 due 08/01/2031		
Long Term Rating	A/Stable	New
Successor Agy to the San Francisco City and Cnty RDA tax alloc bnds (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'A' long-term rating to the Successor Agency (SA) to the San Francisco City and County Redevelopment Agency's anticipated $130.44 million series 2021A taxable third-lien tax allocation bonds, issued for 10 contributing project areas. At the same time, S&P Global Ratings affirmed its 'A' long-term and underlying rating (SPUR) on the SA's series 2017A and 2017B bonds. The outlook on all ratings is stable.

The series 2021A, series 2017A, and series 2017B bonds are secured by a third lien on tax increment revenue, including the former housing set-aside, generated from 10 separate project areas and deposited from time to time into the redevelopment property tax trust fund (RPTTF), net of senior county charges. A debt service reserve funded with bond proceeds or an investment-grade surety at the lowest of maximum annual debt service (MADS), 10% of principal, or 125% of average annual debt service further secures the bonds.

The 10 contributing project areas are:

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

We expect that the agency will issue additional debt on parity with the third-lien bonds (series 2021A, series 2017A, and series 2017B) to finance its remaining development obligations for affordable housing and the Transbay project area, subject to an additional bonds test of 1.25x MADS.

Credit overview

The taxing base for the city and county of San Francisco, including the contributing project areas listed above, has grown considerably from fiscal 2018 to 2021, increasing at a 13% average annual rate. Overall, taxable assessed value (AV) has increased approximately 111% to $32.7 billion in fiscal 2022 from $15.5 billion in fiscal 2013. The strong growth in AV was partly driven by the area's very strong housing demand, which has resulted in rising home prices as well as the continued demand for both commercial and residential property development during the past several years. We note that the ongoing COVID-19 pandemic that began in fiscal 2020 resulted in certain business closures, a substantial drop in visitor volume that has negatively affected both the hotel industry and commercial retail sector, and the temporary closure of various office spaces which, to date, have not fully recovered. However, despite the effects of the pandemic that have resulted in property values declining for certain residential (particularly condominiums in San Francisco) and commercial properties that were negatively influenced, we note that the SA reported a modest increase of 0.8% in fiscal 2022, reflecting the resiliency of the local economy and tax base. While the SA did not report a decline in its tax base, we note that this 0.8% growth in AV is substantially lower than previous years' growth, which normally saw double-digit increases. Additionally, we believe there could be an increase in taxpayer appeals filed for both commercial and residential properties that could stress future AV levels, although the influence from successful taxpayer appeals could take several years to manifest.

For more information on S&P Global Economics latest forecast, see "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off", published Sept. 23, 2021, on RatingsDirect.

The rating further reflects our view of third lien's:

- Very strong MADS coverage at more than 3x with pro-forma MADS coverage projected to increase to 4.09x after the issuance of the 2021A bonds;
- Moderate concentration in the project area's tax base, with the top 10 taxpayers accounting for 25% of total AV; and
- An open third lien that is subject to an additional bonds test of 1.25x MADS.

Environmental, social, and governance (ESG) factors

We believe the city and SA have elevated environmental risk in the form of exposure to seismic events--the San Andreas Fault runs just west of the city--and, more long term, from sea level rise associated with climate change. The city has undertaken an inventory of "soft story" architectural designs, which experts believe are particularly vulnerable in earthquakes, to focus response resources during a disaster scenario.

The city is managing its risk of sea level rise on its largely commercial eastern shores by requiring resiliency designs in development projects and pursuing grant funding. Management reports that most of the city's service area is now protected by seawalls designed to protect against the city's estimated exposure in the 21st century.

We view the city's social and governance risks as comparable to those of its national peers. The city has made housing affordability, which we view as a social risk that can threaten economic performance, a priority, including income-tested affordable housing development as a way of slowing gentrification in a high-cost region. The city manages cybersecurity risk, a form of governance risk, by using cloud-based services and backups for resiliency, adopting an information technology master plan to minimize the risk of obsolescence, and making the information technology management a senior position.

Stable Outlook

Upside scenario

We could raise the rating on the third-lien bonds should our expectations for additional parity debt change due to a limited need to fund related capital projects, if MADS coverage remains very strong without falling from current levels due to the issuance of additional debt or declines in AV, and if tax base concentration continues to decrease.

Downside scenario

Should the SA experience a sudden decline in AV, resulting in coverage levels falling substantially below the additional bonds test without an expectation of recovery in the near-term, then we could lower the ratings.

Credit Opinion

Tax base

San Francisco, with an estimated population of 897,806, 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 also 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. Per capita household effective buying income in the city and county is equal to 226% of the national median, which we consider very strong.

The 10 project areas are distributed throughout the downtown and southeastern quadrant of the city and county. Together, they encompass 2,263 acres and $32.7 billion in AV, including 43% commercial and 37% residential. Together, the project areas have experienced consistent AV growth since 2008, including during the Great Recession. Most recently, AV has grown considerably, with approximately 13% annual average growth during the past four years (up to fiscal 2021). The significant growth in AV is primarily contributed by the continued demand for housing properties within the city as well as the demand for large commercial and residential property development that has continued despite the ongoing pandemic.

We note that there is significant AV subject to appeal ($2.2 billion, or roughly 7% 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 $74.9 million in AV, or less than 0.3% of total AV, based on historical success rates. However, we believe that the success rates of taxpayer appeals may now be higher due to the unique impacts from the pandemic and the previous economic recession that has affected the city of San Francisco. We believe there could be an increase in successful taxpayer appeals for both commercial and residential properties that could impact future AV levels, although we note that the impacts from successful taxpayer appeals could take several years to manifest.

Tax base concentration and debt service coverage

The combined project areas' taxing base is moderately concentrated, in our view, with the top 10 taxpayers comprising 25% of 2022 total AV. The majority of the top 10 taxpayers are office buildings with some hotel and retail commercial properties making up the rest. The top taxpayer, Transbay Tower LLC, makes up approximately 5.5% of total AV and represents the owner of the Salesforce building in San Francisco. The second-largest taxpayer, Boston Properties (4.8% of total 2022 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 4% of AV.

All-in MADS coverage for the third lien, inclusive of the senior-lien and subordinate lien debt service, for the series 2021A, series 2017A and 2017B bonds is 4.09x. We calculate that at 4.09x coverage and with a 0.07 volatility ratio, the combined project areas could withstand a decline of 70% in total AV and maintain 1.0x MADS coverage. However, we note that the third lien is open and the state's redevelopment agency dissolution law allows the issuance of additional debt for capital purposes. 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. Under existing legislative and development constraints, we understand the SA does not anticipate issuing additional affordable housing debt in the next three years. However, should coverage fall to 1.25x, up to the maximum amount allowed to be issued under the ABT, we estimate the combined project areas could withstand a decline of 18% of total AV and maintain 1.0x MADS coverage.

Debt management

The SA, 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 successor agency to issue additional debt secured by tax increment revenues to finance certain remaining enforceable obligations and eliminated redevelopment plan limits with respect to cumulative tax increment revenue and time limits relating to the payment of enforceable obligations.

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.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of September 29, 2021)

Ratings Detail (As Of September 29, 2021) (cont.)		
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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.