Research Update:

San Bruno, CA Series 2026 GO Bonds Assigned 'AAA' Rating; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to **San Bruno**, California's estimated $34.9 million series 2026 general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the city's outstanding lease revenue bonds and its 'AAA' long-term rating on the city's outstanding pension obligation bonds (POBs).
- The outlook is stable.

Rationale

Security

The series 2026 GO bonds are payable from ad valorem property taxes levied by the city upon all eligible property. The city has covenanted to annually levy ad valorem taxes for the payment of the bonds. The series 2026 bonds will finance a variety of capital projects, including storm drain and pothole repairs.

The city's series 2019 lease revenue bonds are secured by lease payments made by the city to the San Bruno Public Finance Authority for use of the leased asset. We have reviewed the lease under our criteria and view the terms as standard. Furthermore, the leased assets meet our minimum requirements for seismic resilience during the term of the bonds. We rate the bonds one notch below our view of the city's general creditworthiness to reflect our view of the risk of nonappropriation inherent to the lease structure.

The city's series 2013 POBs are obligations of the city and are payable from any source of legally available funds of the city. We rate the city's POBs on par with its general creditworthiness due to our view that the city's ability to pay the obligation is closely tied to its operations and the revenues used to secure the city's POBs are not limited in scope nor are they distinct or separate from the city's general fund.

Credit highlights

The rating reflects our view of the city's solid economic base, which includes wealth and income metrics well in excess of the national average, a healthy fund balance that we expect to somewhat moderate but remain very strong, a trend of robust operating results, and prudent financial management policies and practices that underpin the city's solid financial profile. Somewhat offsetting these strengths is the city's high debt and liability profile compared with its peers, but we view it as manageable given its economic base. The city's fiscal 2026 estimated actuals indicate the city will post a 6% surplus, which officials attribute to strong sales tax receipts, savings on vacant positions, and conservative budgeting. Although the city is projecting a 2% deficit for fiscal 2027, reflecting conservative budgeting across line items, we expect it will likely outperform the budget--as it has done since fiscal 2021.

The city's financial profile has strengthened in recent years, consisting of a trend of strong surpluses since fiscal 2021 that are largely due to robust sales tax (25%) and consistent property tax (17%) revenue receipts. In fiscal 2023, the city's deficit reflected a larger than usual transfer out for capital outlay, while its fiscal 2024 surplus was was infused by $16 million in one-time revenue. The city maintains a tax sharing agreement with Walmart.com, the city's second-largest employer, which yields about $8 million annually in sales tax receipts. In April 2023, the California Department of Tax and Fee Administration (CDTFA) issued a reallocation notice to the city and Walmart.com, asserting that $27.5 million in sales tax receipts should be reallocated to other jurisdictions. The city has appealed and is awaiting a decision; should the city and Walmart.com lose the appeal, the city anticipates an approximately $21 million loss, which could be paid over several years and for which the city has allotted $4 million annually into a contingency fund. The city is considering a potential revenue measure on the November 2026 ballot that, if approved, could generate an estimated $9 million annually. The city has 87% of general fund revenue in reserve as of fiscal 2025, which we consider healthy, and we expect that balance to grow slightly given the expected surplus for fiscal 2026. While we anticipate the city could draw down its reserve fund balance for the CDTFA claim and for capital outlays during the next several years, we do not expect its available fund balance levels to fall below 30% of revenue. The city's credit profile is buttressed by its strong local economy, with developments in the pipeline including two residential projects, a mall redevelopment, and a YouTube office development project (totaling 440,000 square feet). YouTube is the city's largest employer.

Offsetting the city's strong credit profile is its higher-than-average debt and liability metrics, as its pension contributions have escalated every year combined with the debt service carrying charge resulting from this issuance. The city will have about $67 million in authorized but unissued debt for Measure Q and officials expect to issue another tranche of debt closer to 2030. We expect the city will prudently and proactively manage its debt and liabilities to avoid negative budgetary pressure. For more information, see "U.S. Local Governments Credit Brief: California Counties And Municipalities Means And Medians," Oct. 31, 2025.

The rating also reflects our opinion of the city's:

- Wealthy local economy, with ongoing economic development and tax base expansion, income levels above the U.S. average, and access to employment in the San Francisco and Silicon Valley regions;
- Strong financial profile, with a consistent trend of revenue growth outpacing expenditures and solid fund balance supported by a formal reserve policy;
- Prudent and comprehensive financial management policies and practices, including well-grounded and forward-looking budget assumptions, use of a robust multiyear budget forecasting and capital improvement plan, and an adopted reserve policy requiring a minimum of 10% of general fund expenditures in contingency reserve and 20% of expenditures in a

budget stabilization reserve. We view the city's cyber risk mitigation measures as consistent with our view of its credit fundamentals;

- Elevated long-term liabilities, with high carrying charges and net pension liabilities that are somewhat overstated considering it includes staff within its enterprise funds. However, the city's net direct debt per capita remains low.
- Elevated exposure to seismic activity and wildfire, though we believe the state's strong building codes have substantially offset seismic risk. The city leverages the state's hazard severity zone maps to identify its high-risk zones and has allocated funds in its budgets for wildfire mitigation and fuel management.
- For more information on our institutional framework assessment for California municipalities, see "Institutional Framework Assessment: California Local Governments," Sept. 9, 2024.

Rating above the sovereign

The 'AAA' rating on San Bruno's GO debt is eligible to be higher than the sovereign rating because we believe it can maintain stronger credit characteristics relative to the U.S. sovereign in a stress scenario. Under our criteria: "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," Nov. 19, 2013, the city has predominantly locally derived revenue, with independent taxing authority, and independent treasury management from the federal government.

Outlook

The stable outlook reflects our expectation that the city will continue its trajectory of posting at least break-even results, maintain a fund balance comparable with 'AAA' rated peers, and demonstrate no weakening to its debt and liability profile relative to current levels.

Downside scenario

We could lower the rating if we believe the city exhibits signs of budgetary stress, draws down its available fund balance to less than 30% of general fund revenues, or if our view of its debt and liabilities profile weakens relative to current levels.

San Bruno, California--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	1.87
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Management	1.35
Debt and liabilities	4.00

San Bruno, California--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	389	--	389	365

San Bruno, California--key credit metrics

	Most recent	2025	2024	2023
County PCPI % of U.S.	246	--	246	244
Market value ($000s)	11,907,012	11,351,679	10,734,126	9,958,336
Market value per capita ($)	285,458	272,144	257,339	234,822
Top 10 taxpayers % of taxable value	20.6	21.9	19.8	19.6
County unemployment rate (%)	3.5	3.9	3.7	3.1
Local median household EBI % of U.S.	154	--	154	168
Local per capita EBI % of U.S.	140	--	140	156
Local population	41,712	--	41,712	42,408
Financial performance				
Operating fund revenues ($000s)	--	72,531	86,159	69,691
Operating fund expenditures ($000s)	--	56,417	62,597	59,018
Net transfers and other adjustments ($000s)	--	(10,874)	(2,752)	(17,242)
Operating result ($000s)	--	5,240	20,810	(6,569)
Operating result % of revenues	--	7.2	24.2	(9.4)
Operating result three-year average %	--	7.3	10.8	7.5
Reserves and liquidity				
Available reserves % of operating revenues	--	87.1	67.3	33.5
Available reserves ($000s)	--	63,150	57,952	23,347
Debt and liabilities				
Debt service cost % of revenues	--	1.5	1.2	1.1
Net direct debt per capita ($)	989	151	195	231
Net direct debt ($000s)	41,241	6,300	8,117	9,797
Direct debt 10-year amortization (%)	40	100	100	100
Pension and OPEB cost % of revenues	--	25.0	18.0	13.0
NPLs per capita ($)	--	2,914	2,914	2,921
Combined NPLs ($000s)	--	121,532	121,532	123,855

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$34.885 mil GO bnds ser 2026 due 08/01/2056	
Long Term Rating	AAA/Stable
New Rating	
Local Government	
San Bruno, CA Unlimited Tax General Obligation	AAA/Stable
Ratings Affirmed	
Local Government	
San Bruno, CA General Fund Pledge	AAA/Stable
San Bruno, CA Lease Appropriation	AA+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.