

## PRELIMINARY OFFICIAL STATEMENT DATED JUNE \_\_, 2020

## NEW ISSUE – BOOK-ENTRY ONLY

RATING: Moody's “\_\_”

(See “RATING” herein.)

*In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”) based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (as defined below) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a “substantial user” of the facilities financed or refinanced by the Bonds or by a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.*

\$ \_\_\_\_\_ \*

**CALIFORNIA HOUSING FINANCE AGENCY  
REVENUE BONDS**

**(SAN FRANCISCO SUPPORTIVE HOUSING – 833 BRYANT APARTMENTS)**

**2020 ISSUE N – SOCIAL BONDS**

**Dated: Date of Delivery****Due: April 1, as shown on the inside cover**

The \$ \_\_\_\_\_\* California Housing Finance Agency Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds (the “Bonds”) will be issued under the provisions of an Indenture of Trust dated as of July 1, 2020 (the “Indenture”) between the California Housing Finance Agency (the “Issuer”) and U.S. Bank National Association, as trustee (the “Trustee”). Interest on the Bonds will be payable on April 1 and October 1 of each year, commencing [April 1, 2021]. The Bonds are being issued as fully registered bonds and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). The Bonds will be issued in denominations of \$5,000 and any integral multiple thereof. DTC will act as securities depository of the Bonds. Individual purchases of Bonds will be made in book-entry form only. Payments of principal of and interest on the Bonds are to be made to purchasers by DTC through DTC Participants. Purchasers will not receive physical delivery of the Bonds purchased by them. The Bonds are being issued by the Issuer to: (i) make a loan to 833 Bryant, L.P., a California limited partnership (the “Borrower”) to finance and/or refinance a portion of the acquisition, construction and equipping of a 145 unit multifamily residential rental supportive affordable housing project located in the City and County of San Francisco, California (the “City”) and known as 833 Bryant Apartments (the “Project”), (ii) fund capitalized interest on the Bonds through the date 30 days past the Lease Delivery Deadline, and (iii) pay costs of issuing the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” herein. The Issuer is not funding a reserve fund for the Bonds.

The Bonds are subject to extraordinary, mandatory and optional redemption prior to their stated maturities, as described herein. See “THE BONDS – Redemption” herein.

The Bonds are special limited obligations of the Issuer secured by the Trust Estate pledged to the Bonds under the Indenture. Payment of the principal of and interest on the Bonds will be made primarily from loan payments under the Loan Agreement. In fulfillment of its obligations under the Loan Agreement, the Borrower will assign to the Trustee all its right title and interest in and to the Lease Agreement between the City and the Borrower to be executed and delivered by the City upon satisfaction of certain conditions relating to the Project, as described herein. The City will be required under the Lease Agreement when executed and delivered to make Rent Payments from any source of legally available funds in an amount equal to 1.15 times the scheduled payments of principal of and interest on the Bonds.

From the delivery date of the Bonds until the execution, delivery and commencement of the Lease Agreement (as described herein), the Bonds will be secured by capitalized interest and an Irrevocable Standby Letter of Credit to be delivered by Citibank, N.A. in connection with the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE STANDBY LETTER OF CREDIT” herein.

**The Bonds are limited obligations of the Issuer, payable solely from the funds and moneys pledged and assigned under the Indenture. None of the Issuer, the State of California, or any political subdivision thereof (except the Issuer, to the limited extent set forth in the Indenture) or the City shall in any event be liable for the payment of the principal of, premium (if any) or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever except as set forth herein, and none of the Bonds or any of the Issuer’s agreements or obligations shall be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of or a moral obligation of any of the foregoing within the meaning of any constitutional or statutory provision whatsoever. The Issuer has no taxing power.**

**This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.**

The Bonds will be offered when, as and if issued, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Issuer, and certain other conditions. Certain legal matters will be passed on for the City by Hawkins Delafield & Wood LLP and Stradling Yocca Carlson and Rauth, A Professional Corporation, as Co-Disclosure Counsel to the City, for the Borrower by Gubb and Barshay LLP, for Citibank, N.A. as standby letter of credit provider by Robinson & Cole LLP and for the Underwriter by their counsel, Norton Rose Fulbright US LLP, Los Angeles, California. It is anticipated that the Bonds will be available for delivery through the book-entry facilities of DTC on or about July \_\_, 2020.

**Citigroup**

Dated: \_\_\_\_\_, 2020

\* Preliminary, subject to change.

\$ \_\_\_\_\_ \*

**CALIFORNIA HOUSING FINANCE AGENCY  
REVENUE BONDS  
(SAN FRANCISCO SUPPORTIVE HOUSING – 833 BRYANT APARTMENTS)  
2020 ISSUE N – SOCIAL BONDS**

**MATURITY SCHEDULE**

<b><u>Maturity</u></b> <b><u>(April 1)</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Interest</u></b> <b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>	<b><u>CUSIP†</u></b> <b><u>(Base No. _____)</u></b>
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\$ \_\_\_\_\_ % Term Bonds due April 1, 20\_\_ Yield: \_\_\_\_%; Price: \_\_\_\_\_  
CUSIP†: \_\_\_\_\_

\$ \_\_\_\_\_ % Term Bonds due April 1, 20\_\_ Yield: \_\_\_\_%; Price: \_\_\_\_\_  
CUSIP†: \_\_\_\_\_

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\* Preliminary, subject to change.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Ratings on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of investors. None of the City, the Issuer or the Underwriter is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

## GENERAL INFORMATION

**Sources of Information.** The information set forth herein has been obtained from the Issuer, the City and the Borrower and other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer, the City, the Borrower or any other source, since the date hereof.

The information set forth herein relating to the Issuer under the headings “THE ISSUER” and “NO LITIGATION – The Issuer” has been obtained from the Issuer. The Issuer has not reviewed or approved any information in this Official Statement except the information relating to the Issuer under the foregoing headings. The Issuer assumes no responsibility for the accuracy or completeness of any other information in this Official Statement. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or the Borrower since the date hereof. The Issuer has not and will not agree to provide any annual financial statements or other credit information of the Issuer, the City or the Borrower to investors on a periodic basis.

The City maintains a website with information pertaining to the City. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

**Use of Official Statement.** This Official Statement is submitted in connection with the issuance and delivery of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. No dealer, broker, salesperson or other person has been authorized by the Issuer, the Borrower or the City to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the Issuer, the Borrower, the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access system.

**Involvement of Underwriter.** The Underwriter has submitted the following statement for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

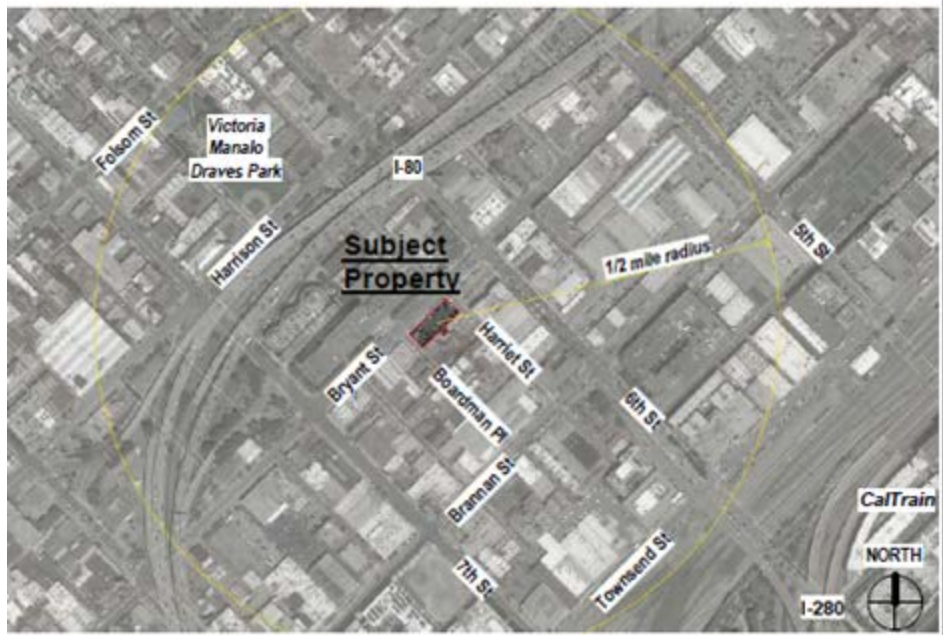
**Information Subject to Change.** The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Borrower or the City or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

**Stabilization of Prices.** The Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallocate any such discounts on sales to other dealers.

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**CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN  
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “project,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as otherwise noted, none of the City, the Borrower or the Issuer plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.



AERIAL VIEW & VICINITY MAP





# CALIFORNIA HOUSING FINANCE AGENCY

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## BOARD OF DIRECTORS

Michael Gunning, Acting Chairman

### Members

AnaMarie Avila Farias  
Eileen Gallagher  
Jonathan C. Hunter  
Tiena Johnson Hall  
Preston Prince  
Dalila Sotelo

### Ex Officio Members

Kate Gordon  
Tia Boatman Patterson  
Fiona Ma  
Keely Bosler  
Dr. Vito Imbasciani  
Doug McCauley  
Lourdes M. Castro Ramírez

### **Executive Director**

Tia Boatman Patterson

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## SPECIAL SERVICES

### **Bond Counsel and Agency Counsel**

Orrick, Herrington & Sutcliffe LLP  
San Francisco, California

### **Underwriter's Counsel**

Norton Rose Fulbright US LLP  
Los Angeles, California

### **Dissemination Agent**

Goodwin Consulting Group, Inc.  
Sacramento, California

### **Trustee**

U.S. Bank National Association  
Los Angeles, California

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# OFFICIAL STATEMENT

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**CALIFORNIA HOUSING FINANCE AGENCY  
REVENUE BONDS  
(SAN FRANCISCO SUPPORTIVE HOUSING – 833 BRYANT APARTMENTS)  
2020 ISSUE N – SOCIAL BONDS**

## INTRODUCTION

*This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement, which includes the cover page, the inside cover page and appendices hereto (the “Official Statement”) and the issuance and delivery of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.*

### General

The \$ \_\_\_\_\_ \* California Housing Finance Agency Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds (the “Bonds”) will be issued under the provisions of an Indenture of Trust dated as of July 1, 2020 (the “Indenture”) between the California Housing Finance Agency (the “Issuer”) and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in the Indenture.

### Application of Proceeds

The Bonds are being issued by the Issuer to: (i) make a loan to 833 Bryant, L.P., a California limited partnership (the “Borrower”), to finance and/or refinance a portion of the acquisition, construction and equipping of a 145 unit residential permanent supportive housing project for members of the chronically homeless population located in the City and County of San Francisco, California (the “City”) and known as 833 Bryant Apartments (the “Project”), (ii) fund capitalized interest on the Bonds through the date 30 days past the Lease Delivery Deadline, as it may be extended, and (iii) pay costs of issuing the Bonds. See “THE PROJECT” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

### The Issuer

*The information under this heading has been furnished by the Issuer, and has not been independently verified by the Trustee, the Borrower, the City or the Underwriter. None of the Trustee, the Borrower, the City or the Underwriter makes any representation whatsoever as to the accuracy, adequacy or completeness of such information.*

The Issuer was created in 1975 by the Zenovich-Moscone-Chacon Housing and Home Finance Act as a public instrumentality and a political subdivision of the State of California (the “State”) with the purpose of working with the private sector to provide more affordable housing and exists within the

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\* Preliminary, subject to change.

Department of Housing and Community Development (“HCD”), which is part of the Business, Consumer Services and Housing Agency of the State. The Issuer is authorized to issue its bonds, notes and other obligations for a variety of purposes, including (1) making development loans, construction loans, mortgage loans and property improvement loans to qualified borrowers to finance housing developments and other residential structures; (2) purchasing such loans through qualified mortgage lenders; and (3) making loans to qualified mortgage lenders under terms and conditions requiring the proceeds thereof to be used for certain loans.

The Issuer has sold and delivered obligations other than the Bonds, which other obligations are and will be secured by instruments separate and apart from the Indenture and the Bonds. The holders of such obligations of the Issuer have no claim on the security for the Bonds, and the owners of the Bonds will have no claim on the security for such other obligations issued by the Issuer.

The Issuer has not reviewed any appraisal for the Project or any feasibility study or other financial analysis of the Project and has not undertaken to review or approve expenditures for the Project, to supervise any development or construction of the Project, or to obtain any financial statements of the Borrower.

The Issuer has not reviewed this Official Statement and is not responsible for any information contained herein, except for the information in this section and under the caption “NO LITIGATION – The Issuer” herein.

## **The City**

**General.** Upon completion of the Project, the source of repayment for the Bonds is primarily Rent Payments under a Lease Agreement, as described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein. The City is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the “Bay”). The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay and the San Francisco-Oakland Bay Bridge to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour’s drive to the north. The City is historically a major convention and tourist destination. The City’s population is approaching 900,000.

The San Francisco Bay Area consists of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the “Bay Area”). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include technology, retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising and higher education. The State Supreme Court is also based in San Francisco.

The City is also a leading center for financial activity in the State. The headquarters of the Twelfth Federal Reserve District and the Eleventh District Federal Home Loan Bank are located in the City.

The City benefits from a highly skilled, educated and professional labor force. The San Francisco Unified School District (“SFUSD”), which is a separate legal entity from the City, operates 14 transitional kindergarten schools, 64 elementary schools serving grades transitional kindergarten (“TK”)-5, 8 schools serving grades TK-8, 13 middle schools serving grades 6-8, 15 high schools serving grades 9-12, 12 early education schools, and 14 active charter schools authorized by SFUSD. Higher education institutions located in the City include the University of San Francisco, California State University – San Francisco, University of California – San Francisco (a medical school and health science campus), the University of California Hastings College of the Law, the University of the Pacific’s School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy, and the Academy of Art University.

San Francisco International Airport (“SFO”), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County, is owned and operated by the City, and is the principal commercial service airport for the Bay Area and one of the nation’s principal gateways for Pacific Rim traffic. The City is also served by the Bay Area Rapid Transit District (“BART,” an electric rail commuter service linking the City with the East Bay and the San Francisco Peninsula, including SFO), Caltrain (a conventional commuter rail line linking the City with the San Francisco Peninsula), and bus and ferry services between the City and residential areas to the north, east and south of the City. San Francisco Municipal Railway, operated by the San Francisco Municipal Transportation Agency (“SFMTA”), provides bus and streetcar service within the City. The Port of San Francisco (the “Port”), which administers 7.5 miles of Bay waterfront held in “public trust” by the Port on behalf of the people of the State, promotes a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities, and natural resource protection.

**Government.** San Francisco is a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California and is the only consolidated city and county in the State. Voters approved the City’s current Charter at the November 1995 election. The City is governed by a Board of Supervisors elected from 11 districts to serve 4-year terms, and a Mayor who serves as chief executive officer, elected citywide to a 4-year term. For significant recent developments relating to the City and in particular the operational and financial matters relating to the COVID-19 pandemic, see APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Recent Developments” attached hereto.

**COVID-19 Pandemic.** The financial and operating data contained in this Official Statement, including Appendix A, are the latest available. In some cases such data is for periods before the economic and other impacts of the COVID-19 pandemic. Accordingly, such data is not necessarily indicative of the current financial condition or future prospects of the City and the Bay Area. The COVID-19 pandemic is expected to materially adversely impact the financial condition of the City’s General Fund. See “RISK FACTORS – COVID-19 Pandemic” herein and APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES– Recent Developments” attached hereto.

**Additional Information.** More detailed information about the City’s governance, organization and finances may be found in APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES” attached hereto. See also APPENDIX C “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2019” attached hereto.

## **The Borrower**

833 Bryant, L.P. (the “Borrower”) is a California limited partnership. 833 Bryant LLC, a California limited liability company, is the Borrower’s general partner and Mercy Housing Calwest (“Mercy Calwest”), a California nonprofit public benefit corporation, is the Borrower’s sole member/manager. Mercy Calwest is wholly controlled by Mercy Housing, Inc. (“Mercy Housing”), a national affordable housing nonprofit headquartered in Denver, Colorado. See “THE PROJECT – Development and Funding Partners – *The Borrower, Mercy Calwest and Mercy Housing*” herein.

## **The Project and Permanent Supportive Affordable Housing**

The Project will consist of 145 residential units of supportive affordable housing and related improvements at 833 Bryant Street in the City. See “THE PROJECT” herein.

Homelessness remains a persistent and increasing challenge in San Francisco despite substantial investments in permanent supportive housing, rapid rehousing subsidies, and other interventions to end homelessness over the last 20 years. The 2019 biennial Point-In-Time (“PIT”) homeless count identified 8,035 people experiencing homelessness in the City, 64% of whom are unsheltered. Per PIT count data, the total homeless population increased by 28% between 2019 and the first count in 2005. The PIT count survey included data on duration of homelessness, age and health status trends that indicate an increase in need for permanent supportive housing units for chronically homeless adults and seniors. Per the 2019 count, approximately 57% of the total population is over the age of 41, over 69% had at least one disabling health condition, and for 65%, the duration of their current episode of homelessness was over one year. These data reflect the population of people living on the streets are growing older and sicker, further underscoring the need for targeted supportive housing units in the City.

In 2016, the City created the Department of Homelessness and Supportive Housing (“HSH”) with the aim of achieving a significant, sustained reduction in homelessness San Francisco. HSH’s mission is to prevent homelessness and to make homelessness rare, brief, and one-time through the provision of coordinated, compassionate, and high-quality services. In HSH’s 2019 Five-Year Strategic Framework Update, the department committed to prioritizing the highest need population for services and housing to reverse the trend in single adult homelessness shown in the 2019 PIT count and set a goal of reducing chronic homelessness in San Francisco by 50% by December 2022. The area in the City where the Project is located is home to 46% of the homeless population - the highest concentration in the City. The Project is ideally suited to create additional units to serve the chronically homeless population already living in the neighborhood near 833 Bryant Street.

Permanent Supportive Housing (“PSH”) is the most effective way to end homelessness for people who are chronically homeless. Someone who is chronically homeless has been homeless for a year or more and has at least one disabling condition that impacts their ability to find and maintain housing. In Fiscal Year 2018-2019 less than 2% of San Francisco residents housed in PSH were evicted. This demonstrates a high level of residential stability for tenants in PSH.

The COVID-19 pandemic has exacerbated the existing public health crisis of homelessness and represents a significant health risk for people experiencing homelessness. People living in public spaces or in congregate settings, have limited access to preventive measures like frequent hand-washing, social distancing, and rapid access to health care. People living unsheltered are also significantly more likely to have chronic health conditions, one of the most significant risk factors with coronavirus.



The global pandemic has increased the awareness that housing is essential to the health and well-being of the City's most vulnerable, unsheltered residents. Permanent supportive housing not only ends homelessness but protects vulnerable people from the spread of COVID-19 better than temporary shelter. As the City continues its response to the COVID-19 pandemic, San Francisco plans to continue its investments on evidence-based practices that permanently end homelessness, including support for new permanent supportive housing projects.

## **The Bonds**

Interest on the Bonds will be payable on April 1 and October 1 of each year, commencing [April 1, 2021] (each an "Interest Payment Date"). Interest on the Bonds to the date of the execution and delivery of the Lease, or, if the Lease Agreement is not delivered, to the 30th day following the Lease Delivery Deadline will be funded from a portion of the proceeds of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein. The Bonds are being issued as fully registered bonds and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The Bonds will be issued in denominations of \$5,000 and any integral multiple thereof. DTC will act as securities depository of the Bonds. Individual purchases of Bonds will be made in book-entry form only. Payments of principal of and interest on the Bonds are to be made to purchasers by DTC through DTC Participants. Purchasers will not receive physical delivery of the Bonds purchased by them. See "THE BONDS" herein and APPENDIX G – "BOOK-ENTRY SYSTEM" attached hereto.

The Bonds are subject to optional, mandatory and extraordinary redemption prior to their stated maturities, as described herein. See "THE BONDS – Redemption" herein.

## **Designation as Social Bonds**

The Issuer is designating the Bonds as "Social Bonds." The Issuer has determined that the Project to be financed with the proceeds of the Bonds is a "Social Project," based on the social benefits of addressing affordable housing within the City. The designation of the Bonds as Social Bonds is intended to generally comport with The Social Bond Principles promulgated by the International Capital Market Association ("ICMA"), updated as of June 2018. The term "Social Bonds" is neither defined in nor related to provisions in the Indenture. Owners of the Bonds do not have any security other than as provided in the Indenture and described herein, nor do Owners of the Bonds assume any specific project risk related to the Project funded thereby. "Social Projects" and "Social Bonds" are entirely self-designating labels lacking any objective guidelines or criteria. ICMA is a European-based entity with some members from the United States. The Issuer assumes no obligation to ensure that the Project financed with proceeds of the Bonds complies with any legal or other standards or principles that may relate to "Social Projects" or that the Bonds comply with any legal or other standards or principles that may relate to "Social Bonds." The designation of the Bonds as Social Bonds does not entitle the holders of such obligations to any special treatment under the Internal Revenue Code of 1986, as amended.

## **Security for the Bonds During Construction of the Project**

The Bonds are special limited obligations of the Issuer secured by the Trust Estate pledged to the Bonds under the Indenture. Payment of the principal of and interest on the Bonds will be made primarily from loan payments under a Loan Agreement, dated as of July 1, 2020 (the "Loan Agreement"), by and between the Issuer and the Borrower. From the date of delivery of the Bonds to the initial purchaser thereof (the "Date of Delivery") until the execution, delivery and commencement of the Lease Agreement (expected in the summer 2021), the Bonds will be secured by capitalized interest and an Irrevocable Standby Letter of Credit to be delivered by Citibank, N.A. (the "Letter of Credit Provider") in connection

with the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE STANDBY LETTER OF CREDIT” herein and APPENDIX H – “INFORMATION REGARDING THE LETTER OF CREDIT PROVIDER” attached hereto.

The Bonds are further secured during the construction period for the Project and thereafter while the Bonds are outstanding by a Bond Promissory Note and First Leasehold Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (“Leasehold Deed of Trust”) made by the Borrower in favor of the Issuer and assigned to the Trustee, as described herein. See “SOURCES OF SECURITY AND PAYMENT FOR THE BONDS” herein.

### **Security for the Bonds Following Construction of the Project**

The Bonds are special limited obligations of the Issuer secured by the Trust Estate pledged to the Bonds under the Indenture. Payment of the principal of and interest on the Bonds will be made primarily from loan payments under the Loan Agreement. In fulfillment of its obligations under the Loan Agreement, the Borrower will assign to the Trustee all its right title and interest in and to the Lease Agreement between the City and the Borrower (the “Lease Agreement”) to be executed and delivered by the City upon satisfaction of certain conditions relating to Project, as described herein.

The City will be required under the Lease Agreement, when executed and delivered upon satisfaction of certain conditions relating to the Project, as described herein, to make Rent Payments each year from any source of legally available funds, in an amount sufficient to pay the annual principal of and interest on the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein and APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” attached hereto. The City’s obligation to make Rent Payments is subject to abatement, as described herein. The City has covenanted in the Lease Agreement to take such action as may be necessary to include and maintain all Rent Payments in its budget and to make the necessary appropriations therefor, subject to such abatement. See “SOURCES OF SECURITY AND PAYMENT FOR THE BONDS – Lease Agreement – *Abatement*” and “RISK FACTORS – *Abatement*” herein.

The Bonds are further secured by the Bond Promissory Note and the Leasehold Deed of Trust, as described herein. See “SOURCES OF SECURITY AND PAYMENT FOR THE BONDS – Leasehold Deed of Trust” herein.

In connection with the Project, the Borrower will enter into a Regulatory Agreement (defined herein), that sets forth certain income restrictions for residents of the apartment units. See “SOURCES OF SECURITY AND PAYMENT FOR THE BONDS – Regulatory Agreement” herein.

### **No Reserve Fund**

The Issuer is not funding a reserve fund for the Bonds.

### **Limited Obligation**

The Bonds are limited obligations of the Issuer, payable solely from the funds and moneys pledged and assigned under the Indenture. None of the Issuer, the State, or any political subdivision thereof (except the Issuer, to the limited extent set forth in the Indenture) or the City shall in any event be liable for the payment of the principal of, premium (if any) or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever except as set forth herein, and none of the Bonds or any of the Issuer’s agreements or obligations shall be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of or a moral obligation of any

of the foregoing within the meaning of any constitutional or statutory provision whatsoever. The Issuer has no taxing power.

### **Continuing Disclosure**

The City and the Borrower have each covenanted for the benefit of the Bondholders to provide certain financial information and operating data relating to the City and the Borrower and notices of enumerated events under Rule 15c2-12 of the U.S. Securities and Exchange Commission. See “CONTINUING DISCLOSURE” herein and APPENDIX E – “FORMS OF CONTINUING DISCLOSURE CERTIFICATES” attached hereto.

### **Availability of Legal Documents**

The summaries and references contained herein with respect to the Bonds, the Indenture, the Loan Agreement, the Ground Lease, the Lease Agreement, the Sublease Agreement, the Bond Promissory Note, the Leasehold Deed of Trust, the Regulatory Agreement, statutes, agreements and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the documents described herein are available from the Borrower at 1256 Market Street San Francisco, California 94102, Attention: Associate Director.

## **THE PROJECT**

### **General**

**General Description of Project.** The Project is a planned PSH development that will provide 145 studio units for chronically homeless individuals in the City. The site is in the central South of Market Area of the City between 6<sup>th</sup> and 7<sup>th</sup> Streets on 833 Bryant Street, which is across from the Hall of Justice. The site is central to public transit, grocery stores, and community parks. In addition to the housing units on the site there will also be located one manager’s unit, a small commercial storefront, community space for residents, and office space. Only the housing units are part of the Project to be financed with the proceeds of the Bonds. The overall residential square footage is approximately 61,800 square feet within 6 floors. The Project is designed to achieve Green Point Rating Silver level with an expected score of 107.

The Project is fully entitled and currently under construction. The Project is 35% complete and completion is scheduled the summer of 2021. The Borrower expects full occupancy of the Project by the end of that year. Currently there are no material project delays expected as a result of the COVID-19 pandemic or recent civil unrest. However, no assurance can be provided that future events will not materially delay the Project. See “RISK FACTORS” herein.

**Innovative Modular Housing.** The Borrower believes that the Project will be the City’s first 100% supportive affordable development built with modular housing from Factory\_OS that will be assembled entirely off site at the Factory\_OS facility in Vallejo, California. Modular construction is being used to assist in expediting the development process and provides significant cost savings over conventional construction. Construction for the Project consists of 1 floor of Type I construction, typically found in high-rise buildings with fire resistive and non-combustible materials, and 5 floors of wood construction.

**Construction Contract.** Cahill Contractors LLC (“Cahill”), a privately held limited liability company, is serving as the general contractor for the Project. See “– Key Project Team Members – Construction Contract” below. Cahill is performing work on the Project under an American Institute of

Architects (AIA) A102 guaranteed maximum price contract, where the basis of payment is the cost of the work plus a fee. The current maximum price under all change orders to date is \$38,887,217.

**Environmental Review and Soils Removal.** The Project and remainder of the site was exempt from CEQA under State law. A Phase I Environmental Site Assessment and Subsurface Investigation Report were prepared prior to the site’s purchase by SFHAF. Federal Class I soils (having slight limitations that restrict their use) and State Class II soils (having moderate limitations that restrict the choice of plants or that require moderate conservation practices) were found on the site. The needed level of safe removal and disposal of those soils has been reviewed and approved by the San Francisco Department of Public Health (“SFPDH”) pursuant to San Francisco Health Code Article 22A (the “Maher Ordinance”). SFPDH approved a site mitigation plan based on their review and the Borrower will be required to install a vapor barrier to mitigate release from volatile compounds.

**Project Construction Status.** Construction of the modular units began in January 2020 and is expected to be completed by August 28, 2021. As of the date of this Official Statement 11 of 87 modular volumes (which include 2 housing units and the corridor joining them, as well as the building’s stairwell, trash room, etc.) have been completed and are in storage on sites near the Factory\_OS facility on Mare Island and work is ongoing with an additional 12 units in process. Factory\_OS did experience a 20-30% reduction in factory floor workforce during the shelter-in-place orders. While units are underway at the factory subsurface infrastructure and underground utilities will be completed on site. On site construction for the Project began in March 2020. Construction (including modular unit production) is approximately 35% complete and a Temporary Certificate of Occupancy (“TCO”) for the overall project is expected by August 28, 2021. Cahill and Factory\_OS have confirmed to the Borrower, that despite COVID-19 the Project is expected to be completed on schedule.

**Project Cost.** The total development cost for the overall project at 833 Bryant Street is approximately \$55 million, funded with a mix of philanthropic funds, Low Income Housing Tax Credits (“LIHTC”) and proceeds from the Bonds. Proceeds from the Bonds will only finance the residential units that comprise the Project. The following table sets forth the estimated sources and uses of funds for the overall project:

<b><u>833 Bryant Street - Pro Forma Budget*</u></b>	
<b><u>Sources of Funds</u></b>	<b><u>Amount</u></b>
Bond Proceeds	\$31,537,526
Homes for the Homeless Fund	1,230,313
Tax Credit Equity	<u>22,135,100</u>
<b>Total</b>	<b>\$54,902,939</b>
<b><u>Uses of Funds</u></b>	<b><u>Amount</u></b>
Acquisition Related Costs	\$ 1,257,929
Construction Hard Costs	38,887,217
Financing Costs, Fees, and Capitalized Interest	5,640,273
Developer Fee	1,700,000
Other Soft Costs	<u>7,417,520</u>
<b>Total</b>	<b>\$54,902,939</b>

\* Preliminary, subject to change.

## **Development and Funding Partners**

***The Borrower, Mercy Calwest and Mercy Housing.*** 833 Bryant, L.P., the Borrower, is a California limited partnership. 833 Bryant LLC, a California limited liability company, is the Borrower's general partner and Mercy Housing Calwest ("Mercy Calwest"), a California nonprofit public benefit corporation, is the Borrower's sole member/manager. Mercy Calwest is wholly controlled by Mercy Housing, Inc. ("Mercy Housing"), a national affordable housing nonprofit headquartered in Denver, Colorado. Citibank, N.A., as tax credit investor, will have an equity interest in the overall project. To accomplish this, Citibank, N.A. will become a 99.99% limited partner owner of the Borrower on the Delivery Date. Mercy Housing will remain as the controlling member. Citibank, N.A.'s rights under the partnership agreement with the Borrower align with the City's right to remove Mercy Housing in the event of abatement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rental Abatement" herein.

Established by the Sisters of Mercy in 1981, and in operation in 41 states, Mercy Housing has experience developing, preserving, managing, and financing affordable housing, with regional offices currently in Atlanta, Chicago, Denver, San Francisco, and Seattle. Mercy Housing subsidiaries serve tens of thousands of people with low incomes, including families, seniors, veterans, people who have experienced homelessness, and people with disabilities. Mercy Housing has extensive experience developing permanent supportive, affordable housing using LIHTC and conducting all aspects of asset management required for tax credit financing.

***California Housing Partnership Corporation.*** The California Housing Partnership Corporation was created by the California Legislature in 1988 as a private nonprofit organization with a public mission and is serving as the financial consultant to Mercy Housing on behalf of the Borrower in connection with the Project. The California Housing Partnership Corporation through LIHTC syndication, tax-exempt bond financing, and State and local affordable housing programs, has helped hundreds of nonprofit and local government partners leverage \$18 billion to create 70,000 affordable homes over the past 30 years in California.

***The San Francisco Housing Accelerator Fund / The Homes for the Homeless Fund.*** The San Francisco Housing Accelerator Fund ("SFHAF") is a 501(c)(3) nonprofit organization established for the purpose of bringing innovative financial tools to affordable housing production and preservation. It is the sole member of its wholly owned subsidiary, the Homes for the Homeless Fund, which is a pool of \$50 million in flexible, private dollars funded through a philanthropic contribution from Tipping Point Community dedicated to producing more housing for chronically homeless individuals in the City. SFHAF and Tipping Point Community's purpose for the Homes for the Homeless Fund is to produce a supportive housing model that is more cost-effective and quicker than the norm, and 833 Bryant is its inaugural project. A second subsidiary of SFHAF, San Francisco Homes for the Homeless No. 1 LLC, a California limited liability company (also with SFHAF as its sole member), is the fee owner of the Project site (the "Landowner"). The Project site will be leased by the Landowner to the Borrower pursuant to the Ground Lease (described herein).

## **Key Project Team Members**

***Developer.*** Mercy Housing is serving as the developer for the Project. As described above, Mercy Housing has experience developing, preserving, managing, and financing affordable housing throughout the country. Mercy Housing has developed over 50 multifamily (with the majority being mixed use) properties in San Francisco over the past 35 years. Mercy Housing's experience includes many unique



projects, combining the HUD 202 program with tax credits and creating independent living housing opportunities for elders living in long-term care facilities. Mercy Housing's most senior housing development staff comprised of Barbara Gualco, Ramie Dare, Sharon Christen and Tim Dunn have over 80 combined years of affordable housing development experience in San Francisco. Sharon Christen (833 Bryant's project manager) led the Mission Creek Senior Community development, which was the first affordable senior development in San Francisco that worked with the City to refer frail, homeless seniors exiting long-term care and the development of Bill Sorro Community (named one of the 10 best San Francisco buildings of the 2000 decade by the San Francisco Chronicle).

*Doug Shoemaker, President*, leads Mercy Housing California ("MHC"), the largest regional affiliate of Mercy Housing, Inc. Mr. Shoemaker has been with MHC since 2011 and is responsible for overseeing all aspects of MHC's work in the State. Prior to joining Mercy Housing, he served as the Director of the San Francisco Mayor's Office of Housing and Community Development under Mayors Gavin Newsom and Edwin Lee. During his 25 years in the affordable housing field, Mr. Shoemaker has participated in the entitlement of over 10,000 homes as either a developer or a key public agency negotiator on development agreements. During his time at Mercy Housing, the organization has increased its development pipeline to include over 40 projects and 4,000 units in active development with a total investment cost of over \$2 billion.

*Barbara Gualco, Regional Director of Development*, serves as MHC's Director of Real Estate Development. Barbara has over 30 years of experience in affordable housing development and has been with MHC since its founding. Ms. Gualco has directly worked on or supervised the majority of the San Francisco Bay Area portfolio of Mercy Housing projects. She is particularly adept at structuring complex deals serving special needs populations. With the support of two Associate Directors, Ms. Gualco is currently supervising the development of 20 projects in the San Francisco Bay Area.

*Sharon Christen, Associate Director of Permanent Supportive Housing*, has more than 20 years of affordable housing experience, mostly for projects in San Francisco, specifically in the South of Market neighborhood, serving homeless adults and seniors. Ms. Christen's past projects include Hotel Isabel, Howard Street Senior Housing, Mission Creek Senior Community, Hotel Essex, Edith Witt Senior Community, Vera Hale Senior Housing, and Bill Sorro Community. These projects all include a supportive or formerly homeless component and represent nearly 800 units of new construction and acquisition/rehabilitation

**Construction Contractor.** Cahill Contractors LLC is a majority family-owned general contractor with a portfolio that includes multi-family residential, education, hospitality, and other commercial construction. With offices in San Francisco and Oakland, Cahill works throughout the Bay Area. Now in its fourth generation of family leadership, Cahill and its predecessor entities have been building lasting relationships and quality structures with integrity since 1911. In addition to its substantial experience in affordable housing construction, Cahill completed its first modular project in 2015 and is currently working on several modular affordable housing projects around the Bay Area. Cahill's affordable housing experience in the San Francisco Bay Area includes: Coliseum Connections (Modular, 110 units, completed in 2019), Parcel O (Type V over I, 112 units, completed in 2019), Eddy & Taylor Family Apartments (Type I, 113 units, completed in 2019), Rene Cazenave Apartments (Type I, 120 units, completed in 2013), Drs. Julian & Raye Richardson Apartments (Type V over I, 120 units, completed in 2011).

**Construction Manager.** Regent Construction Management ("RCM"), led by Chris Rivera, is located in the City and primarily provides construction management services for publicly funded affordable, multifamily mixed use Type I, III, and V construction developments, primarily in San Francisco. Since RCM's inception in 2007, the firm has worked with Mercy Housing. Prior to forming

RCM, Mr. Rivera worked at Cahill Contractors, Inc. for 11 years as a senior project manager, working on civic projects (including the San Francisco Jewish Community Center and the San Francisco Arch Diocesan Offices) in addition to affordable housing. Mr. Rivera has worked with Mercy Housing on several mixed use, publicly funded, affordable housing developments.

*Architect.* David Baker Architects, Inc. (“DBA”) has extensive Bay Area affordable housing expertise, having completed more than 75 multifamily developments including more than 13,000 homes, with more than 7,500 of those being affordable homes built as multifamily housing Type I, III, and V construction. They are the local experts in modular housing design and construction, having completed design on four modular developments and through principal David Baker’s work with Factory\_OS as design architect early in the factory’s development.

**ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds are summarized as follows.

<b>Sources:</b>	
Principal Amount	\$
[Net] Premium (Discount)	
<b>Total Sources</b>	\$
 <b>Uses:</b>	
Project Fund	\$
Capitalized Interest Account <sup>(1)</sup>	
Costs of Issuance Fund <sup>(2)</sup>	
[Fees Fund]	
<b>Total Uses</b>	\$

<sup>(1)</sup> Represents capitalized interest accruing on the Bonds through Lease Delivery Deadline.

<sup>(2)</sup> Costs of Issuance include Underwriter’s discount, fees and expenses for Bond Counsel, Underwriter’s Counsel, and Trustee, printing expenses, ratings fees and other costs related to the issuance of the Bonds.

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## DEBT SERVICE REQUIREMENTS

The following table shows the annual debt service requirements on the Bonds, assuming no extraordinary or optional redemptions.

<b>Fiscal Year Ending (June 30)</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2020	\$	\$	\$
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2050			
<b>TOTAL</b>	\$	\$	\$

<sup>(1)</sup> Represents capitalized interest accruing on the Bonds through the Lease Delivery Deadline.

## THE BONDS

### General

The Bonds will be dated the date of their delivery and mature on April 1 in the years and in the amounts shown on the inside cover page of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30 day months and will be payable in arrears on each Interest Payment Date. The principal of and interest on the Bonds shall be payable in lawful money of the United States of America upon surrender at the Principal Corporate Trust Office. So long as the registered owner of the Bonds is Cede & Co., payment of principal and redemption shall be made without presentment.

The principal of and interest on the Bonds shall be payable in lawful money of the United States of America. The principal of the Bonds shall be payable at the corporate trust operations office of the Trustee in San Francisco, California, or at the duly designated office of any successor Trustee or paying agents appointed under the Indenture. Payment of interest on any Bond shall be made to such person who is the Holder thereof on the Record Date and shall be paid by wire, or by check or draft mailed to such person who is the Holder on the Record Date at his address as it appears on the registration books of the Issuer maintained by the Trustee or at such other address as is furnished to the Trustee in writing by such Holder. "Record Date" means the fifteenth day of the calendar month next preceding the calendar month in which occurs an Interest Payment Date.

### Book-Entry Only

The Bonds are being issued as fully registered bonds and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The Bonds will be issued in denominations of \$5,000 and any integral multiple thereof. DTC will act as securities depository of the Bonds. Individual purchases of Bonds will be made in book-entry form only. Payments of principal of and interest on the Bonds are to be made to purchasers by DTC through DTC Participants. Purchasers will not receive physical delivery of the Bonds purchased by them. APPENDIX G – "BOOK-ENTRY SYSTEM" attached hereto.

### Redemption\*

**Optional Redemption.** The Bonds maturing on or after April 1, 2031, are subject to redemption prior to their respective stated maturity, at the option of the Issuer upon the direction of the Borrower, from any source of available funds, as a whole or in part on any date specified by the Borrower on or after April 1, 2030 at a redemption price equal to the principal amount of Bonds called for redemption, together with interest accrued thereon if, any, to the date fixed for redemption.

**Mandatory Sinking Fund Redemption.** The \$\_\_\_\_\_ Term Bond maturing on April 1, 20\_\_, is also subject to mandatory sinking fund redemption prior to their stated maturity, from amounts on deposit in the Bond Fund, in part, by lot, at a redemption price equal to the principal amount thereof, together with accrued interest thereon, if any, to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (April 1)	Principal Amount To be Redeemed
_____	_____
	\$

\* Preliminary, subject to change.

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† Final maturity.

***Extraordinary Mandatory Redemption – Extraordinary Event Proceeds Fund (Insurance, Condemnation).*** The Bonds are subject to mandatory redemption prior to their stated maturity, from amounts on deposit in the Extraordinary Event Proceeds Fund as a result of fire or other casualty, or sale of the Project or related equipment pursuant to the terms of the Lease Agreement and applied to such purpose, in whole or in part on any date on or after October 1, 2022, at a redemption price equal to the principal amount of Bonds called for redemption, together with interest accrued thereon if, any, to the date fixed for redemption, plus Applicable Premium.

***Extraordinary Mandatory Redemption from Failure to Deliver Lease.*** The Bonds are subject to mandatory redemption in whole prior to their stated maturity, on the 30<sup>th</sup> day following the Lease Delivery Deadline upon failure by the Trustee to receive delivery of the Lease Delivery Notice on or prior to the Lease Delivery Deadline, at a redemption price equal to the principal amount of Bonds called for redemption, together with interest accrued thereon if, any, to the date fixed for redemption, plus Applicable Premium (as defined in the Indenture), on the earliest date for which notice of redemption can reasonably be given in accordance with the Indenture. See “APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” attached hereto.

“Lease Delivery Notice” means a written notice from the Borrower and the City to the Trustee, substantially in the form attached to the Indenture, providing notice that (i) the Lease Agreement attached to the notice is a true, correct and complete copy of the same, (ii) the Lease Agreement conforms in all material respects to the form of Lease Agreement appended to the Indenture, (iii) the effective date of the Lease Agreement is as of the date provided in the notice, and (iv) the Lease Agreement is in full effect.

“Lease Delivery Deadline” means September 1, 2022, or such later date upon Borrower’s provision to the Trustee for deposit into the Capitalized Interest Account an amount sufficient for the funds in the Capitalized Interest Account to pay all interest due on the Bonds through the thirtieth day following the extended Lease Delivery Deadline (or if such thirtieth day is not a Business Day, to the next Business Day). The Lease Delivery Deadline may be extended upon Borrower’s provision to the Trustee for deposit into the Capitalized Interest Account under the Indenture an amount sufficient for the funds in the Capitalized Interest Account to pay all interest due on the Bonds through the thirtieth day following the extended Lease Delivery Deadline (or if such thirtieth day is not a Business Day, to the next Business Day) together with an amendment to the Letter of Credit extending the expiration date to the Letter of Credit to a date not less than [45 days] following the extended Lease Delivery Deadline.

***Partial Redemption.*** Upon surrender of any Bond for redemption in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to the holder thereof a new Bond or Bonds of the same series and the same maturity, of Authorized Denominations, in an aggregate principal amount equal to the unredeemed portion of the Bond surrendered; provided, however, that while a Book Entry System is in effect, the Bonds held by the Securities Depository need not be surrendered for a partial redemption.

***Notice of Redemption.*** The Trustee shall send notice of each redemption to each Bondholder by first class mail (i) in the case of optional or mandatory sinking fund redemption, no more than 60 days and at least 20 days before each redemption and, (ii) in the case of a mandatory redemption pursuant to the Indenture, at least 20 days before each redemption. Each redemption notice shall identify the Bonds



or portions thereof to be redeemed and shall state (i) the date of the said notice, (ii) the original date of execution and delivery of the Bonds to be redeemed, (iii) the rate of interest borne by the Bonds to be redeemed, (iv) the date of maturity of the Bonds, (v) the numbers and CUSIP numbers of the Bonds to be redeemed, (vi) the type of redemption and the redemption date (and, if accrued interest will not be paid on the redemption date, the date it shall be paid), (vii) the redemption price, (viii) that the Bonds called for redemption must be surrendered to the Trustee at its designated corporate trust office to collect the redemption price, (ix) the address at which the Bonds must be surrendered, (x) that interest on the Bonds called for redemption ceases to accrue on the redemption date provided sufficient funds for the redemption are on deposit with the Trustee on the redemption date, and (xi) such additional descriptive information identifying the Bonds to be redeemed as may be deemed appropriate by the Trustee to effect the redemption. Such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Bonds. A copy of each notice of redemption also shall be sent by the Trustee to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website ("EMMA") in such form as required by EMMA.

**Conditional Notice.** Any redemption notice delivered pursuant to the Indenture may specify that redemption of the Bonds on the proposed redemption date is conditioned upon receipt by the Trustee of sufficient funds on such date to effect such redemption, or upon such other conditions as may be specified in the notice. If at the time the Trustee gives notice of optional redemption pursuant to the Indenture there shall not have been deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice may (and upon the direction of the Borrower, shall) state that it is conditional, that is, subject to the deposit of the redemption moneys with the Trustee on or prior to the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

**Selection of Bonds for Redemption.** Except in the case of a redemption from extraordinary event proceeds, whenever provision is made in the Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Trustee shall select the Bonds to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot; provided, however that in such instances as provided for herein where the Borrower is to specify the amount or maturities of Bonds to be redeemed the Trustee shall redeem Bonds in accordance with any such specification (or, if the Borrower fails to so specify, as required under such provision).

With respect to redemption from amounts on deposit in the Extraordinary Event Proceeds Fund, if less than all of the Bonds are called for redemption the Trustee shall redeem Bonds of each maturity and credit each sinking fund payment as nearly as possible to *pro rata* in \$5,000 increments. If less than all of the Bonds of any given maturity are called for redemption, the portions of such Bonds of a given maturity to be redeemed shall be determined by lot in \$5,000 increments.

### **Purchase of Bonds in Lieu of Redemption**

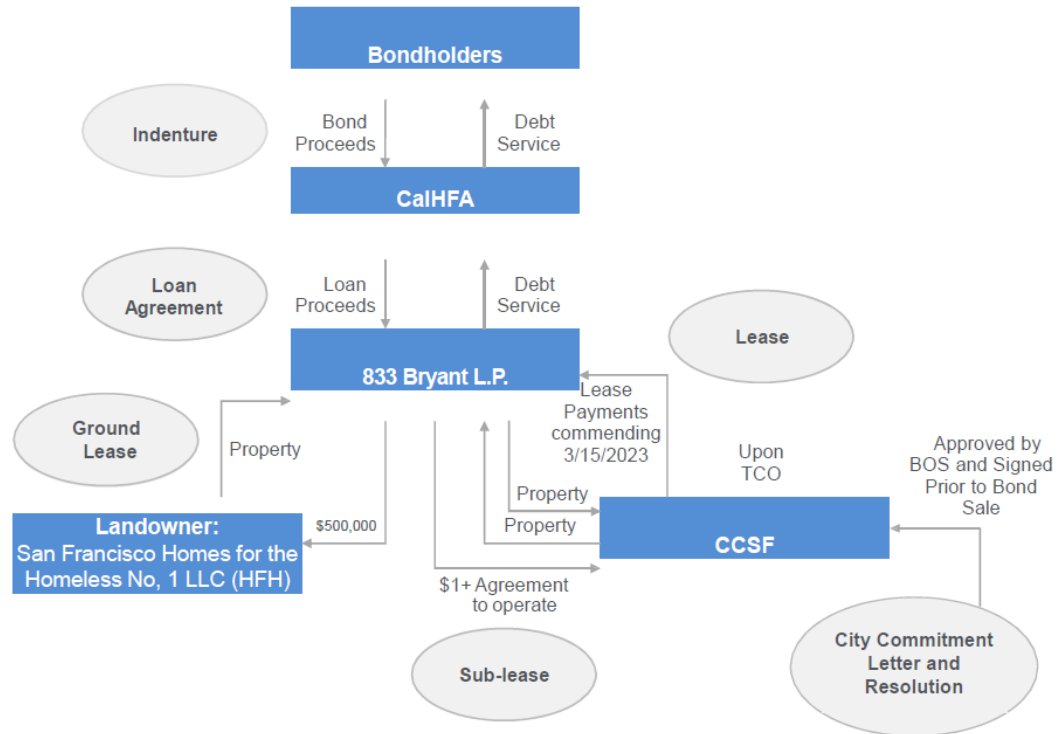
If the Bonds are subject to extraordinary mandatory redemption under the Indenture as described under the caption "THE BONDS – Redemption – *Extraordinary Mandatory Redemption from Failure to Deliver Lease*" herein, the Bonds may be purchased by the Trustee (for the account of the Borrower or the Letter of Credit Provider or their respective designee, as directed by such party) on the date that would be the redemption date. Such date will be treated as a mandatory tender date for purposes of the Indenture, at the direction of the Letter of Credit Provider or the Borrower, with the prior written consent of the Letter of Credit Provider (which direction shall specify that such purchase is pursuant to this Section and shall be given no later than 5:00 p.m., New York City time two Business Days prior) on such redemption date, at a purchase price equal to the redemption price which would have been applicable to such Bonds on the redemption date. If the Trustee is so directed to purchase Bonds in lieu of redemption, no notice to the holders of the Bonds to be so purchased (other than the notice of redemption otherwise required

hereunder) will be required, and the Trustee will be authorized to apply to such purpose the funds which would have been used to pay the redemption price for such Bonds if such Bonds had been redeemed rather than purchased. APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” attached hereto.

## SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

### General

The Bonds are special limited obligations of the Issuer secured by the Trust Estate pledged to the Bonds under the Indenture. Payment of the principal of and interest on the Bonds will be made primarily from loan payments under the Loan Agreement. In fulfillment of its obligations under the Loan Agreement, the Borrower will assign to the Trustee all its right title and interest in and to the Lease Agreement between the City and the Borrower to be executed and delivered by the City as further described below. The following diagram provides a broad overview of the financing structure relating to the Bonds:



The City will be required under the Lease Agreement when executed and delivered to make Rent Payments from any source of legally available funds in an amount equal to 1.15 times the scheduled payments of principal of and interest on the Bonds. The City expects to execute and deliver the Lease Agreement and the Sublease Agreement by and between the Borrower and the City (the “Sublease Agreement”) in August 2021, upon satisfaction of certain conditions relating to Project, as described below. The City will covenant in the Lease Agreement to take such action as may be necessary to include and maintain all Rent Payments in its budget and to make the necessary appropriations therefor, subject to such abatement. See “RISK FACTORS – Abatement” herein.

## **Limited Obligation**

The Bonds are limited obligations of the Issuer, payable solely from the funds and moneys pledged and assigned under the Indenture. None of the Issuer, the State, or any political subdivision thereof (except the Issuer, to the limited extent set forth in the Indenture) or the City shall in any event be liable for the payment of the principal of, premium (if any) or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever except as set forth herein, and none of the Bonds or any of the Issuer's agreements or obligations shall be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of or a moral obligation of any of the foregoing within the meaning of any constitutional or statutory provision whatsoever. The Issuer has no taxing power.

## **No Additional Parity or Subordinate Indebtedness**

The Issuer may not issue additional indebtedness payable from the Trust Estate on parity with or subordinate to the Bonds.

## **Flow of Funds from Revenue Fund Under Indenture**

The Trustee shall deposit into the Revenue Fund (i) all Rent Payments received by the Trustee pursuant to the Lease Agreement; (ii) any other amounts received from the Borrower and designated by the Borrower in writing for deposit into the Revenue Fund; and (iii) all investment earnings, except as otherwise expressly provided herein. Two Business Days prior to each Bond Payment Date the Trustee shall make the following transfers in the following order of priority:

- (a) to the Fees Fund, an amount equal to the Trustee Fee, the Issuer Fee, and the Rebate Analyst Fee;
- (b) to the Bond Fund, an amount equal to the interest due on the Bonds on the next Bond Payment Date (subject to pro rata adjustment for deposits prior to the first Bond Payment Date);
- (c) to the Bond Fund, an amount equal to the principal and mandatory sinking payments due on the Bonds on the next Bond Payment Date; and
- (d) to the Rebate Fund, the amount, if any, the Trustee is to deposit therein pursuant to the Indenture;

Two Business Days prior to each October 1 Bond Payment Date the Trustee shall make the following transfers in the following order of priority:

- (a) to the Bond Fund, an amount equal to the interest due on the Bonds on the next Bond Payment Date; and
- (b) to the Rebate Fund, the amount, if any, the Trustee is to deposit therein pursuant to the Indenture.

No deposit required for the Funds referenced above need be made if the amount on deposit in the applicable Fund and available for the purposes set forth in the Indenture is sufficient to pay the obligations payable from such Fund in a timely manner.

Prior to the Lease Delivery Notice, all investment earnings received by the Trustee shall be deposited in the Project Fund. Following the Lease Delivery Notice, all investment earnings received by the Trustee shall be deposited in the Revenue Fund.

### **Standby Letter of Credit During Construction Period**

From the Date of Delivery until Lease Delivery Notice, the Bonds will be secured by capitalized interest funded from Bond proceeds and an Irrevocable Standby Letter of Credit to be delivered by the Letter of Credit Provider in an amount equal to \$\_\_\_\_\_ in connection with the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE STANDBY LETTER OF CREDIT” herein.

### **Loan Agreement**

Payment of the principal of and interest on the Bonds will be made primarily from loan payments under the Loan Agreement. In fulfillment of its obligations under the Loan Agreement, the Borrower will assign to the Trustee all its right title and interest in and to the Lease Agreement between the City and the Borrower to be executed and delivered by the City upon satisfaction of certain conditions relating to Project, as described herein.

### **Lease-Leaseback; Annual Appropriation**

**Ground Lease.** San Francisco Homes for the Homeless No. 1 LLC, a California limited liability company, the Landowner, has entered into that Ground Lease, dated March 1, 2020 for an initial term of 57 years (with one allowable extension term of 42 years) with the Borrower. As long as the Bonds are outstanding under the Indenture, the Ground Lease will not terminate. The Ground Lease provides that the Borrower may enter into a lease-leaseback arrangement with the City for the purpose of financing the Project.

**City Commitment.** On June 26, 2020, the Board of Supervisors of the City approved Resolution No. \_\_ (the “Commitment Resolution”), authorizing the City to execute a commitment letter to enter into the Lease Agreement and Sublease Agreement, contingent only on the Borrower’s satisfaction of conditions precedent as follows: (i) Borrower’s securing a Temporary Certificate of Occupancy from the City’s Department of Building Inspection for the Project and other improvements on the site; (ii) the Director of the City’s Department of Homelessness and Supportive Housing’s (“HSH’s”) determination that placement of tenants is ready to commence through referrals by HSH through the City’s Coordinated Entry System; and (iii) the Director of HSH’s determination that the annual rent has been adjusted to reflect the Project’s financing in an amount not to exceed \$2,014,800 per year.

On \_\_\_\_\_, 2020 the City executed and delivered the commitment letter to the Borrower. The City expects to execute and deliver the Lease Agreement and the Sublease Agreement in August 2021. However, if the conditions described in the Commitment Resolution are not satisfied by Lease Delivery Deadline, as the same may be extended in accordance with the Indenture, the Trustee shall draw on the Letter of Credit and the Bonds shall be subject to a full mandatory redemption in the amount outstanding plus premium. See “THE BONDS – Redemption – *Extraordinary Mandatory Redemption from Failure to Deliver Lease*” herein.

**Lease Agreement; Assignment of Rent Payments.** The Borrower and the City have agreed on the form of the Lease Agreement, which has been approved in form by the Board of Supervisors of the City. Under the Lease Agreement, the City covenants to take such action as may be necessary to include each Rent Payment in its annual budget and to make the necessary appropriations for each annual Rent

Payment, subject to abatement. See “– Covenant to Budget and Appropriate” below. The Borrower will assign under the Lease Agreement all of its right, title and interest in Rent Payments necessary to pay debt service then due and payable under the Bonds and related fees to the Issuer to secure the Borrower’s obligations under the Loan Agreement and the Issuer will assign all of its right, title and interest in such payments to the Trustee to secure the Bonds, and the City will acknowledge such assignments. Accordingly, so long as any Bonds are outstanding, the City will make such payments (in an amount equal to any debt service payments then due and payable under the Bonds) by remitting such amounts directly to the Trustee.

***City Covenant to Budget and Appropriate.*** The City covenants in the Lease Agreement to take such action as may be necessary to include each Rent Payment in its annual budget and to make the necessary appropriations for each annual Rent Payment, subject to abatement as provided in the Lease Agreement; provided, however, the City’s obligation to make the Rent Payments does not constitute an obligation of the City to levy or pledge any form of taxation, or for which the City has levied or pledged any form of taxation. The requirement to include the Rent Payments in the annual budget and to make the necessary appropriations therefor are deemed to be, and shall be construed as, ministerial duties imposed by law. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rental Abatement” herein.

### **Sublease Agreement**

***General.*** The Borrower and the City have agreed on the form of the Sublease Agreement. When executed and delivered, the Borrower will pay the City as rent for the Property the sum of \$500,000 for this triple net lease. At no expense to the City, the Borrower will, among other things, repair and maintain the Property, be solely responsible for furnishing any utilities or services that the Borrower may need for its use of the Property, and be solely responsible for repairing any damage caused by fire, earthquake or other casualty. See “– Insurance” below and APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – Sublease Agreement” attached hereto.

***Operating and Tenant Services Subsidy Agreements.*** Pursuant to agreements to be executed and delivered by the City on or before the Lease Delivery Deadline, the City expects to provide an annual operating subsidy to the Borrower to support the increased operating costs and tenant services costs associated with providing long-term supportive housing services to chronically homeless individuals in the City. The City’s provision of such contracts is standard for its approximately 8,500 units of permanent supportive housing, and it sets contract values according to applicable levels of acuity, operating and staffing cost actuals, and benchmarks established through successfully operating, comparable projects. The Project compares favorably with recent PSH projects and master lease housing in San Francisco. For comparable City projects, operating costs average \$900 per unit per month and supportive services cost average \$550 per unit per month. On an annual basis, the City estimates operating and services costs of \$17,400 per unit before accounting for offset for tenant rental contributions, which are capped at 30% of tenant income. According to the City, the Project is within the range of typical PSH operating and services costs.

Under the Sublease Agreement, among other things, the Borrower covenants that if the City is making the full operating subsidy payments and the full tenant services subsidy payments as provided, the Borrower will provide or cause to be provided long-term supportive housing services to chronically homeless individuals. If the City is not making such payments in full, the Borrower will make the Property available for occupancy by low and moderate income persons at an affordability level determined by the Borrower and the City under the then applicable operating subsidy agreement, but at a minimum with residential rents and/or other available subsidy to cover operating expenses and achieve a 1.15 debt service coverage ratio. In such an event, the Borrower’s ability to serve households

experiencing homelessness will be reduced proportionately to the reduction in operating and tenant services subsidy payments provided by the City. Units that are no longer supported by City subsidy payments will transition over time to occupancy by low-income households. As described above, the new rent levels for units that transition from homeless to low-income housing would be established so that Project cash flow achieves a 1.15 debt service coverage ratio, which equates to a rent affordable to households earning approximately 45% of area median income (“AMI”) for San Francisco, as defined by the California Tax Credit Allocation Committee. The maximum rent for units transitioning to low-income housing would be 60% of AMI. Such adjusted rent levels would fully support operating payments for the Project.

### **Leasehold Deed of Trust**

The Bonds are further secured by the Bond Promissory Note and the Leasehold Deed of Trust. See “RISK FACTORS – Limitations Relating to the Leasehold Deed of Trust” herein.

### **Regulatory Agreement**

In connection with the development of 833 Bryant Street, a Regulatory Agreement and Declaration of Restrictive Covenants, dated as of July 1, 2020 (the “Regulatory Agreement”), by and among the Issuer, the Trustee and the Borrower will be delivered. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” attached hereto.

### **Insurance**

***Prior to Project Completion.*** Under the Ground Lease the Borrower is required to maintain during construction of the Project property and/or builder’s risk insurance, special form coverage, excluding earthquake and flood, for 100% of the replacement value of all completed improvements and property in the case, custody and control of the Borrower or its contractor, including coverage in transit and storage off-site; the cost of debris removal and demolition as may be reasonably necessary by such covered perils, resulting damage and any applicable law, ordinance or regulation; start up, testing and machinery breakdown including electrical arcing, copy of the applicable endorsement to the Builder’s Risk policy, if the Builder’s Risk policy is issued on a declared-project basis; and with a deductible not to exceed \$50,000 each loss. The policy cannot provide for any deduction for depreciation.

***After Project Completion.*** Following delivery of the Lese Delivery Notice, the Borrower will provide the following insurance coverages:

(i) Commercial general liability insurance with limits not less than One Million Dollars (\$1,000,000) combined single limit per occurrence and Two Million Dollars (\$2,000,000) annual aggregate limit for bodily injury and property damage, including coverage for contractual liability; personal injury; fire damage legal liability; advertisers’ liability; owners’ and contractors’ protective liability; products and completed operations; broad form property damage; and explosion, collapse and underground (XCU).

(ii) Umbrella Liability coverage in amount of not less than Ten Million Dollars (\$10,000,000).

(iii) Commercial Automobile Liability insurance, with limits not less than One Million Dollars (\$1,000,000) each occurrence, combined single limit for bodily injury and property damage, including owned, hired and non-owned auto coverage, as applicable

(iv) Worker's Compensation Insurance with Employer's Liability limits not less than One Million Dollars (\$1,000,000) each accident, if applicable.

(v) Business automobile liability insurance with limits not less than One Million Dollars (\$1,000,000) each occurrence combined single limit for bodily injury and property damage, including owned and non-owned and hired vehicles, as applicable, if the Borrower uses automobiles in connection with its use of the Property.

(vi) Rental interruption insurance ("Rental Interruption Insurance") covering an abatement of the City's obligation to make the Rent Payments as a result of a loss, total or partial, covered by the Casualty Insurance impairing the Borrower's ability to operate its business at the Property in an amount equal to the annual Rent Payments for a period of at least one (1) year (for two (2) years if available on the open market from reputable insurance companies at a reasonable cost, as determined by the Borrower). Rental Interruption Insurance shall name the Trustee as a beneficiary.

(vii) Licensed professionals (i.e., architects, engineers, certified public accountants, etc.) will provide professional liability insurance with limits not less than \$1,000,000 each claim with respect to negligent acts, errors, or omissions in connection with professional services to be provided to the Property.

(viii) (A) Property insurance, excluding earthquake and flood, in the amount no less than one hundred percent (100%) of the replacement value of all completed improvements and property in the care, custody and control of the Borrower or its contractor. For rehabilitation/construction projects that are unoccupied by residential or commercial tenants, tenants must obtain property insurance by the date that the project receives a certificate of substantial completion; and (B) boiler and machinery insurance, comprehensive form, covering damage to, loss or destruction of machinery and equipment located on the Development that is used by Borrower for heating, ventilating, air-conditioning, power generation and similar purposes, in an amount not less than one hundred percent (100%) of the actual replacement value of such machinery and equipment with a deductible not to exceed Twenty Five Thousand Dollars (\$25,000) each loss.

(ix) Other insurance as is generally required by commercial owners of buildings similar in size, character, age, and location as the Property, as may change from time to time, and insurance that is required pursuant to the Ground Lease.

Each insurance policy required above under the Sublease Agreement will be issued by an insurance company licensed in the State of California and with a general policyholders' rating of "A-" or better and a financial size ranking of "Class VIII" or higher in the most recent edition of Best's Insurance Guide. See, however, "RISK FACTORS – Risk of Uninsured Loss" herein.

### **Rental Abatement**

Under the Lease Agreement, when executed and delivered, during any period during which an Abatement Event has occurred and is continuing, Rent Payments due thereunder will be abated proportionately to the impact of such Abatement Event on the City's beneficial use of the Property. The City waives all rights to terminate the Lease Agreement by virtue of any such interference and it will continue in full force and effect.

“Abatement Event” means the occurrence and continuation of any of the following:

(a) If the City is making the full operating subsidy payments as provided in the Operating Subsidy Agreement and the full tenant services subsidy payments as provided in the Tenant Services Subsidy Agreement, the Partnership shall fail, for a period of six months during which time the City shall have been using its best efforts to compel such compliance (exercising its remedies under the Sublease), to substantially comply with its obligation to provide or cause to be provided long-term supportive housing services to chronically homeless individuals as provided in the Operating Subsidy Agreement and the Tenant Services Subsidy Agreement.

(b) If the City is not making the full operating subsidy payments as provided in the Operating Subsidy Agreement or the full tenant services subsidy payments as provided in the Tenant Services Subsidy Agreement, the Partnership shall fail to make the Property available for occupancy by low and moderate income persons at an affordability level determined by the parties under the Operating Subsidy Agreement, but at a minimum with residential rents and/or other available subsidy to cover operating expenses and achieve a 1.15 debt service coverage ratio.

(c) By reason of condemnation or material damage to or destruction of the Property, neither the Partnership nor the City has beneficial use and occupancy of the Property.

## **STANDBY LETTER OF CREDIT**

### **General**

The Trustee is directed in the Indenture to accept and hold the Letter of Credit. If the Trustee does not receive a Lease Delivery Notice on or before the Lease Delivery Deadline, the Trustee will draw on the Letter of Credit, and apply the proceeds of such draw to redeem the Bonds pursuant to the Indenture. See “THE BONDS – Redemption – *Extraordinary Mandatory Redemption from Failure to Deliver Lease*” herein. If the Trustee receives a Lease Delivery Notice on or prior to the Lease Delivery Deadline, the Trustee shall cancel and release the Letter of Credit, undrawn, to the Letter of Credit Provider.

### **Description of Letter of Credit**

The Letter of Credit shall be issued and delivered on the Delivery Date and expire on [October 15, 2022], unless such date is extended in accordance with the Letter of Credit’s terms (the “Expiration Date”). The Letter of Credit will have an initial term of [24] months and can be extended to [November 1, 2023] subject to certain conditions.

Drafts properly presented to the Letter of Credit Provider no later than 10:00 a.m. Eastern time on any Business Day shall be honored on the Second Business Days after the date of presentation, by payment in accordance with the Trustee’s payment instructions that accompany the draft. Drafts presented after 10:00 a.m. Eastern time will be honored on the third Business Day. “Business Day” under the Letter of Credit means any day on which banking institutions located in New York are not required or authorized by law or executive order to close.



## RISK FACTORS

*Purchase of the Bonds will constitute an investment subject to certain risks, including the risk of nonpayment of principal and interest. Before purchasing any of the Bonds, prospective investors should carefully consider, among other things, the risk factors described below. However, the following is not meant to be an exhaustive listing of all the risks associated with the purchase of the Bonds. Moreover, the order of presentation of the risk factors does not necessarily reflect the order of their importance.*

### Limited Obligation

The Bonds are limited obligations of the Issuer, payable solely from the funds and moneys pledged and assigned under the Indenture. None of the Issuer, the State, or any political subdivision thereof (except the Issuer, to the limited extent set forth in the Indenture) or the City shall in any event be liable for the payment of the principal of, premium (if any) or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever except as set forth herein, and none of the Bonds or any of the Issuer's agreements or obligations shall be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of or a moral obligation of any of the foregoing within the meaning of any constitutional or statutory provision whatsoever. The Issuer has no taxing power.

### Limited Recourse on Default Under Lease Agreement

If the City defaults on its obligations to make Rental Payments under the Lease Agreement with respect to the Property or any portion thereof, the Trustee may have limited recourse. **In the event of a default, there is no remedy of acceleration of the total Rental Payments due over the term of the Lease Agreement.** The City will only be liable for Rental Payments on an annual basis under the Lease Agreement, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against public entities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

### Abatement

Under the Lease Agreement, during any period during which an Abatement Event has occurred and is continuing, Rent Payments due thereunder will be abated proportionately to the impact of such Abatement Event on the City's beneficial use of the Property. In the Lease Agreement, the City waives all rights to terminate the Lease Agreement by virtue of any such interference and it will continue in full force and effect. As described herein under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rental Abatement," the specific Abatement Events in the Lease Agreement are limited.

Also, it is not possible to predict the circumstances under which such an abatement of Rental Payments may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the Lease Agreement or at the time of the abatement. If the latter, it may be that the value of the Property is substantially higher or lower than its value at the time of execution and delivery of the Bond. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Bonds.

## **Project Construction Delay**

Project development may be subject to unexpected delays, disruptions and changes. For example, real estate development may be adversely affected by changes in general economic conditions, including those related to the COVID-19 pandemic, unexpected increases in development costs and by other factors. Further, real estate development may be adversely affected by future governmental policies, including governmental policies to restrict or control development or related to the COVID-19 pandemic. If the projected development of the Project is halted or delayed beyond the capitalized interest available to pay debt service on the Bonds the Letter of Credit would be drawn in full in connection with a mandatory redemption as described herein. See “THE BONDS – Redemption – *Extraordinary Mandatory Redemption from Failure to Deliver Lease*” herein.

## **Letter of Credit**

If a financial institution, such as the Letter of Credit Provider, is placed into receivership, the receiver generally will have broad powers with respect to the disposition of the assets and liabilities of such financial institution. A receiver may, depending on the circumstances and the scope of its legal authority, repudiate letters of credit issued by the failed financial institution while discharging its powers as receiver. No assurance can be given that if the Letter of Credit Provider were ever to enter receivership that the Letter of Credit would not be subject to repudiation by the Letter of Credit Provider’s receiver.

## **Limitations Relating to the Leasehold Deed of Trust**

The security afforded by the Leasehold Deed of Trust is limited. There can be no assurance that the lien of the Leasehold Deed of Trust could be foreclosed or otherwise realized upon at a time or in an amount sufficient to make full and timely payment of principal of and interest on the Bonds.

**Foreclosure.** There are two methods of foreclosing on a deed of trust under State law, by nonjudicial sale and by judicial sale. Foreclosure under a deed of trust may be accomplished by a nonjudicial trustee’s sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor and to certain other parties discernable from the real property records. The trustee then must wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the trustee’s proposed sale date and giving a notice of sale (in a form mandated by State statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee’s sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior to the trustee’s sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust and to certain other parties discernable from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period, cure any monetary default by paying the entire amount of the debt then due under the terms of the deed of trust and the obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys’ and trustee’s fees. Following a nonjudicial sale, neither the trustor nor any junior lien holder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor.

Should foreclosure under a deed of trust be sought in the form of a judicial foreclosure, it is generally subject to most of the delays and expenses of other lawsuits, and sometimes requires up to several years to complete. The primary advantage of a judicial foreclosure is that the beneficiary is entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successors in interest may redeem the property for a period of one year (or a period of only three months if the proceeds of sale are sufficient to satisfy the debt, plus interest and costs). In addition, to assure collection of any rents assigned as additional collateral under the Leasehold Deed of Trust, the Trustee would likely need to seek the appointment by a court of a receiver for the Facilities.

***Antideficiency Legislation and Certain Other Limitations on Lenders.*** The State has four principal statutory prohibitions limiting the remedies of a beneficiary under a deed of trust. Two such prohibitions limit the beneficiary's right to obtain a deficiency judgment, one being based on the method of foreclosure and the other on the type of debt secured. Under the former, a deficiency judgment is ordinarily barred when the foreclosure is accomplished by means of a nonjudicial trustee's sale, except for limited exceptions not applicable to the Leasehold Deed of Trust. Under the latter, a deficiency judgment is barred where a foreclosed deed of trust secures certain purchase money obligations. A State law, commonly known as the "one form of action" rule, requires the beneficiary to exhaust the security under a deed of trust by foreclosure before bringing a personal action against the trustor on the indebtedness. If a court were to hold that this rule were applicable to the Leasehold Deed of Trust, and the trustee under the Leasehold Deed of Trust or the Bondholders were to file suit or take other actions (including set off) to collect the debt secured by the Leasehold Deed of Trust without seeking to enforce their remedies under the Leasehold Deed of Trust, they might be precluded from thereafter proceeding under the Leasehold Deed of Trust. State law also limits any deficiency judgment obtained by a beneficiary following a judicial sale to the excess of the outstanding debt above the fair market value of the property at the time of sale. This prevents a beneficiary from obtaining a large deficiency judgment against the debtor as the result of low bids at a judicial sale. Statutory provisions (such as the federal bankruptcy laws) may have the effect of delaying enforcement of the lien of the Leasehold Deed of Trust in the event of a default by the Borrower.

### **Risk of Uninsured Loss**

The Borrower covenants under the Ground Lease and the Sublease Agreement to maintain certain insurance policies on the Property. The City is not required to carry any insurance with respect to the Project. Such policies do not cover all types of risk. For example, the Borrower is not required to maintain earthquake insurance with respect to the Project. In the case of a circumstance not covered by insurance, an abatement of Rental Payments could occur and could continue indefinitely. In cases where the casualty is covered by insurance, there can be no assurance that the insurance carriers will in all events be able or willing to make payments under their respective policies should a claim be made. Further, there can be no assurances that amounts received as proceeds from insurance or from condemnation of the Property will be sufficient to repair or replace the Property or to redeem the Bonds.

### **No Limitation on Incurring Additional Obligations**

Neither the Lease Agreement nor the Indenture contains any limitations on the ability of the City to enter into other obligations that may constitute additional claims against its General Fund revenues. To the extent that the City incurs additional obligations, the funds available to make Rental Payments may be decreased. The City is currently liable on many other obligations payable from General Fund revenues. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES" and APPENDIX C "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE

CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2019” attached hereto.

## **COVID-19**

In recent years, public health authorities have warned of threats posed by outbreaks of disease and other public health threats. On February 11, 2020 the WHO announced the official name for the outbreak of COVID-19, an upper respiratory tract illness. COVID-19 has since spread across the globe. The spread of COVID-19 is having significant adverse health and financial impacts throughout the world, including the City. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Recent Developments” attached hereto. The WHO has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the Mayor of the City, the Governor of the State and the President of the United States.

The COVID-19 outbreak is ongoing, and its duration and severity and economic effects are uncertain in many respects. Uncertain too are the actions that may be taken by federal and State governmental authorities to contain or mitigate the effects of the outbreak. The ultimate impact of COVID-19 on the City’s operations and finances is not fully known, and it may be some time before the full adverse impact of the COVID-19 outbreak is known. The City has undertaken modifications to its standard budget approval process calendar and has been and plans to issue periodic updates on the Controller’s website. The COVID-19 outbreak is expected to have material adverse impacts on the projections and budget information provided in APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES” attached hereto. Further, there could be future COVID-19 outbreaks or other public health emergencies that could have material adverse effects on the City’s operations and finances.

## **City Long-Term Financial Challenges**

The following discussion highlights certain long-term challenges facing the City and is not meant to be an exhaustive discussion of challenges facing the City (see, for example, “Seismic Risks” and “Climate Change, Risk of Sea Level Rise and Flooding Damage” below). Notwithstanding the City’s strong economic and financial performance during the recent recovery and despite significant City initiatives to improve public transportation systems, expand access to healthcare and modernize parks and libraries, the City faces several long-term financial challenges and risks described below. **In particular, a new, significant challenge faced by the City is the COVID-19 Emergency.** [add cross reference to appropriate sections of Appendix A]

Significant capital investments are proposed in the City’s adopted 10-year capital plan. The City’s most recent adopted 10-year capital plan sets forth \$39.1 billion of capital needs for all City departments. However, identified funding resources are below those necessary to maintain and enhance the City’s physical infrastructure. As a result, over \$4.9 billion in capital needs are deferred from the capital plan’s 10-year horizon. More than half of these unfunded needs relate to the City’s transportation and waterfront infrastructure, where capital investment has lagged for decades.

In addition, the City faces long-term challenges with respect to the management of pension and post-employment retirement obligations. The City has taken major steps to address long-term unfunded liabilities for employee pension and other post-employment benefits, including retiree health obligations, yet significant liabilities remain. In recent years, the City and voters have adopted changes that should mitigate these unfunded liabilities over time, including adoption of lower-cost benefit tiers, increases to employee and employer contribution requirements, and establishment of a trust fund to set-aside funding for future retiree health costs. The financial benefit from these changes will phase in over time, however,

leaving ongoing financial challenges for the City in the shorter term. Further, the size of these liabilities is based on a number of assumptions, including but not limited to assumed investment returns and actuarial assumptions. It is possible that actual results will differ materially from current assumptions, and such changes in investment returns or other actuarial assumptions could increase budgetary pressures on the City.

Further, while the City has adopted a number of measures to better position its operating budget for future economic downturns, these measures may not be sufficient. Economic stabilization reserves have grown significantly during the last five fiscal years. The maximum combined value of the City's Rainy Day Reserve and Budget Stabilization Reserve is 10% of General Fund revenues. Under the City's current policy, once the 10% threshold is reached, excess amounts are deposited into a non-recurring expenditure reserve that may be appropriated for capital expenditures, prepayment of future debts or liabilities, or other non-recurring expenditures. Notwithstanding the foregoing, the City expects that meeting the 10% adopted target level of reserves will not eliminate the need to cut expenditures in a recession to balance the City's budget. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – City Budget" attached hereto.

There is no assurance that other challenges not discussed in this Official Statement may become material to investors in the future. For more information, see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" attached hereto.

### **Certain Seismic Risks**

**General.** The City is located in a seismically active region. Active earthquake faults underlie both the City and the surrounding Bay Area, including the San Andreas Fault, which passes within about three miles of the City's border, and the Hayward Fault, which runs under Oakland, Berkeley and other cities on the east side of San Francisco Bay, about 10 miles away. Significant seismic events include the 1989 Loma Prieta earthquake, centered about 60 miles south of the City, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires, building collapses, and structural damage to buildings and highways in the City and surrounding areas. The San Francisco-Oakland Bay Bridge, the only east-west vehicle access into the City, was closed for a month for repairs, and several highways in the City were permanently closed and eventually removed. On August 24, 2014, the San Francisco Bay Area experienced a 6.0 earthquake centered near Napa along the West Napa Fault. The City did not suffer any material damage as a result of this earthquake.

**California Earthquake Probabilities Study.** In March 2015, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (U.S.G.S.), the California Geological Survey, and the Southern California Earthquake Center) reported that there is a 72% chance that one or more quakes of about magnitude 6.7 (the magnitude of the 1994 Northridge earthquake) or larger will occur in the San Francisco Bay Area before the year 2045. In addition, the U.S.G.S. released a report in April 2017 entitled The HayWired Earthquake Scenario, which estimates that property damage and direct business disruption losses from a magnitude 7.0 earthquake on the Hayward Fault would be more than \$82 billion (in 2016 dollars). Most of the losses are expected to be attributable to shaking damage, liquefaction, and landslides (in that order). Eighty percent of shaking damage is expected to be caused by the magnitude 7.0 mainshock, with the rest of the damage resulting from aftershocks occurring over a 2-year period thereafter. Such earthquakes could be very destructive. In addition to the potential damage to City-owned buildings and facilities (on which the City does not generally carry earthquake insurance), due to the importance of San Francisco as a tourist destination and regional hub of commercial, retail and entertainment activity, a major earthquake anywhere in the Bay Area may cause significant temporary and possibly long-term harm to the City's economy, tax receipts, and residential and business real property values.

***Vulnerability Study of the Northern Waterfront Seawall.*** In early 2016, the Port Commission of the City commissioned an earthquake vulnerability study of the Northern Waterfront Seawall. The three-mile Seawall was constructed over 100 years ago and sits on reclaimed land, rendering it vulnerable to seismic risk. The Seawall provides flood and wave protection to downtown San Francisco, and stabilizes hundreds of acres of filled land. Preliminary findings of the study indicate that a strong earthquake may cause most of the Seawall to settle and move outward toward the Bay, which would significantly increase earthquake damage and disruption along the waterfront. The Port Commission estimates that seismic retrofitting of the Seawall could cost as much as \$3 billion, with another \$2 billion or more needed to prepare the Seawall for rising sea levels. The study estimates that approximately \$1.6 billion in Port assets and \$2.1 billion of rents, business income, and wages are at risk from major damage to the Seawall. The Bonds will be issued for the purpose of funding, in part, repairs and improvements to the Embarcadero Seawall and Embarcadero infrastructure and utilities for earthquake and flood safety. See “– Climate Change, Risk of Sea Level Rise and Flooding Damage” below.

***Geotechnical Issues at Project Site.*** The primary geotechnical concerns at the Project site include (i) the presence of up to 6 feet of undocumented fill across the site, some of which contains rubble and debris, (ii) relatively shallow groundwater table, (iii) the presence of granular soil susceptible to liquefaction below the groundwater table, (iv) potential liquefaction-induced ground settlement damages to building foundations and underground utilities during a major earthquake, and (v) the presence of moderately strong, moderately to highly compressible Bay Mud layer up to about 20 feet thick. A geotechnical engineer was engaged to observe ground improvement, grading, and foundation installation during construction of the Project in order to confirm conditions and may make changes in recommendations, if deemed necessary based on unforeseen conditions. The geotechnical report prepared for the Project was reviewed and approved by the City’s Department of Building Inspection.

### **Climate Change, Risk of Sea Level Rise and Flooding Damage**

Numerous scientific studies on global climate change show that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common, and extreme weather events will become more frequent as a result of increasing global temperatures attributable to atmospheric pollution.

The Fourth National Climate Assessment, published by the U.S. Global Change Research Program in November 2018 (“NCA4”), finds that more frequent and intense extreme weather and climate-related events, as well as changes in average climate conditions, are expected to continue to damage infrastructure, ecosystems and social systems over the next 25 to 100 years. NCA4 states that rising temperatures, sea level rise, and changes in extreme events are expected to increasingly disrupt and damage critical infrastructure and property and regional economies and industries that depend on natural resources and favorable climate conditions. Disruptions could include more frequent and longer-lasting power outages, fuel shortages and service disruptions. NCA4 states that the continued increase in the frequency and extent of high-tide flooding due to sea level rise threatens coastal public infrastructure. NCA4 also states that expected increases in the severity and frequency of heavy precipitation events will affect inland infrastructure, including access to roads, the viability of bridges and the safety of pipelines.

Sea levels will continue to rise in the future due to the increasing temperature of the oceans causing thermal expansion and growing ocean volume from glaciers and ice caps melting into the ocean. Between 1854 and 2016, sea level rose about nine inches according to the tidal gauge at Fort Point, underneath the Golden Gate Bridge. Weather and tidal patterns, including 100-year or more storms and king tides, may exacerbate the effects of climate related sea level rise. Coastal areas like San Francisco are at risk of substantial flood damage over time, affecting private development and public infrastructure, including roads, utilities, emergency services, schools, and parks. As a result, the City could lose

considerable tax revenues and many residents, businesses, and governmental operations along the waterfront could be displaced, and the City could be required to mitigate these effects at a potentially material cost.

Adapting to sea level rise is a key component of the City's policies. The City and its enterprise departments have been preparing for future sea level rise for many years and have issued a number of public reports. For example, in March 2016, the City released a report entitled "Sea Level Rise Action Plan," identifying geographic zones at risk of sea level rise and providing a framework for adaptation strategies to confront these risks. That study shows an upper range of end-of-century projections for permanent sea level rise, including the effects of temporary flooding due to a 100-year storm, of up to 108 inches above the 2015 average high tide. To implement this Plan, the Mayor's Sea Level Rise Coordinating Committee, co-chaired by the Planning Department and Office of Resilience and Capital Planning, joined the Port, Public Utilities Commission and other public agencies is moving several initiatives forward. This includes a Citywide Sea Level Rise Vulnerability and Consequences Assessment to identify and evaluate sea level rise impacts across the City and in various neighborhoods that was released in February 2020.

In April 2017, the Working Group of the California Ocean Protection Council Science Advisory Team (in collaboration with several state agencies, including the California Natural Resource Agency, the Governor's Office of Planning and Research, and the California Energy Commission) published a report, that was formally adopted in March 2018, entitled "Rising Seas in California: An Update on Sea Level Rise Science" (the "Sea Level Rise Report") to provide a new synthesis of the state of science regarding sea level rise. The Sea Level Rise Report provides the basis for State guidance to state and local agencies for incorporating sea level rise into design, planning, permitting, construction, investment and other decisions. Among many findings, the Sea Level Rise Report indicates that the effects of sea level rise are already being felt in coastal California with more extensive coastal flooding during storms, exacerbated tidal flooding, and increased coastal erosion. In addition, the report notes that the rate of ice sheet loss from Greenland and Antarctic ice sheets poses a particular risk of sea level rise for the California coastline. The City has incorporated the projections from the 2018 report into its Guidance for Incorporating Sea Level Rise Guidance into Capital Planning. The Guidance requires that City projects over \$5 million consider mitigation and/or adaptation measures.

In March 2020, a consortium of State and local agencies, led by the Bay Area Conservation and Development Commission, released a detailed study entitled, "Adapting to Rising Tides Bay Area: Regional Sea Level Rise Vulnerability and Adaptation Study," on how sea level rise could alter the Bay Area. The study states that a 48-inch increase in the bay's water level in coming decades could cause more than 100,000 Bay Area jobs to be relocated, nearly 30,000 lower-income residents to be displaced, and 68,000 acres of ecologically valuable shoreline habitat to be lost. The study further argues that without a far-sighted, nine county response, the region's economic and transportation systems could be undermined along with the environment. Runways at SFO could largely be under water.

Portions of the San Francisco Bay Area, including the City, are built on fill that was placed over saturated silty clay known as "Bay Mud." This Bay Mud is soft and compressible, and the consolidation of the Bay Mud under the weight of the existing fill is ongoing. A report issued in March 2018 by researchers at UC Berkeley and the University of Arizona suggests that flooding risk from climate change could be exacerbated in the San Francisco Bay Area due to the sinking or settling of the ground surface, known as subsidence. The study claims that the risk of subsidence is more significant for certain parts of the City built on fill.

Projections of the effects of global climate change on the City are complex and depend on many factors that are outside the City's control. The various scientific studies that forecast climate change and

its adverse effects, including sea level rise and flooding risk, are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the City is unable to forecast when sea level rise or other adverse effects of climate change (e.g., the occurrence and frequency of 100-year storm events and king tides) will occur. In particular, the City cannot predict the timing or precise magnitude of adverse economic effects, including, without limitation, material adverse effects on the business operations or financial condition of the City and the local economy during the term of the Bonds. While the effects of climate change may be mitigated by the City's past and future investment in adaptation strategies, the City can give no assurance about the net effects of those strategies and whether the City will be required to take additional adaptive mitigation measures. If necessary, such additional measures could require significant capital resources.

The City is unable to predict whether sea level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur, and if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the City.

### **Other Events**

Seismic events, wildfires, tsunamis, and other natural or man-made events may adversely impact persons and property within San Francisco, and damage City infrastructure and adversely impact the City's ability to provide municipal services. For example, in August 2013, a massive wildfire in Tuolumne County and the Stanislaus National Forest burned over 257,135 acres (the "Rim Fire"), which area included portions of the City's Hetch Hetchy Project.

The Hetch Hetchy Project is comprised of dams (including O'Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir which supplies 85% of San Francisco's drinking water), hydroelectric generation and transmission facilities and water transmission facilities. SFPUC is currently conducting an overall conditions assessment of all dams in its system. Hetch Hetchy facilities affected by the Rim Fire included two power generating stations and the southern edge of the Hetch Hetchy Reservoir. There was no impact to drinking water quality. The City's hydroelectric power generation system was interrupted by the fire, forcing the San Francisco Public Utilities Commission to spend approximately \$1.6 million buying power on the open market and using existing banked energy with PG&E. The Rim Fire inflicted approximately \$40 million in damage to parts of the City's water and power infrastructure located in the region. Certain portions of the Hetch Hetchy Project such as Mountain Tunnel, an 18.9-mile water conveyance facility, are old and deteriorating, and outages at critical points of the project could disrupt water delivery to significant portions of the region and/or cause significant costs and liabilities to the City. Further, many areas of California suffered from wildfires in recent years, including the Kincade Fire in late 2019 that burned approximately 78,000 acres in Sonoma County, California and the Camp Fire in late 2018 that burned over 153,300 acres in Butte County, California.

In September 2010, a PG&E high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. PG&E owns, operates and maintains numerous gas transmission and distribution pipelines throughout the City.

With certain exceptions, the City believes that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing transactions and for other limited purposes. The City does not maintain commercial earthquake coverage, with certain minor exceptions. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Litigation and Risk Management" attached hereto.



## **Cybersecurity**

The City, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, “Systems Technology”). As a recipient and provider of personal, private, or sensitive information, the City has been the subject of cybersecurity incidents that have resulted in or could have resulted in adverse consequences to the City’s Systems Technology and that required a response action to mitigate the consequences. For example, in November 2016, the San Francisco Metropolitan Transportation Agency (the “SFMTA”) was subject to a ransomware attack which disrupted some of the SFMTA’s internal computer systems. Although the attack neither interrupted Muni train services nor compromised customer privacy or transaction information, SFMTA took the precaution of turning off the ticket machines and fare gates in the Muni Metro subway stations from Friday, November 25 until the morning of Sunday, November 27.

Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the City’s Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. To mitigate the risk of business operations impact and/or damage from cybersecurity incidents or cyber-attacks, the City invests in multiple forms of cybersecurity and operational safeguards. In November 2016, the City adopted a City-wide Cyber Security Policy (“Cyber Policy”) to support, maintain, and secure critical infrastructure and data systems. The objectives of the Cyber Policy include the protection of critical infrastructure and information, manage risk, improve cyber security event detection and remediation, and facilitate cyber awareness across all City departments. The City’s Department of Technology has established a cybersecurity team to work across all City departments to implement the Cyber Policy. The City’s Cyber Policy is reviewed periodically.

The City has also appointed a City Chief Information Security Officer (“CCISO”), who is directly responsible for understanding the business and related cybersecurity needs of the City’s 54 departments. The CCISO is responsible for identifying, evaluating, responding, and reporting on information security risks in a manner that meets compliance and regulatory requirements, and aligns with and supports the risk posture of the City.

While City cybersecurity and operational safeguards are periodically tested, no assurances can be given by the City that such measures will ensure against other cybersecurity threats and attacks. Cybersecurity breaches could damage the City’s Systems Technology and cause material disruption to the City’s operations and the provision of City services. The costs of remedying any such damage or protecting against future attacks could be substantial. Further, cybersecurity breaches could expose the City to material litigation and other legal risks, which could cause the City to incur material costs related to such legal claims or proceedings.

## **Bankruptcy**

In addition to the limitation on remedies contained in the Indenture, the rights and remedies provided in the Indenture, the Ground Lease, the Lease Agreement and the Sublease Agreement may be limited by and are subject to the provisions of federal bankruptcy laws and to other laws or equitable principles that may affect the enforcement of creditors’ rights.

The City is a governmental unit and therefore cannot be the subject of an involuntary case under the United States Bankruptcy Code (the “Bankruptcy Code”). However, the City is a municipality and therefore may seek voluntary protection from its creditors pursuant to Chapter 9 of the Bankruptcy Code

for purposes of adjusting its debts. If the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 case. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City and could prevent the Trustee from making payments from funds in its possession that were derived by the Lease Agreement; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have a priority of payment superior to that of Bondholders; and (iv) the possibility of the adoption of a plan (a “Plan”) for the adjustment of the City’s debt without the consent of the Trustee or all of the Bondholders, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Bondholders if the Bankruptcy Court finds that the Plan is “fair and equitable” and in the best interests of creditors.

In addition, the City could either reject the Lease Agreement or assume the Lease Agreement despite any provision of the Lease Agreement that makes the bankruptcy or insolvency of the City an event of default thereunder. If the City rejects the Lease Agreement, the Trustee, on behalf of the Bondholders, would have a pre-petition unsecured claim that may be substantially limited in amount and this claim would be treated in a manner under a Plan over the objections of the Trustee or Bondholders. Moreover, such rejection would terminate the Lease Agreement and the City’s obligations to make payments thereunder. The City may also be permitted to assign the Lease Agreement to a third party, regardless of the terms of the transaction documents. If the City rejects the Lease Agreement, the Trustee, on behalf of the Bondholders of the Bonds, would have a pre-petition unsecured claim and this claim would be treated in a manner under a Plan over the objections of the Trustee or Bondholders. Moreover, such rejection may terminate the Lease Agreement and the obligations of the City to make payments thereunder.

The various opinions of counsel will be qualified to the extent the enforceability of the Lease Agreement may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors’ rights generally or as to the availability of any particular remedy. No opinion is being delivered by Bond Counsel relating to the treatment of the Lease Agreement or any related matter in a City bankruptcy proceeding.

### **Loss of Tax Exemption**

To maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Issuer, the Borrower and the City will covenant to comply with each applicable requirement of Section 103 and Sections 141 and 150 of the Internal Revenue Code of 1986, as amended. The interest on the Bonds could become includable gross income for purposes of federal income taxation retroactive to the date of issuance of the Bonds as a result of acts or omissions of the Issuer, the Borrower and/or the City in violation of this or other covenants in the Indenture, the Loan Agreement and/or the Lease Agreement. The Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Indenture.

## **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal

Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Issuer, the Borrower and the City have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial

Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Issuer, the Borrower or the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Issuer, the Borrower, the City have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the Borrower, the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer, the Borrower, the City and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Issuer, the Borrower or the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Issuer, the Borrower, the City or the Beneficial Owners to incur significant expense.

## CONTINUING DISCLOSURE

The Issuer has determined that no financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Bonds and the Issuer will not provide any such information.

The City has covenanted for the benefit of the Bondholders to provide certain financial information and operating data relating to the City (the “City Annual Report”) not later than 275 days after the end of the City’s fiscal year (which currently ends on June 30), commencing with the report for fiscal year 2019-20, and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the initial purchaser of the Bonds in complying with Rule 15c2-12 of the U.S. Securities and Exchange Commission (the “Rule”). The City Annual Report and notices of enumerated events will be filed by the City with the Electronic Municipal Market Access system (“EMMA”) of the Municipal Securities Rulemaking Board (“MSRB”). The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX E – “FORM OF CONTINUING DISCLOSURE CERTIFICATES” attached hereto.

The City may, from time to time, but is not obligated to, post its Comprehensive Annual Financial Report and other financial information on the City Controller’s web site at [www.sfgov.org/controller](http://www.sfgov.org/controller).

The Borrower has covenanted for the benefit of the Bondholders to provide certain financial information and operating data relating to the Borrower and the Project (the “Borrower Annual Report”) not later than \_\_\_ days after the end of the Borrower’s fiscal year (which currently ends on December 31), commencing with the report for fiscal year 2019-20, and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the initial purchaser of the Bonds in complying with the Rule. The Borrower’s Annual Report and notices of enumerated events will be filed by the City with EMMA of the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX E – “FORM OF CONTINUING DISCLOSURE CERTIFICATES” attached hereto.

## RATING

Moody’s Investors Service (“Moody’s”) has assigned a rating of “\_\_\_” to the Bonds. Such rating reflects only the views of Moody’s and any desired explanation of the significance of such rating should be obtained from Moody’s. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance any such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely, if in the judgment of Moody’s, circumstances so warrant. Any downward revision or withdrawal of a rating by Moody’s may have an adverse effect on the market price of the Bonds.

## NO LITIGATION

### **The Issuer**

To the best knowledge of the Issuer, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending against the Issuer, seeking to restrain or enjoin the sale or issuance of the Bonds, or in any way contesting or affecting any proceedings of the Issuer taken concerning the sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, in any way contesting the validity or enforceability of the Indenture, the Loan Agreement, the Regulatory Agreement, the Lease Agreement or the Bond Purchase Agreement, or the existence or powers of the Issuer relating to the sale of the Bonds.

## **The City**

To the knowledge of the City, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending against the City, seeking to restrain or enjoin the sale or issuance of the Bonds, or in any way contesting or affecting any proceedings of the City taken concerning the sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, in any way contesting the validity or enforceability of the Ground Lease, the Regulatory Agreement, the Lease Agreement, the Sublease Agreement, the Indenture, the Loan Agreement or the Bond Purchase Agreement, the Bonds or the existence or powers of the Issuer relating to the sale of the Bonds.

## **The Borrower**

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any judicial or administrative court or governmental agency or body, state, federal or other, pending or, to the best knowledge of the Borrower, threatened in writing against the Borrower, affecting the existence of the Borrower, involving the Project or seeking to restrain or enjoin the issuance, sale, execution or delivery of the Ground Lease, the Regulatory Agreement, the Lease Agreement, the Sublease Agreement, the Indenture, the Loan Agreement or the Bond Purchase Agreement, the Bonds or the financing of the Project, or in any way contesting or affecting as to the Borrower, or the execution and delivery of any of the foregoing documents, or the application of any moneys or security provided for the payment of the Bonds, or in any way contesting or challenging the completeness or accuracy of the preliminary or final Official Statement or any supplement or amendment thereto, or the powers of the Borrower or its authority with respect to the consummation of the transactions contemplated hereby or by the foregoing documents, or challenging the exclusion of interest on the Bonds from gross income for Federal income tax purposes.

## **RELATIONSHIPS AMONG PARTIES**

Citibank, N.A. and Citigroup Global Markets Inc. are entities under the holding company Citigroup Inc.

## **UNDERWRITING**

Citigroup Global Markets Inc. (the "Underwriter") has agreed, subject to certain customary conditions precedent to closing, to purchase the Bonds from the Issuer a price equal to \$\_\_\_\_\_, which represents the principal amount of the Bonds of \$\_\_\_\_\_, plus an original issue premium of \$\_\_\_\_\_, and less an underwriting discount of \$\_\_\_\_\_.

[retail distribution agreement description to come]

The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may re-allow any such discounts on sales to other dealers.

**LEGAL MATTERS**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer. A complete copy of the proposed form of opinion of Bond Counsel is attached as Appendix F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed on for the City by Hawkins Delafield & Wood LLP and Stradling Yocca Carlson and Rauth, A Professional Corporation, as Co-Disclosure Counsel to the City, for the Borrower by Gubb and Barshay LLP, for Citibank, N.A. as standby letter of credit provider by Robinson & Cole LLP and for the Underwriter by their counsel, Norton Rose Fulbright US LLP, Los Angeles, California.

This Official Statement has been duly authorized, executed and delivered by the Issuer and the Borrower.

**CALIFORNIA HOUSING FINANCE AGENCY**

By: \_\_\_\_\_  
Name:  
Title: Director of Financing

833 BRYANT, L.P., a California limited partnership

By: 833 Bryant LLC, a California limited liability company, its general partner

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its sole member/manager

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Its: \_\_\_\_\_

**APPENDIX A**

**CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES**



## APPENDIX B

### CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND EXPENDITURES

#### Property Tax Rate Limitations – Article XIII A

Article XIII A of the California Constitution limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIII A defines full cash value to mean “the county assessor’s valuation of real property as shown on the 1975-76 tax bill under “full cash value,” or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment.” The full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

#### Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the City and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls, with tax rates expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

#### Appropriations Limitations – Article XIII B

An initiative to amend the State Constitution entitled “Limitation of Government Appropriations” was approved on September 6, 1979 thereby adding Article XIII B to the State Constitution (“Article XIII B”). Under Article XIII B, the State and each local governmental entity has an annual “appropriations limit” and is not permitted to spend certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriations of moneys that are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the

amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

“Appropriations subject to limitation” are authorizations to spend “proceeds of taxes,” which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service,” but “proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds.

Not included in the Article XIII B limit are appropriations for the debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government and appropriations for qualified capital outlay projects. The appropriations limit may also be exceeded in certain cases of emergency.

The appropriations limit for the City in each year is based on the City’s limit for the prior year, adjusted annually for changes in the cost of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City’s option, either (1) the percentage change in State per capita personal income, or (2) the percentage change in the local assessment roll on nonresidential property. Either test is likely to be greater than the change in the cost of living index, which was used prior to Proposition 111.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by a City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years. As originally enacted in 1979, the City’s appropriations limit was based on 1978-79 authorizations to expend proceeds of taxes and was adjusted annually to reflect changes in cost of living and population (using different definitions, which were modified by Proposition 111). Starting with Fiscal Year 1990-91, the City’s appropriations limit was recalculated by taking the actual Fiscal Year 1986-87 limit, and applying the annual adjustments as if Proposition 111 had been in effect.

### **Articles XIII C and XIII D of California Constitution – Proposition 218**

On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California constitution, which contains a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C requires that all new local taxes or increases in existing local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City’s General Fund, require a two-thirds vote. The voter-approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet any increased expenditure requirements.

Article XIII D contains provisions relating to how local agencies may levy and maintain “assessments” for municipal services and programs. “Assessment” is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. Article XIII D also contains several provisions affecting “property-related fees” and “charges,” defined for purposes of Article XIII D

to mean “any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” All new and existing property-related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property-related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property-related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Fees for electrical and gas service are explicitly exempted from the definition of “property-related” under Article XIID. Property-related fees or charges for services other than sewer, water and refuse collection services may not be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. In addition to the provisions described above, Proposition 218 removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge.

Proposition 218 continues to be interpreted by California courts. The State Supreme Court’s 2006 decision in *Bighorn-Desert View Water Agency* found that metered charges for consumption of water by a public agency fell within the “property-related” fees subject to Proposition 218. Fees for sewer and refuse collection could also be found to be within the definition of property-related fees. If such charges are property-related charges, rate increases would be subject to notice, hearing and majority protest, but not prior voter approval, and rates and charges could be reduced by referendum.

### **Proposition 1A**

Proposition 1A (SCA 4), proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. By adding Section 25.5 to Article XIII of the State Constitution, Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any Fiscal Year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature.

Proposition 1A provides, however, that the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

By amending Section 15 of Article XI of the State Constitution, Proposition 1A also provides that if the State reduces the Vehicle License Fee rate currently in effect, which is 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, by amending Section 6 of Article XIII B of the State Constitution, Proposition 1A required the State, beginning on July 1, 2005, to suspend State mandates affecting cities, counties and special districts, schools or

community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

### **Proposition 22**

On November 2, 2010, voters in the State approved Proposition 22. Proposition 22, known as the “Local Taxpayer, Public Safety, and Transportation Protection Act of 2010,” eliminates or reduces the State’s authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for state-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

### **Proposition 26**

On November 2, 2010, voters in the State also approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. The City does not expect the provisions of Proposition 26 to materially and adversely affect its ability to pay Rental Payments when due.

### **Proposition 30**

The passage of the Governor’s November Tax Initiative (“Proposition 30”) placed on the November 2012 ballot results in an increase in the State sales tax by a quarter-cent for four years and, for seven years, raising taxes on individuals after their first \$250,000 in income and on couples after their first \$500,000 in earnings. These increased tax rates will affect approximately 1 percent of California personal income tax filers and will be in effect starting in the 2012 tax year, ending at the conclusion of the 2018 tax year. The quarter-cent sales-tax component expired on December 31, 2016. The passage of the Tax Extension to Fund Education and Healthcare (“Proposition 55”) in November 2016 extends the income tax increase on high-income taxpayers for an additional 12 years through 2030. The LAO estimates that, as a result of Proposition 55, increased state tax revenues of about \$4 billion to \$9 billion annually from fiscal years 2019 through 2030 depending on the economy and stock market.

## **Future Initiatives**

Article XIII A, Article XIII B and the other Propositions referenced above were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other State or local initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

**APPENDIX C**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
OF THE CITY AND COUNTY OF SAN FRANCISCO  
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

**APPENDIX D**

**SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS**

**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE CERTIFICATES**



**APPENDIX F**

**FORM OF BOND COUNSEL OPINION**

*Upon issuance of the Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:*

[Closing Date]

California Housing Finance Agency  
Sacramento, California

California Housing Finance Agency  
Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments)  
2020 Issue N – Social Bonds  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Housing Finance Agency (the “Issuer”) in connection with the issuance of its Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds in the aggregate principal amount of \$\_\_\_\_\_ (the “Bonds”). The Bonds are issued pursuant to the provisions of Division 31, Parts 1 through 4 of the California Health and Safety Code, as amended, and an Indenture of Trust, dated as of July 1, 2020 (the “Indenture”), by and between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Regulatory Agreement, the Tax Certificate, opinions of counsel to the Issuer, 833 Bryant, L.P., a California limited partnership (the “Borrower”), the Trustee and others, certificates of the Issuer, the Trustee, the Borrower and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as

originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement, the Regulatory Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement, the Regulatory Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of California (the "State"). We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of any disclosures relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer, payable solely from the Trust Estate.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of, premium, if any, and interest on the Bonds, of the Trust Estate, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.
3. The Bonds do not constitute a debt or liability of the Issuer, the State or any political subdivision thereof, or a pledge of the faith and credit of the State or any such political subdivision, other than the Issuer to the extent provided in the Indenture.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a "substantial user" of the facilities financed or refinanced by the Bonds or by a "related person" to a "substantial user" within the meaning of Section 147(a) of the Code. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

Interest on the Bonds is exempt from State personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

## APPENDIX G

### BOOK-ENTRY SYSTEM

*The following description of DTC and its book-entry system has been provided by DTC and has not been verified for accuracy or completeness by the Authority, the Corporation or the County, and none of the Authority, the Corporation or the County shall have any liability with respect thereto. None of the Authority, the Corporation or the County shall have any responsibility or liability for any aspects of the records maintained by DTC relating to or payments made on account of beneficial ownership, or for maintaining, supervising, or reviewing any records maintained by DTC relating to beneficial ownership, of interests in the Bonds.*

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each annual maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited through the facilities of DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has an S&P Global Ratings rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information set forth on this website is not incorporated herein by reference.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as prepayments, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

**APPENDIX H**

**INFORMATION REGARDING THE LETTER OF CREDIT PROVIDER**