

File No. 160867

Committee Item No. 6
Board Item No. 5

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date September 14, 2016

Board of Supervisors Meeting

Date September 20, 2016

Cmte Board

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Completed by: Linda Wong Date September 9, 2016
Completed by: Linda Wong Date September 15, 2016

1 [Issuance of Taxable and Tax-Exempt General Obligation Bonds (Affordable Housing, 2015) -
2 Not to Exceed \$310,000,000]

3 **Resolution providing for the issuance of not to exceed \$310,000,000 aggregate**
4 **principal amount of City and County of San Francisco Taxable and Tax-Exempt General**
5 **Obligation Bonds (Affordable Housing, 2015); authorizing the issuance and sale of said**
6 **bonds; providing for the levy of a tax to pay the principal and interest thereof;**
7 **providing for the appointment of depositories and other agents for said bonds;**
8 **providing for the establishment of accounts related thereto; adopting findings under**
9 **the California Environmental Quality Act ("CEQA"), the CEQA Guidelines and**
10 **Administrative Code, Chapter 31; finding that the proposed project is in conformity**
11 **with the priority policies of Planning Code, Section 101.1(8), and with the General Plan**
12 **consistency requirement of Charter, Section 4.105, and Administrative Code, Section**
13 **2A.53; ratifying certain actions previously taken, as defined herein; and granting**
14 **general authority to city officials to take necessary actions in connection with the**
15 **issuance and sale of said bonds, as defined herein.**

16
17 WHEREAS, By Resolution No. 258-15, adopted by the Board of Supervisors (the
18 "Board of Supervisors") of the City and County of San Francisco (the "City") on July 7, 2015, it
19 was determined and declared that public interest and necessity demands the construction,
20 development, acquisition, and preservation of affordable housing in the City for low- and
21 middle-income households, and the payment of related costs necessary or convenient for
22 such purposes; and

23 WHEREAS, By Ordinance No. 121-15, adopted by the Board of Supervisors on
24 July 21, 2015, the Board of Supervisors duly called a special election to be held on
25 November 3, 2015, for the purpose of submitting to the electors of the City a proposition to

1 incur bonded indebtedness of the City in the amount of \$310,000,000 to finance the
2 construction, acquisition, improvement, rehabilitation, preservation and repair of affordable
3 housing improvements, as described therein (the "Project"); and

4 WHEREAS, A special election was held in the City on November 3, 2015, for the
5 purpose of submitting to the qualified voters of the City said proposition, denominated as
6 Proposition A, as follows:

7 "SAN FRANCISCO AFFORDABLE HOUSING BONDS. To finance the construction,
8 development, acquisition, and preservation of housing affordable to low- and middle-
9 income households through programs that will prioritize vulnerable populations such as
10 San Francisco's working families, veterans, seniors, disabled persons; to assist in the
11 acquisition, rehabilitation, and preservation of affordable rental apartment buildings to
12 prevent the eviction of long-term residents; to repair and reconstruct dilapidated public
13 housing; to fund a middle-income rental program; and to provide for homeownership
14 down payment assistance opportunities for educators and middle-income households;
15 shall the City and County of San Francisco issue \$310 million in general obligation
16 bonds, subject to independent citizen oversight and regular audits?";

17 and

18 WHEREAS, On December 1, 2015, by Resolution No. 435-15, this Board of
19 Supervisors declared the results of the November 3, 2015 special election finding that, as
20 certified by the Director of Elections of the City, the requisite two-thirds of all voters voting on
21 the proposition approved such proposition; and

22 WHEREAS, This Board of Supervisors has determined, and does hereby declare that it
23 is necessary and desirable that all of said bonds designated generally as "City and County of
24 San Francisco Taxable and Tax-Exempt General Obligation Bonds (Affordable Housing,
25 2015)" (the "Bonds") in the aggregate principal amount of \$310,000,000, be issued and sold

1 in one or more series from time to time, for the purposes authorized and on the conditions set
2 forth in this Resolution; and

3 WHEREAS, The Bonds will be payable from proceeds of the annual tax levy, as
4 provided herein; and

5 WHEREAS, The Bonds are being issued pursuant to (i) this Resolution duly adopted
6 by the Board of Supervisors, (ii) Title 5, Division 2, Part 1, Chapter 3, Article 4.5 of the
7 California Government Code, (iii) the Charter of the City (the "Charter") and (iv) a duly held
8 election; and

9 WHEREAS, Pursuant to Section 9.106 of the Charter, there shall be delivered a
10 certificate of a duly authorized officer of the City, concurrently with the issuance of each series
11 of Bonds, except for any series of Bonds issued to refund any bond anticipation notes issued
12 in anticipation of the issuance of such series of Bonds, stating that the outstanding general
13 obligation bond indebtedness of the City, including all series of the Bonds issued and to be
14 issued and outstanding on the date of delivery of such series, will not exceed three percent of
15 the assessed value of all taxable real and personal property located within the City; now,
16 therefore, be it

17 RESOLVED, By the Board of Supervisors of the City and County of San Francisco, as
18 follows:

19 Section 1. Recitals. All of the recitals herein are true and correct.

20 Section 2. Conditions Precedent. All conditions, things and acts required by law to
21 exist, to happen and to be performed precedent to the adoption of this Resolution authorizing
22 the issuance of the Bonds exist, have happened and have been performed in due time, form
23 and manner in accordance with applicable law, and the City is now authorized pursuant to the
24 Charter and applicable law to incur indebtedness in the manner and form provided in this
25 Resolution.

1 Section 3. Issuance of the Bonds. The Board of Supervisors hereby authorizes the
2 issuance and sale of \$310,000,000 aggregate principal amount of Bonds, designated
3 generally as "City and County of San Francisco Taxable and Tax-Exempt General Obligation
4 Bonds (Affordable Housing, 2015)". The Bonds may be sold in one or more series (each
5 series of such Bonds to bear such additional or other designation as may be necessary or
6 appropriate to distinguish such series from every other series and from other bonds issued by
7 the City) as the Board of Supervisors shall determine, and shall be sold in accordance with
8 law, as such law may from time to time be amended, supplemented or revised; and on the
9 terms and conditions approved by the Board of Supervisors in this Resolution, as
10 supplemented by such other resolution or resolutions relating to such series of Bonds and as
11 provided in the resolution of the Board of Supervisors authorizing and directing the sale of
12 each series of Bonds (each, a "Sale Resolution"). The offering and sale of the Bonds may be
13 aggregated with the offering and sale of other general obligation bonds being issued by the
14 City, as authorized from time to time by the Board of Supervisors.

15 Section 4. Authentication and Registration. The Sale Resolution for each series of
16 Bonds shall set forth the form of such Bond, with such necessary or appropriate variations,
17 omissions and insertions as may be permitted by resolution. "CUSIP" identification numbers
18 may be imprinted on Bonds, but such numbers shall not constitute a part of the contract
19 evidenced by the Bonds and any error or omission with respect thereto shall not constitute
20 cause for refusal of any purchaser to accept delivery of and to pay for the Bonds. In addition,
21 failure on the part of the City to use such CUSIP numbers in any notice to owners of the
22 Bonds shall not constitute an event of default or any violation of the City's contract with such
23 owners and shall not impair the effectiveness of any such notice.

24 The Bonds shall be signed by the Mayor of the City (the "Mayor") and countersigned by
25 the Clerk of the Board of Supervisors. The signature of the Mayor may be facsimile or manual.

1 The Treasurer of the City (the "City Treasurer") shall authenticate the Bonds by manual
2 signature and, when so authenticated, shall deliver the Bonds to or for the account of the
3 purchasers in exchange for the purchase price thereof.

4 In case such officer(s) whose signature(s) or countersignature(s) appear(s) on a Bond
5 shall cease to be such officer(s) before the delivery of such Bond to the purchaser, such
6 signature(s) or countersignature(s) shall nevertheless be valid and sufficient for all purposes
7 as if the officer(s) had remained in office until the delivery of such Bond.

8 Section 5. Transfer or Exchange and Registration of Bonds. Any Bond may be
9 transferred or exchanged in accordance with its terms and the applicable Sale Resolution.
10 Each Bond shall be registered in accordance with the applicable Sale Resolution.

11 Section 6. General Redemption Provisions. The terms of redemption (whether optional
12 or mandatory redemption), if any, of any series of Bonds and the manner prescribed for notice
13 of any redemption of such series of Bonds shall be set forth in the applicable Sale Resolution.

14 Each Sale Resolution shall provide that the Controller of the City (the "Controller") shall
15 establish a redemption account for such series of Bonds. The City Treasurer shall provide for
16 the deposit and application of moneys in such redemption account.

17 Section 7. Tax Levy. For the purpose of paying the principal of and interest on the
18 Bonds, the Board of Supervisors at the time of fixing the general tax levy shall fix, and in the
19 manner provided for such general tax levy, levy and collect annually until the Bonds are paid,
20 or until there shall be a sum set apart for that purpose in the treasury of the City sufficient to
21 meet all sums coming due for payment of principal of and interest on the Bonds, a tax
22 sufficient to pay the annual interest on the Bonds as the same becomes due and also such
23 part of the principal thereof as shall become due before the proceeds of a tax levied at the
24 time for making the next general tax levy can be made available for the payment of such
25 interest or principal.

1. Said tax shall be in addition to all other taxes levied for City purposes, shall be
2 collected at the time and in the same manner as other taxes of the City are collected, and
3 shall be used only for the payment of the Bonds and the interest thereon.

4 All taxes collected pursuant to this Section 7 shall be deposited forthwith in a special
5 account to be designated as the "General Obligation Bonds (Affordable Housing, 2015) Bond
6 Account" (the "Bond Account") and each and every series of Bonds issued under this
7 Resolution shall be equally and ratably secured by the taxes collected pursuant to this Section
8 7. The Bond Account shall be administered by the City Treasurer. The Bond Account shall be
9 kept separate and apart from all other accounts. Pursuant to the applicable Sale Resolution,
10 the Controller may establish such additional accounts and subaccounts within the Bond
11 Account or with any agent, including but not limited to any paying agent or fiscal agent, as
12 may be necessary or convenient in connection with the administration of any series of Bonds,
to provide for the payment of principal and interest on such series of Bonds.

14 The City Treasurer shall deposit in the Bond Account from the proceeds of sale of the
15 Bonds, any moneys received on account of original issue premium and interest accrued on
16 the Bonds to the date of payment of the purchase price thereof, and such other moneys, if
17 any, as may be specified in the applicable Sale Resolution. So long as any of the Bonds are
18 outstanding, moneys in the Bond Account shall be used and applied by the City Treasurer
19 solely for the purpose of paying the principal of and interest on the Bonds as such principal
20 and interest shall become due and payable, or for purchase of Bonds if permitted by the
21 applicable Sale Resolution; provided, however, that when all of the principal of and interest on
22 the Bonds have been paid, any moneys then remaining in said Bond Account shall be
23 transferred to the General Fund of the City. The Board of Supervisors shall take such actions
24 annually as are necessary or appropriate to cause the debt service on the Bonds due in any
25

1 fiscal year to be included in the budget for such fiscal year and to make the necessary
2 appropriations therefor.

3 Section 8. Administration and Disbursements From Bond Account.

4 (a) Interest. On or before June 15 and December 15 in each year that any of the Bonds
5 are outstanding, the City Treasurer shall set aside in the Bond Account and the appropriate
6 subaccounts therein relating to each series of the Bonds an amount which, when added to the
7 amount contained in the Bond Account and subaccounts therein on that date, if any, will be
8 equal to the aggregate amount of the interest becoming due and payable on each series of
9 the Bonds outstanding on such interest payment date.

10 (b) Principal. On or before June 15 in each year that any of the Bonds are outstanding,
11 the City Treasurer shall set aside in the Bond Account and the appropriate subaccounts
12 therein relating to each series of the Bonds an amount which will be equal to the principal on
13 each series of the Bonds outstanding that will become due and payable on said June 15,
14 including those Bonds subject to mandatory redemption on such date pursuant to the
15 provisions of the applicable Sale Resolution.

16 All moneys in the Bond Account shall be used and withdrawn by the City Treasurer
17 solely for the purpose of paying the principal of and interest on each series of the Bonds as
18 the same shall become due and payable. On June 15 and December 15 in each year that any
19 Bond is outstanding, the City Treasurer shall allocate, transfer and apply to the various
20 subaccounts in the Bond Account created pursuant to the applicable Sale Resolution, on such
21 date on which payment of principal or interest on any series of Bonds is due, from moneys on
22 deposit in the Bond Account, an amount equal to the amount of principal of, premium, if any,
23 or interest due on said date with respect to each series of the Bonds then outstanding. Unless
24 other provision shall have been made pursuant to this Resolution for the payment of any
25 Bond, all amounts held in the various subaccounts of the Bond Account created pursuant to a

1 Sale Resolution shall be used and applied by the City Treasurer to pay principal of, premium,
2 if any, and interest due on the series of the Bonds to which such subaccount relates, as and
3 when due.

4 Section 9. Appointment of Depositories and Other Agents. The City Treasurer is hereby
5 authorized and directed to appoint one or more depositories as he or she may deem desirable
6 and may authorize such depository to perform, under the supervision of the City Treasurer,
7 any of the City Treasurer's duties and responsibilities under this Resolution, to the extent
8 permitted by applicable law.

9 The City Treasurer is hereby also authorized and directed to appoint one or more
10 agents as he or she may deem necessary or desirable. To the extent permitted by applicable
11 law and under the supervision of the City Treasurer, such agents may serve as paying agent,
12 fiscal agent, escrow agent or registrar for the Bonds or may assist the City Treasurer in
13 performing any or all of such functions and such other duties as the City Treasurer shall
14 determine including such duties and responsibilities of the City Treasurer provided for in this
15 Resolution. Such agents shall serve under such terms and conditions as the City Treasurer
16 shall determine. The City Treasurer may remove or replace agents appointed pursuant to this
17 paragraph at any time.

18 Section 10. Project Account. There is hereby established a project account to be
19 designated as the "General Obligation Bonds (Affordable Housing, 2015) Project Account"
20 (the "Project Account"). The Project Account shall be maintained by the City Treasurer, as a
21 separate account, segregated and distinct from all other accounts. The City Treasurer may
22 establish such accounts and subaccounts within the Project Account as may be necessary or
23 convenient in connection with the administration of the Project or the Bonds.

24 All of the proceeds of the sale of the Bonds (excluding any premium and accrued
25 interest received thereon, unless otherwise determined by the Director of Public Finance)

1 shall be deposited by the City Treasurer to the credit of the Project Account and shall be
2 applied exclusively to the objects and purposes specified in Proposition A. When such objects
3 and purposes have been accomplished, any moneys remaining in such account shall be
4 transferred to the Bond Account established pursuant to Section 7 hereof and applied to the
5 payment of the principal of and interest on any series of Bonds. Amounts in the Project
6 Account may be applied to the payment of costs of issuance of the Bonds, including, without
7 limitation, bond and financial printing expenses, mailing and publication expenses, rating
8 agency fees, and the fees and expenses of paying agents, registrars, financial consultants
9 and bond counsel.

10 Section 11. Defeasance Provisions. A Sale Resolution may provide for the defeasance
11 of such series of Bonds authorized therein. Any Bonds which have been deemed paid in
12 accordance with the defeasance provisions of the applicable Sale Resolution shall no longer
13 be deemed outstanding under this Resolution.

14 Section 12. Tax Covenants. The Bonds may be issued as bonds the interest on which
15 is excluded from gross income for federal or state income tax purposes or as bonds the
16 interest on which is included in gross income for federal or state income tax purposes. With
17 respect to any series of the Bonds the interest on which is excluded from gross income for
18 federal or state income tax purposes, the City may make such covenants and representations
19 as are necessary to comply with applicable laws and regulations.

20 Section 13. Other Terms and Provisions Relating To the Bonds. The Sale Resolution
21 for any series of Bonds may provide for (a) the purchase of bond insurance or other credit
22 enhancement relating to such series of Bonds and to the establishment of such additional
23 terms and procedures as may be necessary to provide for the application of such bond
24 insurance or other credit enhancement for the benefit of the bondholders; (b) the investment
25 of moneys held in any fund or account relating to the Bonds in specific categories or types of

1 investments, so long as such investments are legal investments for the City and in compliance
2 with any policy or guideline of the City applicable thereto; and (c) the adoption of any
3 supplemental resolutions relating solely to such series of Bonds.

4 Section 14. Supplemental Resolutions. For any one or more of the following purposes
5 and at any time or from time to time, a supplemental resolution of the City may be adopted,
6 which, without the requirement of consent of the owners of the Bonds, shall be fully effective
7 in accordance with its terms:

8 (a) To add to the covenants and agreements of the City in this Resolution or any Sale
9 Resolution, other covenants and agreements to be observed by the City which are not
10 contrary to or inconsistent with this Resolution or any Sale Resolution as theretofore in effect;

11 (b) To add to the limitations and restrictions in this Resolution or any Sale Resolution,
12 other limitations and restrictions to be observed by the City which are not contrary to or
13 inconsistent with this Resolution or any Sale Resolution as theretofore in effect;

14 (c) To confirm, as further assurance, any pledge under, and the subjection to any lien
15 or pledge created or to be created by, this Resolution or any Sale Resolution as then in effect,
16 of any moneys, securities or funds, or to establish any additional funds or accounts to be held
17 under this Resolution or any Sale Resolution;

18 (d) To cure any ambiguity, supply any omission, or cure or correct any defect or
19 inconsistent provision in this Resolution or any Sale Resolution; or

20 (e) To make such additions, deletions or modifications as shall not be materially
21 adverse to the owners of the Bonds.

22 Any modification or amendment of this Resolution or any Sale Resolution and of the
23 rights and obligations of the City and of the owners of the Bonds, in any particular, may be
24 made by a supplemental resolution, with the written consent of the owners of at least a
25 majority in aggregate principal amount of the Bonds outstanding at the time such consent is

1 given (except as provided in the preceding paragraph). No such modification or amendment
2 shall permit a change in the terms or maturity of the principal of any outstanding Bonds or of
3 any interest payable thereon or a reduction in the principal amount thereof or in the rate of
4 interest thereon, or shall reduce the percentage of Bonds the consent of the owners of which
5 is required to effect any such modification or amendment, or shall reduce the amount of
6 moneys for the repayment of the Bonds, without the consent of all the owners of such affected
7 Bonds.

8 Section 15. Citizens' Oversight Committee. The Bonds are subject to, and incorporate
9 by reference, the applicable provisions of San Francisco Administrative Code Section 5.30 –
10 5.36 (the "Citizens' General Obligation Bond Oversight Committee"). Under Section 5.31 of
11 the Citizens' General Obligation Bond Oversight Committee, to the extent permitted by law,
12 one-tenth of one percent (0.1%) of the gross proceeds of each series of the Bonds shall be
13 deposited in the fund established by the Controller's Office and appropriated by the Board of
14 Supervisors at the direction of the Citizens' General Obligation Bond Oversight Committee to
15 cover the costs of such Committee.

16 Section 16. CEQA Findings. The Board of Supervisors finds and declares that this
17 legislation is not defined as a project subject to CEQA because it is a funding mechanism
18 involving no commitment to any specific projects at any specific locations, as set forth in the
19 CEQA Guidelines Section 15378.

20 Section 17. Planning Code. The Board of Supervisors hereby adopts and incorporates
21 by reference the findings and declarations in Ordinance No. 121-15 relative to (i) the
22 conformance of the Bonds to the priority policies of Section 101.1(b) of the San Francisco
23 Planning Code, (ii) the conformance of the Bonds to Section 4.105 of the San Francisco
24 Charter and Section 2A.53(f) of the San Francisco Administrative Code, and (iii) the
25 consistency of the Bonds with the City's General Plan, all as more fully set forth in the General

1 Plan Referral Report dated May 11, 2015, a copy of which is on file with the Clerk of the
2 Board of Supervisors in File No. 150490.

3 Section 18. Ratification. All actions heretofore taken by officials, employees and agents
4 of the City with respect to the sale and issuance of the Bonds consistent with any documents
5 presented and this Resolution are hereby approved, confirmed and ratified.

6 Section 19. General Authority. The Clerk of the Board of Supervisors, the Finance
7 Committee of the Board of Supervisors, the Mayor, the City Treasurer, the City Administrator,
8 the City Attorney, the Director of Public Finance of the City and the Controller are each hereby
9 authorized and directed in the name and on behalf of the City to take any and all steps and to
10 issue and deliver any and all certificates, requisitions, agreements, notices, consents, and
11 other documents, including but not limited to, letters of representations to any depository or
12 depositories, which they or any of them might deem necessary or appropriate in order to
13 consummate the lawful issuance, sale and delivery of the Bonds and otherwise to give effect
14 to this Resolution. Any such actions are solely intended to further the purposes of this
15 Resolution, and are subject in all respects to the terms of this Resolution. No such actions
16 shall increase the risk to the City or require the City to spend any resources not otherwise
17 granted herein. Final versions of any such documents shall be provided to the Clerk of the

1 Board of Supervisors for inclusion in the official file within 30 days (or as soon thereafter as
2 final documents are available) of execution by all parties.

3
4 APPROVED AS TO FORM:
5 DENNIS J. HERRERA City Attorney

6
7 By: Kenneth D. Roux
8 Kenneth D. Roux
9 Deputy City Attorney
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<p>Items 6, 7 and 8 Files 16-0867, 16-0868 and 16-0850</p>	<p>Departments: Office of Public Finance (OPF) Mayor’s Office of Housing & Community Development (MOHCD)</p>
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EXECUTIVE SUMMARY

Legislative Objectives

- File 16-0867: Resolution providing for the (a) issuance of the total not to exceed \$310,000,000 aggregate principal Affordable Housing, 2015 General Obligation Bonds; (b) levy of a tax to pay the principal and interest; (c) appointment of depositories and other agents for said bonds; (d) establishment of accounts; (e) adopting findings under the California Environmental Quality Act, City Administrative Code and Planning Code; (f) ratifying previous actions taken; and (g) granting general authority to City officials.
- File 16-0868: Resolution authorizing the first issuance and sale of not-to exceed \$77,000,000 aggregate principal Affordable Housing, 2015 Taxable General Obligation Bonds, Series 2016F, including all related documents and requirements, as approved by San Francisco voters on November 3, 2015.
- File 16-0850: Ordinance appropriating \$77,000,000 of General Obligation Housing Bond Series 2016F proceeds to the Mayor’s Office of Housing and Community Development for specified affordable housing projects, with a Controller’s Reserve pending the bond sale.

Key Points

- On November 3, 2015, San Francisco voters authorized \$310,000,000 of general obligation bonds for affordable housing projects. To date, no bonds have been sold.
- This legislation will (1) authorize the issuance of the entire \$310,000,000 general obligation bonds recently approved by San Francisco voters; (2) specifically authorize the first issuance and sale of up to \$77,000,000 for affordable housing purposes; and (3) appropriate \$77,000,000 of bond proceeds from this first sale for specified affordable housing programs, including the related issuance costs.

Fiscal Impact

- The not-to-exceed \$77,000,000 affordable housing bonds would be sold for \$76,025,000, which reflects a \$975,000 reserve to allow for market fluctuations. The projected \$76,025,000 would result in \$74,500,000 of project funds and \$1,525,000 of Controller’s audit and issuance costs. All \$77,000,000 will be on Controller’s Reserve pending the sale.
- The \$77,000,000 bonds are estimated to be sold in October 2016 and have an interest rate of 4.03 percent, such that average debt service on the 20-year bonds would be approximately \$5,500,000 annually. Total interest payments over the 20-year term would be \$34,325,000. Total principal and interest payments are estimated at \$110,350,000.
- Repayment of the annual debt service is covered through increases in the annual Property Tax rate, such that homeowners with an assessed value of \$600,000 will pay average annual additional \$15.76 in Property Taxes.

Recommendation

- Approve the proposed resolutions and ordinance.

MANDATE STATEMENT

Charter Section 9.105 provides that the issuance and sale of general obligation bonds are subject to approval by the Board of Supervisors.

Charter Section 9.105 also provides that amendments to the appropriation ordinance, subject to the Controller certifying the availability of funds, are subject to Board of Supervisors approval.

BACKGROUND

On November 3, 2015, San Francisco voters approved Proposition A, by more than the required two-thirds vote, to authorize the issuance of not-to-exceed \$310,000,000 in taxable and tax-exempt general obligation bonds for affordable housing to

- Construct, develop, acquire and preserve housing affordable to low and middle-income households through programs that prioritize vulnerable populations;
- Assist in the acquisition, rehabilitation and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents;
- Target affordable housing investments in the Mission neighborhood;
- Repair and reconstruct dilapidated public housing;
- Fund a middle-income rental program;
- Provide for homeownership down payment assistance for educators and middle-income households;
- Provide independent citizen oversight and regular audits of the above-noted housing programs; and
- Authorize landlords to pass-through to residential tenants in rent controlled units 50% of the increase in property taxes attributable to the cost to repay these bonds.

In accordance with the voters' authorization, these affordable housing bonds will be sold in one or more series and on the terms and conditions, as the Board of Supervisors will determine by resolution. To date, none of these affordable housing general obligation bonds have been sold.

DETAILS OF PROPOSED LEGISLATION

File 16-0867: Resolution providing for the (a) authorization to issue the total not to exceed \$310,000,000 aggregate principal Affordable Housing, 2015 General Obligation Bonds; (b) levy of future property taxes to pay the principal and interest costs of the bonds; (c) appointment of depositories and other agents for said bonds, including paying, fiscal or escrow agents or registrars; (d) establishment of accounts and subaccounts, including separate bond accounts to pay the principal and interest on each series of bonds and project accounts to pay project expenses administered by the City Treasurer; (e) costs of the Citizens' General Obligation Bond Oversight Committee with 0.1% of gross bond proceeds; (f) adoption of findings under the California Environmental Quality Act (CEQA) that this legislation is a funding mechanism and not a project as defined by CEQA; (g) finding that the proposed project is in conformity with the priority policies of Planning Code Section 101.1, Charter Section 4.105 and Administrative Code Section 2A.53; (h) ratification of previous actions taken; and (i) granting of general authority to City officials to take necessary related actions.

File 16-0868: Resolution authorizing the first issuance and sale of not-to exceed \$77,000,000 aggregate principal Affordable Housing, 2015 Taxable General Obligation Bonds, Series 2016F, including all related documents, terms, appointments, accounts and requirements. This resolution approves the forms of the (a) Official Notice of Sale, (b) Notice of Intention to Sell Bonds, (c) Bond Purchase Contract, (d) Preliminary Official Statement, (e) Official Statement, and (f) Continuing Disclosure Certificate. This authorization includes the sale of the bonds by competitive or negotiated sale, modifications to the documents, ratifying actions previously taken and granting general authority to City officials to take necessary related actions.

File 16-0850: Ordinance appropriating \$77,000,000 of General Obligation Housing Bond Series 2016F proceeds to the Mayor's Office of Housing and Community Development (MOHCD) for specified affordable housing projects, with a Controller's Reserve pending the bond sale.

The first proposed resolution (File 16-0867) will authorize the overall issuance of the entire \$310,000,000 general obligation bonds that were recently approved by San Francisco voters in one or more series, as determined by the Board of Supervisors in separate sale resolutions. The second proposed resolution (File 16-0868) would specifically authorize the first issuance and sale of up to \$77,000,000 of the total \$310,000,000 general obligation bonds for affordable housing purposes. The proposed ordinance (File 16-0850) would appropriate the \$77,000,000 of bond proceeds from this first issuance and sale for specified affordable housing programs, including the related issuance costs.

Table 1 below shows the proposed sources and uses for the initial \$77,000,000 affordable housing bond proceeds.

Table 1: Proposed Sources and Uses of Funds

Sources	
Bond Proceeds	\$76,025,000
Reserve Proceeds	975,000
Total Not-to-Exceed Sources	\$77,000,000
Uses	
Affordable Housing Project Funds	74,500,000
Controller's Audit Fund	149,000
Project Subtotal	74,649,000
Bond Issuance	539,725
Underwriter's Discount	760,250
Citizens' GO Bond Oversight Com	76,025
Issuance and Related Cost Subtotal	1,376,000
Total Uses	\$76,025,000
Reserve Pending Bond Sale ¹	975,000
Total Uses with Reserve	\$77,000,000

Source: Supplemental Appropriation File 16-0850 and letter dated July 22, 2016, from the Director of Public Finance to the Board of Supervisors, re City and County of San Francisco Taxable General Obligation Bonds (Affordable Housing), Series 2016F.

As shown in Table 1 above, proceeds from the first 2016F Affordable Housing 2015 Bonds will fund total affordable housing project costs of \$74,500,000. Table 2 below summarizes the categories of projects to be funded from this \$74,500,000 first bond issuance within the total \$310,000,000 affordable housing bond program. The Attachment provided by the MOHCD provides additional detail on projected expenditures for the entire \$310,000,000 housing bond program from FY 2016-17 through FY 2020-2021, including the total number of 1,256 affordable units to be funded.

Table 2: Affordable Housing Bond Fund Uses

	First Bond Sale	Total Bond Program
Public Housing	\$40,600,000	\$80,000,000
Low-Income Housing	24,000,000	100,000,000
Mission Neighborhood Housing	6,000,000	50,000,000
Middle-Income Housing	3,900,000	80,000,000
Total 2015 Affordable Housing Bond	\$74,500,000	\$310,000,000

Based on the total authorized \$310,000,000 Affordable Housing bonds, after the initial \$77,000,000 issuance, there will be \$233,000,000 of bond authorization remaining. MOHCD

¹ The Reserve Pending Bond Sale accounts for uncertainty due to potential variations in interest rates prior to the sale of the proposed bonds.

currently projects issuing approximately \$103 million in a second issuance of these bonds in the fall of 2017 and \$130 million in a final issuance of these bonds in the fall of 2018. However, Mr. Benjamin McCloskey, Deputy Director for the MOHCD advises that MOHCD will evaluate each of the affordable housing programs, such that additional bond debt would be issued only when needed.

FISCAL IMPACT

\$77,000,000 Initial Bond Sale

As shown in Table 1 above, the requested not-to-exceed \$77,000,000 Series 2016F Affordable Housing General Obligation Bonds are projected to be sold for \$76,025,000, which reflects a \$975,000 reserve to allow for potential variations in the interest rates when the bonds are sold. The projected \$76,025,000 would result in total available project funds of \$74,500,000 and Controller's audit (\$149,000) and issuance-related costs (\$1,376,000) totaling \$1,525,000. If approved by the Board of Supervisors, all of the requested \$77,000,000 supplemental appropriation of funds would be placed on Controller's Reserve pending the actual sale of the bonds.

The issuance and sale of the initial \$77,000,000 affordable housing bonds are anticipated to occur in late October 2016. As provided in the two proposed resolutions, MOHCD can use non-bond available funds prior to the issuance and sale of the bonds to begin work on the specified affordable housing projects, which can then be reimbursed with bond proceeds after the sale. According to Mr. McCloskey, approximately \$5-\$8 million of contracts may be executed prior to the October 2016 bond sale primarily for the public housing predevelopment activities.

Debt Service on Initial Bonds

The Office of Public Finance conservatively estimates annual interest at 4.03 percent over 20 years. The Office of Public Finance advises that although a 20-year term is anticipated, the proposed bonds could be structured up to 30 years, if market conditions warrant a longer period of time. In addition, the Office of Public Finance anticipates a competitive bond sale but reserves the option to conduct a negotiated bond sale, based on market conditions.

The Office of Public Finance estimates average annual debt service on 20-year bonds at the projected \$76,025,000 would be approximately \$5,500,000. Total interest payments over the 20-year bond term would be \$34,325,000. Total principal and interest debt service payments are together estimated at \$110,350,000.

Impact on Property Taxes

Annual debt service will be recovered through increases in City annual property taxes. The Office of Public Finance estimates average property tax increases of \$0.00266 per \$100 or \$2.66 per \$100,000 of assessed valuation to repay the anticipated 20-year term of the initial bonds. Therefore, the owner of a residence with an assessed value of \$600,000, assuming a homeowner's exemption of \$7,000, would pay average additional property taxes to the City of \$15.76 per year for the anticipated \$76,025,000 initial affordable housing bonds.

However, in accordance with the City's capital plan and debt policy, the City's property tax rate paid by City property owners cannot exceed the 2006 property tax rate for general obligation bonds of \$0.1201 per \$100 of assessed value. This policy restrains increasing property taxes on City property owners, by only issuing new bond debt as existing bond debt is retired and the overall property tax base grows. Based on the anticipated retirement of bond debt and the need for additional housing bond funds, the remaining \$233,000,000 (\$310,000,000 total authorization less \$77,000,000 initial issuance) 2015 Affordable Housing Bonds are anticipated to be issued in 2017 and 2018.

Debt Limit

Section 9.106 of the City's Charter limits the total amount of outstanding general obligation bonds to 3.0% of the assessed value of property in the City at any given time. Based on the Controller's August 1, 2016 total assessed valuation of property in the City of \$211.5 billion, and current outstanding general obligation bond debt of \$2.01 billion reflects approximately a 0.95% debt ratio. If the proposed up to \$77,000,000 general obligation bonds are sold, the debt ratio would increase by 0.04% to a total of 0.99%, which is within the 3.0% total debt limit.

POLICY CONSIDERATION

Capital Planning Committee

On August 29, 2016, the Capital Planning Committee considered the proposed affordable housing general obligation bond legislation. According to Mr. Brian Strong, Director of the Capital Planning Program, although affordable housing programs are not technically part of the City's Capital Program, the Capital Planning Committee recommended approval of the proposed two resolutions and ordinance.

Affordable Housing Bonds are Different

This \$310,000,000 affordable housing general obligation bond is somewhat different than typical City general obligation bonds. Under typical City general obligation bonds, the City hires private contractors to undertake improvements on specific City-owned properties, such that the improvements are also owned by the City. However, under these affordable housing general obligation bonds, the City will not directly engage contractors nor generally own the properties or improvements.

Rather, the City will primarily provide the general obligation bond proceeds as loans² to developers who will hire contractors and own the improvements through limited liability corporations, which enables leveraging of additional revenues for the projects through federal tax credits. In addition, the City will provide a portion of the bond proceeds as down payment assistance directly to individuals that meet specified criteria. Mr. McCloskey advises that MOHCD will treat the \$310,000,000 additional affordable housing bond proceeds, including the up to \$77,000,000 to be sold in October 2016, as an additional funding source for the City's overall affordable housing programs, which total over \$300 million in FY 2016-17.

² Each affordable housing program has various loan repayment terms and conditions.

RECOMMENDATION

Approve the proposed resolutions and ordinance.

Specific Housing Bond Uses, By Fiscal Year

	16-17	17-18	18-19	19-20	20-21	Total	Affordable Units
Public Housing: \$80MM							
Potrero Parcel X Predev	2,251,586					2,251,586	
Potrero Parcel X Vertical Gap	14,148,414					14,148,414	70
Potrero Infrastructure Predev	1,200,000					1,200,000	
Potrero Block B Predev	2,300,000					2,300,000	94
Potrero Infrastructure Development		18,800,000				18,800,000	
Potrero Acceleration						-	
Sunnydale Master Planning	2,800,000					2,800,000	60
Sunnydale 6A & 6B Predev	5,000,000					5,000,000	
Sunnydale Parcel Q Predev	2,000,000					2,000,000	
Sunnydale Parcel Q Vertical	10,900,000					10,900,000	166
Sunnydale 6A & 6B Infrastructure Development		16,000,000				16,000,000	
Sunnydale 3A Predev		2,020,000				2,020,000	
Share of cost of issuance & incidentals						2,580,000	
<i>Subtotal</i>	40,600,000	36,820,000	-	-	-	80,000,000	390
Low-Income Housing: \$100MM							
	16-17	17-18	18-19	19-20	20-21	Total	
Project #1 - Predev	3,000,000					3,000,000	
Project #2 - Predev	3,000,000					3,000,000	
Project #3 - Predev	3,000,000					3,000,000	
Small Sites Program	15,000,000	9,235,000				24,235,000	81
Project #1 - Acquisition & Vertical Development			21,180,000			21,180,000	97
Project #2 - Acquisition & Vertical Development			21,180,000			21,180,000	97
Project #3 - Acquisition & Vertical Development			21,180,000			21,180,000	97
Share of cost of issuance & incidentals						3,225,000	
<i>Subtotal</i>	24,000,000	9,235,000	63,540,000	-	-	100,000,000	371
Mission Neighborhood Housing: \$50MM							
	16-17	17-18	18-19	19-20	20-21	Total	
Predevelopment Costs	6,000,000					6,000,000	
Acquisition & Vertical Development		20,000,000	22,385,000			42,385,000	110
Share of cost of issuance & incidentals						1,615,000	
<i>Subtotal</i>	6,000,000	20,000,000	22,385,000	-	-	50,000,000	110
Middle-Income Housing: \$80MM							
	16-17	17-18	18-19	19-20	20-21	Total	
DALP Loan Expansion	2,900,000	2,900,000	2,900,000	2,900,000	2,900,000	14,500,000	49
Teacher Next Door	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	5,000,000	250
Middle-Income Teacher Housing		2,000,000	5,000,000			7,000,000	30
Middle-Income Buy-in Program		24,000,000				24,000,000	96
Middle-Income MOHCD Production		7,000,000	19,920,000			26,920,000	70
Share of cost of issuance & incidentals						2,580,000	
<i>Subtotal</i>	3,900,000	36,900,000	28,820,000	3,900,000	3,900,000	80,000,000	495
GRAND TOTAL	74,500,000	102,955,000	114,745,000	3,900,000	3,900,000	310,000,000	1,256

NOTICE OF INTENTION TO SELL

§ _____*

CITY AND COUNTY OF SAN FRANCISCO
TAXABLE GENERAL OBLIGATION BONDS (AFFORDABLE HOUSING, 2015)
SERIES 2016F

NOTICE IS HEREBY GIVEN that the City and County of San Francisco (the "City") intends to offer for public sale on [October 12, 2016], at 8:30 a.m. (California time), the general obligation bonds captioned above (the "Bonds") by sealed bids at the Controller's Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, City Hall, Room 336, San Francisco, California 94102, and by electronic bids through Ipreo LLC's BiDCOMP™/PARITY® System ("Parity").

The City reserves the right to postpone or cancel the sale of the Bonds or change the terms thereof upon notice given through Thomson Reuters and Bloomberg Business News (collectively, the "News Services") and/or Parity. If no bid is awarded for the Bonds, the City may reschedule the sale of the Bonds to another date or time by providing notification through Parity and/or the News Services.

The Bonds will be offered for public sale subject to the terms and conditions of the Official Notice of Sale, dated on or around _____, 2016 (the "Official Notice of Sale") relating to the Bonds. Additional information regarding the proposed sale of the Bonds, including copies of the Preliminary Official Statement for the Bonds, dated on or around _____, 2016 (the "Preliminary Official Statement"), and the Official Notice of Sale, are expected to be available electronically at <http://www.clsprinting.com/preliminary-official/> on or around _____, 2016, and may also be obtained from either of the City's Co-Financial Advisors: (i) Public Resources Advisory Group, 1950 Mountain Boulevard, Suite 1, Oakland, California 94611, telephone 510-339-3212, attention: Jo Mortensen (email: jmortensen@pragadvisors.com); or (ii) Ross Financial, 1736 Stockton Street, Suite 1, San Francisco, California 94133, telephone 415-912-5612, attention: Peter J. Ross (email: rossfinancial@smkc.com). Failure of any bidder to receive such notice shall not affect the legality of the sale.

Other than with respect to postponement or cancellation as described above, the City reserves the right to modify or amend the Official Notice of Sale in any respect, as more fully described in the Official Notice of Sale; provided, that any such modification or amendment will be communicated to potential bidders through Parity and/or the News Services not later than 1:00 p.m. (California time) on the business day preceding the date for receiving bids for the Bonds or as otherwise described in the Official Notice of Sale. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice or the legality of the sale. The City reserves the right, in its sole discretion, to reject any and all bids and to waive any irregularity or informality in any bid which does not materially affect such bid or change the ranking of the bids.

Dated: _____, 2016

* Preliminary, subject to change.

OFFICIAL NOTICE OF SALE

and

OFFICIAL BID FORM

\$ _____*

**CITY AND COUNTY OF SAN FRANCISCO
TAXABLE GENERAL OBLIGATION BONDS (AFFORDABLE HOUSING, 2015)
SERIES 2016F**

The City and County of San Francisco will receive sealed bids and electronic bids for the above-referenced bonds at the place and up to the time specified below:

SALE DATE: [Wednesday, October 12, 2016]
(Subject to postponement, cancellation, modification or amendment in accordance with this Official Notice of Sale)

TIME: 8:30 a.m., California time

PLACE: Controller's Office of Public Finance
1 Dr. Carlton B. Goodlett Place, Room 336,
San Francisco, California 94102

DELIVERY DATE: October 28, 2016*

* Preliminary, subject to change.

OFFICIAL NOTICE OF SALE

§ _____ *

CITY AND COUNTY OF SAN FRANCISCO
TAXABLE GENERAL OBLIGATION BONDS (AFFORDABLE HOUSING, 2015)
SERIES 2016F

NOTICE IS HEREBY GIVEN that electronic bids and sealed bids will be received in the manner described below, in the case of electronic bids, through the Ipreo LLC's BiDCOMP™/PARITY® System ("Parity"), and in the case of sealed bids, at the Controller's Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102, by the City and County of San Francisco (the "City") for the purchase of the general obligation bonds captioned above (the "Bonds"). Bidding procedures and sale terms are as follows:

- Issue:** The Bonds are described in the City's Preliminary Official Statement for the Bonds dated _____, 2016 (the "Preliminary Official Statement").
- Time:** Bids for the Bonds must be received by the City by 8:30 a.m., California time, on [October 12, 2016].
- Place:** Sealed, hand-delivered bids for the Bonds must be delivered to Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102. Instead of sealed, hand-delivered bids, bidders may submit electronic bids in the manner and subject to the terms and conditions described under "TERMS OF SALE—Form of Bids; Delivery of Bids" below, but no bid will be received after the time for receiving bids specified above.

THE RECEIPT OF BIDS ON OCTOBER 12, 2016, MAY BE POSTPONED OR CANCELLED AT OR PRIOR TO THE TIME BIDS ARE TO BE RECEIVED. NOTICE OF SUCH POSTPONEMENT OR CANCELLATION WILL BE COMMUNICATED BY THE CITY THROUGH THOMSON REUTERS AND BLOOMBERG BUSINESS NEWS (COLLECTIVELY, THE "NEWS SERVICES") AND/OR PARITY (AS DESCRIBED IN "TERMS OF SALE—FORM OF BIDS; DELIVERY OF BIDS" BELOW) AS SOON AS PRACTICABLE FOLLOWING SUCH POSTPONEMENT OR CANCELLATION. Notice of the new date and time for receipt of bids shall be given through Parity and/or the News Services as soon as practicable following a postponement and no later than 1:00 p.m., California time, on the business day preceding the new date for receiving bids.

As an accommodation to bidders, notice of such postponement and of the new sale date and time will be given to any bidder requesting such notice from:

- (i) Public Resources Advisory Group
 1950 Mountain Boulevard, Suite 1

* Preliminary, subject to change.

Oakland, California 94611
Telephone 510-339-3212
Attention: Jo Mortensen (email: jmortensen@pragadvisors.com); or

(ii) Ross Financial
1736 Stockton Street, Suite 1
San Francisco, California 94133
Telephone 415-912-5612
Attention: Peter J. Ross (email: rossfinancial@smkc.com)

(collectively, “Co-Financial Advisors”), provided, however, that failure of any bidder to receive such supplemental notice shall not affect the sufficiency of any such notice or the legality of the sale. See “TERMS OF SALE—Postponement or Cancellation of Sale.”

The City reserves the right to modify or amend this Official Notice of Sale in any respect, including, without limitation, increasing or decreasing the principal amounts; provided, that any such modification or amendment will be communicated to potential bidders through the News Services and/or Parity not later than 1:00 p.m., California time, on the business day preceding the date for receiving bids. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice or the legality of the sale. Bidders are required to bid upon the Bonds as so modified or amended. See “TERMS OF SALE—Right to Modify or Amend.”

Bidders are referred to the Preliminary Official Statement, for additional information regarding the City, the Bonds, the security for the Bonds and other matters. See “CLOSING PROCEDURES AND DOCUMENTS—Official Statement.” Capitalized terms used and not defined in this Official Notice of Sale shall have the meanings ascribed to them in the Preliminary Official Statement.

This Official Notice of Sale will be submitted for posting to Parity (as described in “TERMS OF SALE—Form of Bids; Delivery of Bids” below). In the event the summary of the terms of sale of the Bonds posted on Parity conflicts with this Official Notice of Sale in any respect, the terms of this Official Notice of Sale shall control, unless a notice of an amendment is given as described herein.

TERMS RELATING TO THE BONDS

THE AUTHORITY FOR ISSUANCE, PURPOSES, PAYMENT OF PRINCIPAL AND INTEREST, REDEMPTION, DEFEASANCE, SOURCES AND USES OF FUNDS, SECURITY AND SOURCES OF PAYMENT, FORM OF LEGAL OPINIONS OF CO-BOND COUNSEL AND OTHER INFORMATION REGARDING THE BONDS ARE PRESENTED IN THE PRELIMINARY OFFICIAL STATEMENT, WHICH EACH BIDDER IS DEEMED TO HAVE OBTAINED AND REVIEWED PRIOR TO BIDDING FOR THE BONDS. THIS OFFICIAL NOTICE OF SALE GOVERNS ONLY THE TERMS OF SALE, BIDDING, AWARD AND CLOSING PROCEDURES FOR THE BONDS. THE DESCRIPTION OF THE BONDS CONTAINED IN THIS OFFICIAL

NOTICE OF SALE IS QUALIFIED IN ALL RESPECTS BY THE DESCRIPTION OF THE BONDS CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT.

Issue. The Bonds will be issued as fully registered bonds without coupons in book-entry form in denominations of \$5,000 or any integral multiple of that amount, as designated by the successful bidder (the “Purchaser”), all dated the date of delivery, which is expected to be October 28, 2016. If the sale is postponed, notice of the new date of the sale will also set forth the new expected date of delivery of the Bonds.

Book-Entry Only. The Bonds will be registered in the name of a nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, and the Purchaser will not receive certificates representing its interest in the Bonds purchased. As of the date of award of the Bonds, the Purchaser must either participate in DTC or must clear through or maintain a custodial relationship with an entity that participates in DTC.

Interest Rates. Interest on the Bonds will be payable on June 15, 2017, and semiannually thereafter on December 15 and June 15 of each year (each an “Interest Payment Date”). Interest shall be calculated on the basis of a 30-day month, 360-day year from the dated date of the Bonds. Bidders may specify any number of separate rates, and the same rate or rates may be repeated as often as desired, provided:

- (i) each interest rate specified in any bid for the Bonds must be a multiple of one-eighth or one-twentieth of one percent ($1/8$ or $1/20$ of 1%) per annum;
- (ii) the maximum interest rate bid for any maturity shall not exceed 10% per annum;
- (iii) no Bond shall bear a zero rate of interest;
- (iv) each Bond shall bear interest from its dated date to its stated maturity date at the single rate of interest specified in the bid; and
- (v) all Bonds maturing at any one time shall bear the same rate of interest.

See the Preliminary Official Statement – “THE BONDS – Payment of Interest and Principal.”

Par and Premium Bids; No Net Discount Bids. All bids for the Bonds shall be for par or more; no net discount bids for the Bonds will be accepted. Individual maturities of the Bonds may be reoffered at par, a premium or a discount.

Principal Payments. The Bonds shall be serial and/or term Bonds, as specified by each bidder, and principal shall be payable on June 15 of each year, commencing on June 15, 2017, as shown below. Subject to the City’s right to modify or amend this Notice of Sale (see “TERMS OF SALE—Right to Modify or Amend”), the final maturity of the Bonds shall be June 15, 20___. The principal amount of the Bonds maturing or subject to mandatory sinking fund redemption in any year shall be in integral multiples of \$5,000. For any term Bonds specified, the principal amount for a given year may be allocated only to a single term Bond and must be

part of an uninterrupted annual sequence from the first mandatory sinking fund payment to the term Bond maturity. The aggregate amount of the principal amount of the serial maturity or mandatory sinking fund payment for the Bonds is shown below for information purposes only. **Bidders for the Bonds will provide bids for all of the Bonds Principal Amounts.**

Subject to the City's right to modify or amend this Notice of Sale (see "TERMS OF SALE—Right to Modify or Amend"), and to adjustment as provided in this Notice of Sale (see "—Adjustment of Principal Payments"), the aggregate principal amount of the serial maturity or mandatory sinking fund payment for the Bonds in each year is as follows:

Maturity Date (June 15)	Principal Amount*
-------------------------------	-------------------

TOTAL

Adjustment of Principal Payments. The principal amounts set forth in this Official Notice of Sale reflect certain estimates of the City with respect to the likely interest rates of the winning bid and the premium contained in the winning bid. **The City reserves the right to change the principal payment schedule set forth above after the determination of the successful bidder, by adjusting one or more of the principal payments of the Bonds, in increments of \$5,000, as determined in the sole discretion of the City. Any such adjustment of principal payments with respect to the Bonds shall be based on the schedule of principal payments provided by the City to be used as the basis of bids for the Bonds. Any such adjustment will not change the average per Bond dollar amount of the underwriter's discount. In the event of any such adjustment, no rebidding or recalculation of the bids submitted will be required or permitted and no successful bid may be withdrawn.**

See also "TERMS OF SALE—Right to Modify or Amend," regarding the City's right to modify or amend this Official Notice of Sale in any respect including, without limitation, increasing or decreasing the principal amount of any serial maturity or

* Preliminary, subject to change.

mandatory sinking fund payment for the Bonds and adding or deleting serial or term maturity and mandatory sinking fund payment dates, along with corresponding principal amounts with respect thereto.

A BIDDER AWARDED THE BONDS BY THE CITY WILL NOT BE PERMITTED TO WITHDRAW ITS BID, CHANGE THE INTEREST RATES IN ITS BID OR THE REOFFERING PRICES IN ITS REOFFERING PRICE CERTIFICATE AS A RESULT OF ANY CHANGES MADE TO THE PRINCIPAL PAYMENTS OF SUCH BONDS IN ACCORDANCE WITH THIS OFFICIAL NOTICE OF SALE.

Redemption.

(i) Optional Redemption of the Bonds. The Bonds maturing on or before June 15, 20__, will not be subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after June 15, 20__, are subject to redemption prior to their respective stated maturity dates, at the option of the City, from any source of available funds (other than mandatory sinking fund payments), as a whole or in part on any date, on or after June 15, 20__, at the redemption price equal to the principal amount of the Bonds redeemed, together with accrued interest to the date fixed for redemption, without premium. See the Preliminary Official Statement – “THE BONDS—Redemption—Optional Redemption of the Bonds.”

(ii) Mandatory Redemption. If the successful bidder designates principal amounts to be combined into one or more term bonds, each such term bond shall be subject to mandatory sinking fund redemption commencing on June 15 of the first year which has been combined to form such term bonds and continuing on June 15 in each year thereafter until the stated maturity date of that term bond. The amount redeemed in any year shall be equal to the principal amount for such maturity date set forth above under “Principal Payments,” as adjusted pursuant to “Adjustment of Principal Payments” above. The City, at its option, may credit against any mandatory sinking fund redemption payment term bonds of the maturity then subject to redemption, which have been purchased and canceled by the City or have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption payment.

No term Bonds may be redeemed from mandatory sinking fund payments until all term Bonds maturing on preceding term maturity dates, if any, have been retired. See the Preliminary Official Statement – “THE BONDS—Redemption—Mandatory Redemption.”

Legal Opinions and Tax Matters. Upon delivery of the Bonds, Jones Hall, A Professional Law Corporation, and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the City (“Co-Bond Counsel”), will deliver their separate legal opinions as to the validity and enforceability of the Bonds.

A complete copy of the proposed form of opinion of Co-Bond Counsel is set forth in Appendix F to the Preliminary Official Statement. Copies of the opinions of Co-Bond Counsel will be furnished to the Purchaser upon delivery of the Bonds.

See the Preliminary Official Statement – “TAX MATTERS.”

TERMS OF SALE

Par and Premium Bids; No Net Discount Bids. All bids for the Bonds shall be for par or more; no net discount bids for the Bonds will be accepted. Individual maturities of the Bonds may be reoffered at par, a premium or a discount.

Form of Bids; Delivery of Bids. Each bid for the Bonds must be: (1) for not less than all of the Bonds offered for sale, (2) unconditional, and (3) either submitted (i) on the Official Bid Form attached hereto as Exhibit A and signed by the bidder, or (ii) via Parity, along with a facsimile transmission by the winning bidder, after the verbal award, of the completed and signed applicable Official Bid Form conforming to the Parity bid, with any adjustments made by the City pursuant hereto, by not later than 11:00 a.m., California time, on the sale date. Electronic bids must conform to the procedures established by Parity. Sealed bids must be enclosed in a sealed envelope, delivered to the City at the address set forth on the cover and clearly marked "Bid for the City and County of San Francisco General Obligation Bonds" or words of similar import, as hereinafter described and received by 8:30 a.m., California time, on October 12, 2016, at the offices of the Office of Public Finance, c/o Nadia Sesay, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102; telephone: (415) 554-5956. No bid submitted to the City shall be subject to withdrawal or modification by the bidder.

All bids will be deemed to incorporate all of the terms of this Official Notice of Sale. If the sale of the Bonds is canceled or postponed, all bids for the Bonds shall be rejected. No bid submitted to the City shall be subject to withdrawal or modification by the bidder. No bid will be accepted after the time for receiving bids. The City retains absolute discretion to determine whether any bidder is a responsible bidder and whether any bid is timely, legible and complete and conforms to this Official Notice of Sale. The City takes no responsibility for informing any bidder prior to the time for receiving bids that its bid is incomplete, illegible or nonconforming with this Official Notice of Sale or has not been received.

Solely as an accommodation to bidders, electronic bids will be received exclusively through Parity in accordance with this Official Notice of Sale. For further information about Parity, potential bidders may contact either of the Co-Financial Advisors at the numbers provided above or Parity at: (212) 404-8107.

Warnings Regarding Electronic Bids. Bids for the Bonds may be submitted electronically via Parity. The City will attempt to accommodate bids submitted electronically via Parity. However, the City does not endorse or encourage the use of such electronic bidding service. None of the City, the City Attorney, the Co-Financial Advisors or Co-Bond Counsel assumes any responsibility for any error contained in any bid submitted electronically or for failure of any bid to be transmitted, received or opened by the time for receiving bids, and each bidder expressly assumes the risk of any incomplete, illegible, untimely or nonconforming bid submitted by electronic transmission by such bidder, including, without limitation, by reason of garbled transmissions, mechanical failure, engaged telecommunications lines, or any other cause arising from submission by electronic transmission. The time for receiving bids will be determined by the City at the place of bid opening, and the City will not be required to accept the time kept by Parity.

If a bidder submits an electronic bid for the Bonds through Parity, such bidder thereby agrees to the following terms and conditions: (1) if any provision in this Official Notice of Sale with respect to the Bonds conflicts with information or terms provided or required by Parity, this Official Notice of Sale, including any amendments or modifications issued through Parity and/or the News Services, will control; (2) each bidder will be solely responsible for making necessary arrangements to access Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale; (3) the City will not have any duty or obligation to provide or assure access to Parity to any bidder, and the City will not be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of Parity or any incomplete, inaccurate or untimely bid submitted by any bidder through Parity; (4) the City is permitting use of Parity as a communication mechanism, and not as an agent of the City, to facilitate the submission of electronic bids for the Bonds; Parity is acting as an independent contractor, and is not acting for or on behalf of the City; (5) the City is not responsible for ensuring or verifying bidder compliance with any procedures established by Parity; (6) the City may regard the electronic transmission of a bid through Parity (including information regarding the purchase price for the Bonds or the interest rates for any maturity of the Bonds) as though the information were submitted on the Official Bid Form and executed on the bidder's behalf by a duly authorized signatory; (7) if the bidder's bid is accepted by the City, the signed, completed and conforming Official Bid Form submitted by the bidder by facsimile transmission after the verbal award, this Official Notice of Sale and the information that is transmitted electronically through Parity will form a contract, and the bidder will be bound by the terms of such contract; and (8) information provided by Parity to bidders will form no part of any bid or of any contract between the Purchaser and the City unless that information is included in this Official Notice of Sale or the Official Bid Form.

Basis of Award. Unless all bids are rejected, the Bonds will be awarded to the responsible bidder who submits a conforming bid that represents the lowest true interest cost to the City. The true interest cost will be that nominal interest rate that, when compounded semiannually and applied to discount all payments of principal and interest payable on the Bonds to the dated date of the Bonds, results in an amount equal to the principal amount of the Bonds plus the amount of any net premium. For the purpose of calculating the true interest cost, mandatory sinking fund payments for any term Bonds specified by a bidder will be treated as Bonds maturing on the dates of such mandatory sinking fund payments. In the event that two or more bidders offer bids for the Bonds at the same true interest cost, the City will determine by lot which bidder will be awarded the Bonds. Bid evaluations or rankings made by Parity are not binding on the City.

Estimate of True Interest Cost. Each bidder is requested, but not required, to supply an estimate of the true interest cost based upon its bid, which will be considered as informative only and not binding on either the bidder or the City.

Multiple Bids. In the event multiple bids with respect to the Bonds are received from a single bidder by any means or combination thereof, the City shall be entitled to accept the bid representing the lowest true interest cost to the City, and each bidder agrees by submitting multiple bids to be bound by the bid representing the lowest true interest cost to the City.

Good Faith Deposit. To secure the City from any loss resulting from the failure of the apparent winning bidder to comply with the terms of its bid, a good faith deposit in the amount of \$750,000 (the “**Good Faith Deposit**”) must be provided to the City by the apparent winning bidder.

Upon the determination by the City of the apparent winning bidder of the Bonds, the Co-Financial Advisors will (i) provide to the apparent winning bidder of the Bonds the wire transfer information and (ii) request the apparent winning bidder to immediately wire the Good Faith Deposit to the City. No later than 90 minutes after the time the Co-Financial Advisors request the apparent winning bidder to wire the Good Faith Deposit to the City, the apparent winning bidder of the Bonds must wire the Good Faith Deposit to the City and provide the Federal wire reference number of such Good Faith Deposit to the Co-Financial Advisors. In the event that the apparent winning bidder does not wire the Good Faith Deposit to the City or does not provide the Federal wire reference number of such Good Faith Deposit to the Co-Financial Advisors within the time specified above, the City may reject the bid of the apparent winning bidder and award Bonds to a responsible bidder that submitted a conforming bid that represents the next lowest true interest cost to the City.

No interest will be paid upon the Good Faith Deposit made by any bidder. The Good Faith Deposit of the Purchaser will immediately become the property of the City. The Good Faith Deposit will be held and invested for the exclusive benefit of the City. The Good Faith Deposit, without interest thereon, will be credited against the purchase price of the Bonds purchased by the Purchaser at the time of delivery thereof.

If the purchase price is not paid in full upon tender of the Bonds, the City shall retain the Good Faith Deposit and the Purchaser will have no right in or to the Bonds or to the recovery of its Good Faith Deposit, or to any allowance or credit by reason of such deposit, unless it shall appear that the Bonds would not be validly delivered to the Purchaser in the form and manner proposed, except pursuant to a right of cancellation. See “CLOSING PROCEDURES AND DOCUMENTS—Right of Cancellation.” In the event of nonpayment for the Bonds by a successful bidder, the City reserves any and all rights granted by law to recover the full purchase price of the Bonds and, in addition, any damages suffered by the City.

Reoffering Prices and Certificate. The Purchaser of the Bonds must actually reoffer all of the Bonds to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers). As soon as is practicable, but not later than one hour after the award of the Bonds, the successful bidder shall provide to the City a completed certificate in the form attached hereto as Exhibit B (a “**Reoffering Price Certificate**”), which will state the initial offering prices at which it has offered all of the Bonds of each maturity to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers), in a bona fide public offering. In addition, on the day prior to delivery of the Bonds, the Purchaser shall provide a Reoffering Price Certificate, which shall be dated the date of the closing and in a form and substance acceptable to and include such additional information as may be requested by Co-Bond Counsel, to the following:

- the City

- Jones Hall, A Professional Law Corporation
475 Sansome Street, Suite 1700
San Francisco, California 94111
Fax: 415-276-2088
Attention: Scott R. Ferguson, Esq.
Email: sferguson@joneshall.com

- Amira Jackmon, Attorney at Law
2342 Shattuck Avenue, #816
Berkeley, California 94704
Fax: (510) 981-1646
Attention: Amira Jackmon, Esq.
Email: amira@jackmonlaw.com

For the purposes of this paragraph, sales of the Bonds to the other securities brokers or dealers will not be considered sales to the general public.

Electronic Bids; Delivery of Form of Bids. If the City accepts a bidder's bid that was submitted through Parity, the successful bidder shall submit a signed, completed and conforming Official Bid Form by facsimile transmission to Director of Public Finance, fax: (415) 554-4864, as soon as practicable, but not later than one hour after the verbal award of the Bonds.

Right of Rejection and Waiver of Irregularity. The City reserves the right, in its sole discretion, to reject any and all bids and to waive any irregularity or informality in any bid which does not materially affect such bid or change the ranking of the bids.

Right to Modify or Amend. Other than with respect to postponement or cancellation as described in this Official Notice of Sale, and in addition to the City's right to adjust the payment amounts of the Bonds as provided in "TERMS RELATING TO THE BONDS—Adjustment of Principal Payments" the City reserves the right to modify or amend this Official Notice of Sale in any respect including, without limitation, increasing or decreasing the principal amount of any serial maturity or mandatory sinking fund payment for the Bonds and adding or deleting serial or term maturity and mandatory sinking fund payment dates, along with corresponding principal amounts with respect thereto; provided, that, subject to the terms of this Notice of Sale (see "TERMS RELATING TO THE BONDS—Adjustment of Principal Payments") any such modification or amendment will be communicated to potential bidders through Parity and/or the News Services not later than 1:00 p.m., California time, on the business day preceding the date for receiving bids. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice or the legality of the sale.

Postponement or Cancellation of Sale. The City may postpone or cancel the sale of the Bonds at or prior to the time for receiving bids. Notice of such postponement or cancellation shall be given through Parity and/or the News Services as soon as practicable following such postponement or cancellation. If a sale is postponed, notice of a new sale date will be given through Parity and/or the News Services as soon as practicable following a postponement and no later than 1:00 p.m., California time, on the business day preceding the new date for receiving

bids. Failure of any potential bidder to receive notice of postponement or cancellation will not affect the sufficiency of any such notice.

Prompt Award. The Controller of the City will take official action awarding the Bonds or rejecting all bids with respect to the Bonds not later than 30 hours after the time for receipt of bids for the Bonds, unless such time period is waived by the Purchaser.

Equal Opportunity. Pursuant to the spirit and intent of the City's Local Business Enterprise ("LBE") Ordinance, Chapter 14B of the Administrative Code of the City, the City strongly encourages the inclusion of Local Business Enterprises certified by the San Francisco Human Rights Commission in prospective bidding syndicates. A list of certified LBEs may be obtained from the San Francisco Human Rights Commission, 25 Van Ness Avenue, Room 800, San Francisco, California 94102; telephone: (415) 252-2500.

CLOSING PROCEDURES AND DOCUMENTS

Delivery and Payment. Delivery of the Bonds will be made through the facilities of DTC in New York, New York, and is presently expected to take place on or about October 28, 2016*. Payment for the Bonds (including any premium) must be made at the time of delivery in immediately available funds to the City Treasurer. Any expense for making payment in immediately available funds shall be borne by the Purchaser. The City will deliver to the Purchaser, dated as of the delivery date, the legal opinions with respect to the Bonds described in APPENDIX F – "PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL" to the Preliminary Official Statement.

Qualification for Sale. The City will furnish such information and take such action not inconsistent with law as the Purchaser may request and the City may deem necessary or appropriate to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Purchaser; provided, that the City will not execute a general or special consent to service of process or qualify to do business in connection with such qualification or determination in any jurisdiction. By submitting its bid for the Bonds, the Purchaser assumes all responsibility for qualifying the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of the states and jurisdictions in which the Purchaser offers or sells the Bonds, including the payment of fees for such qualification. Under no circumstances may the Bonds be sold or offered for sale or any solicitation of an offer to buy the Bonds be made in any jurisdiction in which such sale, offer or solicitation would be unlawful under the securities laws of the jurisdiction.

No Litigation. The City will deliver a certificate stating that no litigation of any nature is pending, or to the knowledge of the officer of the City executing such certificate, threatened, restraining or enjoining the sale, issuance or delivery of the Bonds or any part thereof, or the entering into or performance of any obligation of the City, or concerning the validity of the Bonds, the ability of the City to levy and collect the ad valorem tax required to pay debt service

* Preliminary; subject to change.

on the Bonds, the corporate existence or the boundaries of the City, or the entitlement of any officers of the City who will execute the Bonds to their respective offices.

Right of Cancellation. The Purchaser will have the right, at its option, to cancel this contract if the City fails to execute the Bonds and tender the same for delivery within 30 days from the sale date, and in such event the Purchaser will be entitled only to the return of the Good Faith Deposit, without interest thereon.

CUSIP Numbers. It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto will constitute cause for a failure or refusal by the Purchaser of the Bonds to accept delivery of and pay for such Bonds in accordance with the terms of this contract. The Purchaser, at its sole cost, will obtain separate CUSIP numbers for each maturity of the Bonds. CUSIP is a registered trademark of American Bankers Association. CUSIP data is provided by Standard and Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. The City takes no responsibility for the accuracy of such CUSIP numbers. CUSIP numbers are provided only for the convenience of the Purchaser of the Bonds.

Expenses of the Successful Bidder. CUSIP Service Bureau charges, California Debt and Investment Advisory Commission fees (under California Government Code Section 8856), Depository Trust Company charges and all other expenses of the successful bidder will be the responsibility of the successful bidder. Pursuant to Section 8856 of the California Government Code, the Purchaser must pay to the California Debt and Investment Advisory Commission, within 60 days from the sale date, the statutory fee for the Bonds purchased.

Official Statement. Copies of the Preliminary Official Statement with respect to the Bonds will be furnished or electronically transmitted to any potential bidder upon request to the Office of Public Finance or to either of the Co-Financial Advisors. (The contact information for the Co-Financial Advisors is set forth above in this Official Notice of Sale.) In accordance with Rule 15c2-12 of the Securities and Exchange Commission ("**Rule 15c2-12**"), the City deems the Preliminary Official Statement final as of its date, except for the omission of certain information permitted by Rule 15c2-12. Within seven business days after the date of award of the Bonds, the Purchaser of the Bonds will be furnished with a reasonable number of copies (not to exceed 50) of the final Official Statement, without charge, for distribution in connection with the resale of the Bonds. The Purchaser of the Bonds must notify the City in writing within two days of the sale of the Bonds if the Purchaser requires additional copies of the final Official Statement to comply with applicable regulations. The cost for such additional copies will be paid by the Purchaser requesting such copies.

By submitting a bid for the Bonds, the Purchaser of the Bonds agrees: (1) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any supplements, (2) to promptly file a copy of the final Official Statement, including any supplements, with the Municipal Securities Rulemaking Board, and (3) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the

Bonds to the Purchaser, including, without limitation, the delivery of a final Official Statement, including any supplements, to each investor who purchases Bonds.

The form and content of the final Official Statement is within the sole discretion of the City. The name of a Purchaser of the Bonds will not appear on the cover of the final Official Statement.

Certificate Regarding Official Statement. At the time of delivery of the Bonds, the Purchaser will receive a certificate, signed by an authorized representative of the City, confirming to the Purchaser that (i) such authorized representative has determined that, to the best of such authorized representative's knowledge and belief, the final Official Statement (excluding reoffering information, information relating to The Depository Trust Company and its book-entry system, as to which no view will be expressed) did not as of its date, and does not as of the date of closing, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, (ii) such authorized representative knows of no material adverse change in the condition or affairs of the City that would make it unreasonable for such Purchaser of the Bonds to rely upon the final Official Statement in connection with the resale of the Bonds, and (iii) the City authorizes the Purchaser of the Bonds to distribute copies of the final Official Statement in connection with the resale of the Bonds.

Purchaser Certificate Concerning Official Statement. As a condition of delivery of the Bonds, the Purchaser of the Bonds will be required to execute and deliver to the City, prior to the date of closing, a certificate to the following effect:

- (i) The Purchaser has provided to the City the initial reoffering prices or yields on the Bonds as printed in the final Official Statement, and the Purchaser has made a bona fide offering of the Bonds to the public at the prices and yields so shown.
- (ii) The Purchaser has not undertaken any responsibility for the contents of the final Official Statement. The Purchaser, in accordance with and as part of its responsibilities under the federal securities laws, has reviewed the information in the final Official Statement and has not notified the City of the need to modify or supplement the final Official Statement.
- (iii) The foregoing statements will be true and correct as of the date of closing.

Continuing Disclosure. In order to assist bidders in complying with Rule 15c2-12, the City will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial information, operating data and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

Except as otherwise disclosed in the Official Statement under the heading "CONTINUING DISCLOSURE," for the past five years, the City has been in compliance in all material respects with its continuing disclosure obligations under Rule 15c2-12.

Additional Information. Prospective bidders should read the entire Preliminary Official Statement, copies of which may be obtained in electronic form from the City.

Sales Outside of the United States. The Purchaser must undertake responsibility for compliance with any laws or regulations of any foreign jurisdiction in connection with any sale of the Bonds to persons outside the United States.

Insurance. No bids with municipal bond insurance will be accepted.

Dated: _____, 2016.

EXHIBIT A

BID TIME: 8:30 a.m. (California time)

Wednesday, October 12, 2016

OFFICIAL BID FORM FOR THE PURCHASE OF
\$ _____
CITY AND COUNTY OF SAN FRANCISCO
TAXABLE GENERAL OBLIGATION BONDS (AFFORDABLE HOUSING, 2015)
SERIES 2016F

Controller
City and County of San Francisco
c/o Office of Public Finance
1 Dr. Carlton B. Goodlett Place, Room 336
San Francisco, California 94102
Confirm Number: (415) 554-6643

BIDDING FIRM'S NAME: _____

Subject to the provisions and in accordance with the terms of the Official Notice of Sale, dated _____, 2016, which is incorporated herein and made a part of this proposal, we have reviewed the Preliminary Official Statement relating to, among other things, the above-referenced Bonds (the "Bonds") and hereby offer to purchase all of the \$ _____ aggregate principal amount of the Bonds dated the date of their delivery on the following terms, including the submission of the required Good Faith Deposit in the amount of \$ _____ by wire transfer; and to pay therefor the price of \$ _____ (such amount being the "Purchase Price"), which is equal to the aggregate principal amount of the Bonds, plus a net original issue premium of \$ _____. The Bonds shall mature and be subject to mandatory sinking fund redemption (if term bonds are specified below) in the amounts and years and bear interest at the rates per annum (in multiples of 1/8 or 1/20 of 1%), as set forth in the schedule below.

Table with columns for Maturity Date, Principal Payment, Serial Maturity, Mandatory Sinking Fund Redemption, Interest Rate. Includes checkboxes for term and serial maturity.

† Subject to adjustment in accordance with the Official Notice of Sale.
(1) Circle the final maturity of each term bond specified.

Authorized Signatory
Title: _____
Phone Number: _____
Fax Number: _____

True Interest Cost (optional and not binding): _____

THE BIDDER EXPRESSLY ASSUMES THE RISK OF ANY INCOMPLETE, ILLEGIBLE, UNTIMELY OR OTHERWISE NONCONFORMING BID. THE CITY RETAINS ABSOLUTE DISCRETION TO DETERMINE WHETHER ANY BID IS TIMELY, LEGIBLE, COMPLETE AND CONFORMING. NO BID SUBMITTED WILL BE CONSIDERED TIMELY UNLESS, BY THE TIME FOR RECEIVING BIDS, THE ENTIRE BID FORM HAS BEEN RECEIVED BY THE DELIVERY METHOD PROVIDED IN THE NOTICE OF SALE.

The City reserves the right to modify or amend this Bid Form, in any respect, including, without limitation, increasing or decreasing the principal amount at any serial maturity or mandatory sinking fund by payment for the Bonds and adding or deleting serial or term maturity and mandatory sinking fund and payment dates, along with corresponding principal amounts with respect thereto as provided in "TERMS RELATING TO THE BONDS—Adjustment of Principal Payments" and "TERMS OF SALE—Right to Modify or Amend" in the Official Notice of Sale.

* Preliminary, subject to change.

EXHIBIT B

**CITY AND COUNTY OF SAN FRANCISCO
TAXABLE GENERAL OBLIGATION BONDS (AFFORDABLE HOUSING, 2015)
SERIES 2016F**

FORM OF REOFFERING PRICE CERTIFICATE

**(TO BE DELIVERED AND COMPLETED BY THE PURCHASER OF THE BONDS, AS
DESCRIBED UNDER "REOFFERING PRICES AND CERTIFICATE" IN THE
OFFICIAL NOTICE OF SALE)**

This Certificate is being delivered by [insert name], the purchaser (the "Purchaser"), in connection with its purchase of the general obligation bonds captioned above (the "Bonds"). The Purchaser hereby certifies and represents the following:

A. Issue Price.

1. All the Bonds of all maturities were actually offered by the Purchaser to the public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide offering at prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, those set forth in Schedule I attached hereto, which the Purchaser believes is not more than the fair market value of each maturity as of _____, 2016, the date of sale of the Bonds.

2. As of the date hereof, neither the Purchaser nor any affiliate of the Purchaser has participated in offering any derivative product with respect to the Bonds.

B. Compensation.

All compensation received by the Purchaser for underwriting services (which includes certain expenses) in connection with the sale and delivery of the Bonds will be paid in the form of a purchase discount in the amount of \$_____; and no part of such compensation includes any payment for any property or services other than underwriting services relating to sale and delivery of the Bonds.

The signer is an authorized representative of the Purchaser and is duly authorized by the Purchaser to execute and deliver this Certificate on behalf of the Purchaser. The Purchaser understands that the representations contained in this Certificate will be relied on by the City and County of San Francisco in making certain of its representations in its Tax Certificate for the Bonds and in completing and filing the Information Return for the Bonds with the Internal Revenue Service, and by Jones Hall, A Professional Law Corporation, and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the City and County of San Francisco, in rendering certain legal opinions in connection with the issuance of the Bonds.

Dated: _____
[Sale Date]

By: _____
(Name of Purchaser)

Execution by: _____

Type Name: _____

Title: _____

SCHEDULE I
CERTIFICATE OF PURCHASER

Maturity Dates (June 15)[*]	Principal Amount[*]	Interest Rate[†]	Offering Price or Yield[†]
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^{*} Subject to adjustment in accordance with the Official Notice of Sale.

[†] To be completed by Purchaser.

\$ _____

**CITY AND COUNTY OF SAN FRANCISCO
TAXABLE GENERAL OBLIGATION BONDS (AFFORDABLE HOUSING, 2015)
SERIES 2016F**

PURCHASE CONTRACT

_____, 2016

City and County of San Francisco
1 Dr. Carlton B. Goodlett Place, Room 336
San Francisco, California 94102

Ladies and Gentlemen:

The undersigned _____, acting on behalf of itself (the "Representative") and the other Underwriters named on the signature page of this Purchase Contract (collectively, the "Underwriters"), offers to enter into the following agreement with the City and County of San Francisco (the "City"). Upon the acceptance of this offer by the City, this Purchase Contract will be binding upon the City and the Underwriters. This offer is made subject to the acceptance of this Purchase Contract by the City on or before 5:00 P.M. California time on the date hereof and, if not so accepted, will be subject to withdrawal by the Underwriters upon written notice (by facsimile transmission or otherwise) from the Representative delivered to the City at any time prior to the acceptance of this Purchase Contract by the City. If the Underwriters withdraw this offer, or the Underwriters' obligation to purchase the general obligation bonds captioned above (the "Bonds") is otherwise terminated pursuant to Section 8(c) hereof, then and in such case the City shall be without any further obligation to the Underwriters, including the payment of any costs set forth under Section 10(b) hereof, and the City shall be free to sell the Bonds to any other party.

Capitalized terms used in this Purchase Contract and not otherwise defined herein shall have the respective meanings set forth for such terms in the Resolutions (as hereinafter defined).

Inasmuch as this purchase and sale represents a negotiated transaction, the City understands, and hereby confirms, that the Underwriters are not acting as a fiduciary of the City, but rather are acting solely in their capacity as Underwriters for their own account. The Representative represents and warrants to the City that it has been duly authorized to enter into this Purchase Contract and to act hereunder by and on behalf of the other Underwriters. Any authority, discretion or other power conferred upon the Underwriters by this Purchase Contract may be exercised jointly by all of the Underwriters or by the Representative on their behalf.

Section 1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements set forth in this Purchase Contract, the Underwriters hereby jointly and severally agree to purchase from the City, and the City agrees to

sell and deliver to the Underwriters, all (but not less than all) of the \$_____ aggregate principal amount of Bonds.

The Bonds shall be dated the date of delivery thereof and shall have the maturities, subject to the right of prior prepayment, and bear interest at the rates per annum and have the yields all as set forth on Schedule I attached hereto. The purchase price for the Bonds shall be \$_____, calculated as the aggregate principal amount of the Bonds in the amount of \$_____, [plus/less] a net aggregate original issue [premium/discount] in the amount of \$_____ and less an aggregate underwriters' discount in the amount of \$_____). The net purchase price due at Closing shall be \$_____, which is the purchase price less the amount of the Good Faith Deposit of \$750,000 per Section 9 hereof.

Interest with respect to the Bonds will be exempt from State of California personal income taxes, all as further described in the Official Statement, dated the date hereof, and relating to the Bonds (as amended and supplemented, the "Official Statement").

Section 2. Official Statement. The City ratifies, approves and confirms the distribution of the Preliminary Official Statement with respect to the Bonds, dated _____, 2016 (together with the appendices thereto, any documents incorporated therein by reference, and any supplements or amendments thereto, the "Preliminary Official Statement"), in connection with the offering and sale of the Bonds by the Underwriters prior to the availability of the Official Statement. The City represents that the Preliminary Official Statement was deemed final as of its date for purposes of Rule 15c2-12 promulgated by the Securities and Exchange Corporation under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for the omission of offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery date, ratings and other terms of the Bonds depending on such matters.

The City shall provide the Underwriters, within 7 business days after the date hereof (but in any event at least 2 business days prior to the Closing Date (as defined herein)) with a reasonable number of copies of the Official Statement in the form of the Preliminary Official Statement with such changes thereto as have been approved by the Representative (which approval shall not be unreasonably withheld), as requested by the Representative, for distribution. The City authorizes and approves the distribution by the Underwriters of the Official Statement in connection with the offering and sale of the Bonds. The City authorizes the Representative to file, and the Representative hereby agrees to file at or prior to the Closing Date (as defined herein); the Official Statement with Municipal Securities Rulemaking Board Rule G-32 (the "MSRB"), or its designees. The Official Statement, including the appendices thereto, any documents incorporated therein by reference, and any supplements or amendments thereto on or prior to the Closing Date is herein referred to as the "Official Statement."

Section 3. The Bonds and City Documents. The Bonds shall be as described in and shall be executed and delivered and secured under the provisions of the following resolutions (collectively, the "Resolutions"):

- a resolution entitled "Resolution providing for the issuance of not to exceed \$310,000,000 aggregate principal amount of City and County of San Francisco Taxable

and Tax-Exempt General Obligation Bonds (Affordable Housing, 2015); authorizing the issuance and sale of said bonds; providing for the levy of a tax to pay the principal and interest thereof; providing for the appointment of depositories and other agents for said bonds; providing for the establishment of accounts related thereto; adopting findings under the California Environmental Quality Act ("CEQA"), the CEQA Guidelines and San Francisco Administrative Code Chapter 31; finding that the proposed project is in conformity with the priority policies of Planning Code Section 101.1(8) and with the general plan consistency requirement of Charter Section 4.105 and Administrative Code Section 2A.53; ratifying certain actions previously taken; and granting general authority to city officials to take necessary actions in connection with the issuance and sale of said bonds" adopted by the Board of Supervisors of the City (the "Board of Supervisors") on _____, 2016 (the "Master Resolution"), and

- a resolution entitled "Resolution authorizing and directing the sale of not to exceed \$[76,000,000] aggregate principal amount of City and County of San Francisco Taxable General Obligation Bonds (Affordable Housing, 2015), Series 2016F; prescribing the form and terms of said bonds; authorizing the issuance and delivery of said bonds; providing for the appointment of depositories and other agents for said bonds; providing for the establishment of accounts related to said bonds; authorizing the sale of said bonds by competitive or negotiated sale; approving the forms of Official Notice of Sale and Notice of Intention to Sell Bonds and directing the publication of the Notice of Intention to Sell Bonds; approving the form of Bond Purchase Contract; approving the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of said bonds; approving the form of the Continuing Disclosure Certificate; authorizing and approving modifications to documents; ratifying certain actions previously taken; and granting general authority to City officials to take necessary actions in connection with the authorization, issuance, sale, and delivery of said bonds" adopted by the Board of Supervisors on _____, 2016 (the "Bond Resolution").

Section 4. The Bonds shall be payable, and shall be subject to prepayment prior to their respective stated maturities, as provided in the Resolutions and as described in the Official Statement. The Bonds are secured by *ad valorem* taxes that the Board of Supervisors of the City has the power and is obligated, and under the Resolutions has covenanted, to levy without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds when due.

Section 5. The Bonds are executed and delivered for the purpose of providing funds to (a) finance the construction, acquisition, improvement, rehabilitation, preservation and repair of affordable housing improvements, and (b) pay costs of issuance of the Bonds.

The this Purchase Contract and the Continuing Disclosure Certificate are sometimes referred to in this Purchase Contract as the "City Documents."

Section 6. City Representations, Covenants and Agreements. The City represents and covenants and agrees with each of the Underwriters that as of the date hereof:

(a) The City has full legal right, power and authority to enter into the City Documents, to approve the Resolutions, and to observe, perform and consummate the covenants, agreements and transactions contemplated by the City Documents and the Resolutions; by all necessary official action of the City, the City has duly adopted the Resolutions prior to or concurrently with the acceptance hereof and has approved the Preliminary Official Statement and the Official Statement; the Resolutions are in full force and effect and have not been amended, modified, rescinded or challenged by referendum; the City has duly authorized and approved the execution and delivery of, and the performance by the City of its obligations contained in, the Resolutions and the City Documents; the City has duly authorized and approved the execution and delivery of the Official Statement; and the City is in compliance in all material respects with the obligations in connection with the execution and delivery of the Bonds on its part contained in the Resolutions and the City Documents.

(b) As of the date thereof, the Preliminary Official Statement (except for information regarding The Depository Trust Company ("DTC") and its book-entry only system) did not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(c) From the date of delivery of the Official Statement (as hereinafter defined) up to and including the end of the underwriting period (as such term is defined in Rule 15c2-12), the Official Statement (except for information regarding DTC and its book-entry only system) does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. For purposes of this Purchase Contract, the end of the underwriting period shall be deemed to be the Closing Date (as hereinafter defined), unless the Underwriters notify the City to the contrary on or prior to such date.

(d) If the Official Statement is supplemented or amended pursuant to Section 4(e), at the time of each supplement or amendment thereto and at all times subsequent thereto up to and including the Closing Date or the end of the underwriting period, as the case may be, the Official Statement as so supplemented or amended (except for information regarding DTC and its book-entry only system) will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(e) If between the date of delivery of the Official Statement and the end of the underwriting period (i) any event occurs or any fact or condition becomes known to the City that might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under

which they were made, not misleading, the City shall notify the Representative thereof, and (ii) if in the reasonable opinion of the City or the Representative such event, fact or condition requires the preparation and publication of a supplement or amendment to the Official Statement, the City will at its expense supplement or amend the Official Statement in a form and in a manner approved by the Representative, which approval shall not be unreasonably withheld.

(f) The City is not in material violation of, or in material breach of or in material default under, any applicable constitutional provision, charter provision, law or administrative regulation or order of the State or the United States of America or any applicable judgment or decree or any loan agreement, indenture, bond, note, resolution, or other agreement or instrument to which the City is a party or to which the City or any of its properties is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute a material default or event of default under any such instrument; and the execution and delivery of the City Documents, the adoption of the Resolutions and compliance with the provisions of the City Documents and the Resolutions will not conflict with or constitute a material breach of or material default under any constitutional provision, charter provision, law, administrative regulation, order, judgment, court decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is subject, or by which it or any of its properties is bound, nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its properties or under the terms of any such law, regulation or instrument, except as permitted by the City Documents and the Resolutions.

(g) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending, with service of process having been accomplished, or to the best knowledge of the City after due inquiry, threatened by a prospective party or their counsel in writing addressed to the City, (i) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices; (ii) in any way contesting, affecting or seeking to prohibit, restrain or enjoin the execution or delivery of any of the Bonds, or the payment of the principal and interest with respect to the Bonds, or the application of the proceeds of the Bonds; (iii) in any way contesting or affecting the validity of the Bonds, the Resolutions, or the City Documents, or contesting the powers of the City or any authority for the execution and delivery of the Bonds, the approval of the Resolutions or the execution and delivery by the City of the City Documents or the Official Statement; (iv) which would likely result in any material adverse change relating to the business, operations or financial condition of the City or the City's ability to levy and collect the *ad valorem* property taxes securing the Bonds, or otherwise satisfy its payment obligations with respect to the Bonds; or (v) contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement or asserting that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading.

(h) The City will furnish such information, execute such instruments and take such other action not inconsistent with law or established policy of the City in cooperation with the Representative as may be reasonably requested (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Representative, and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions; provided, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(i) The City Documents when executed or adopted by the City, will be legal, valid and binding obligations of the City enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, other laws affecting creditors rights generally, and to limitations on remedies against cities and counties under California law.

(j) All material authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, court, agency or commission having jurisdiction of the matter which are required for the due authorization of, which would constitute a condition precedent to, or the absence of which would materially adversely affect the due performance by the City of, its respective obligations under City Documents and the Resolutions have been duly obtained or when required for future performance are expected to be obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds.

(k) The financial statements of the City for the fiscal year ended June 30, 2015, set forth as an Appendix to the Official Statement fairly present the financial position of the City as of the dates indicated and the results of its operations, the sources and uses of its cash and the changes in its fund balances for the periods therein specified to the extent included therein and, other than as set forth in the Official Statement, were prepared in conformity with generally accepted accounting principles applied on a consistent basis.

(l) The City has never defaulted in the payment of principal or interest with respect to any of its general obligation bonds.

(m) The City will undertake, pursuant to the Resolutions and a Continuing Disclosure Certificate to provide certain annual financial information and notices of the occurrence of certain events, if material, pursuant to paragraph (b)(5) of Rule 15c2-12. An accurate description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement. The City has been and is in compliance with its continuing disclosure obligations under Rule 15c2-12, as described in the Official Statement.

(n) Between the date hereof and the Closing Date, the City will not supplement or amend the City Documents, the Resolutions or the Official Statement in

any respect that is material to the obligations of the City under this Purchase Contract without the prior written consent of the Representative, which consent shall not be unreasonably withheld.

Section 7. Underwriters' Representations, Covenants and Agreements. Each of the Underwriters represents and covenants and agrees with the City that:

(a) The Representative has been duly authorized to enter into this Purchase Contract and to act hereunder by and on behalf of the Underwriters.

(b) It shall comply with the San Francisco Business Tax Resolution and shall, if not otherwise exempt from such Resolution, provide to the City a Business Tax Registration Certificate on or prior to the date hereof.

(c) It shall comply with Chapter 12B of the San Francisco Administrative Code, entitled "Nondiscrimination in Contracts," which is incorporated herein by this reference.

Section 8. Offering. It shall be a condition to the City's obligations to sell and to deliver the Bonds to the Underwriters and to the Underwriters' obligations to purchase and to accept delivery of the Bonds that the entire \$ _____ principal amount of the Bonds shall be issued, sold and delivered by or at the direction of the City and purchased, accepted and paid for by the Underwriters at the Closing. On or prior to the Closing, the Representative will provide the City with information regarding the reoffering prices and yields on the Bonds, in such form as the City may reasonably request.

The Underwriters agree to make a bona fide public offering of all the Bonds, at prices not in excess of the initial public offering prices as set forth in the Official Statement. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) and others at prices lower than the public offering price stated on the cover of the Official Statement. Each of the Underwriters will provide, consistent with the requirements of MSRB, for the delivery of a copy of the Official Statement to each customer who purchases a Bond during the underwriting period. Each of the Underwriters further agree that it will comply with applicable laws and regulations, including without limitation Rule 15c2-12, in connection with the offering and sale of the Bonds.

Section 9. Closing. At 8:30 a.m., California time, on _____, 2016, or at such other time as shall have been mutually agreed upon by the City and the Representative (the "Closing Date" or the "Closing"), the City will deliver or cause to be delivered to the account of the Representative (through DTC) the Bonds duly executed on behalf of the City, together with the other certificates, opinions and documents set forth in Section 8(d); and the Representative will accept such delivery (through DTC) and pay by wire transfer the purchase price of the Bonds set forth in Section 1.

Payment for the delivery of the Bonds shall be coordinated at the offices of Jones Hall, A Professional Law Corporation, in San Francisco, California, or at such other place as may be mutually agreed upon by the City and the Underwriters. Such payment and delivery is called the "Closing." The Representative shall order CUSIP identification numbers and the City shall cause such CUSIP identification numbers to be printed on the Bonds, but neither the failure to

print any such number on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the Representative to accept delivery of and pay for the Bonds in accordance with the terms of this Purchase Contract. Physical delivery of the Bonds shall be made to the City Treasurer, as agent for DTC under the Fast Automated Securities Transfer System, or as otherwise instructed by the Underwriters, and will be in printed form, will be prepared and delivered in registered form and will be registered in the name of Cede & Co., as nominee of DTC. The Bonds will be made available to the Representative for checking not less than 2 business days prior to the Closing.

Section 10. Closing Conditions. The Underwriters have entered into this Purchase Contract in reliance upon the representations and warranties of the City contained herein and to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the City of the obligations to be performed hereunder and under such documents and instruments to be delivered at or prior to the Closing, and the Underwriters' obligations under this Purchase Contract are and shall also be subject to the following conditions:

(a) the representations and warranties of the City herein shall be true, complete and correct on the date thereof and on and as of the Closing Date, as if made on the Closing Date;

(b) at the time of the Closing, the City Documents shall be in full force and effect and shall not have been amended, modified or supplemented, and the Official Statement shall not have been amended, modified or supplemented, except as may have been agreed to by the Representative;

(c)(1) the Underwriters shall have the right to cancel their obligation to purchase the Bonds by written notification from the Representative to the City if at any time after the date of this Purchase Contract and prior to the Closing:

(i) any event shall have occurred or any fact or condition shall have become known which, in the reasonable judgment of the Underwriters upon consultation with the City, Co-Bond Counsel and Disclosure Counsel (both as hereinafter defined), either (A) makes untrue or incorrect in any material respect any statement or information contained in the Official Statement or (B) is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained therein not misleading in any material respect; or

(ii) legislation shall be enacted, or a decision by a court of the United States shall be rendered, or any action shall be taken by, or on behalf of, the Securities and Exchange Commission which in the reasonable opinion of the Underwriters has the effect of requiring the Bonds to be registered under the Securities Act of 1933, as amended, or requires the qualification of the Resolutions under the Trust Indenture Act of 1939, as amended, or any laws analogous thereto relating to governmental bodies; or

(iii) any national securities exchange, the Comptroller of the Currency, or any other governmental authority, shall impose as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriters.

(iv) any state blue sky or securities commission or other governmental agency or body shall have withheld registration, exemption or clearance of the offering of the Bonds as described herein, or issued a stop order or similar ruling relating thereto;

(v) there shall have occurred any materially adverse change in the affairs or financial condition of the City, except for changes which the Official Statement discloses are expected to occur; provided however, that any such material adverse change shall have the effect of materially adversely affecting, directly or indirectly, the market price of the Bonds, the ability of the Underwriters to enforce contracts for the Bonds or the sale at the contemplated offering price by the Underwriters of the Bonds;

(2) The Underwriters shall have the further right to cancel their obligation to purchase the Bonds by written notification from the Representative to the City if at any time after the date of this Purchase Contract and prior to the Closing any of the following occurs and in the reasonable judgment of the Representative would have the effect of materially adversely affecting, directly or indirectly, the market price of the Bonds, the ability of the Underwriters to enforce contracts for the Bonds or the sale at the contemplated offering price by the Underwriters of the Bonds:

(i) there shall have occurred or any notice shall have been given of any, downgrading, suspension, withdrawal, or negative change in credit watch status by Moody's Investors Service, Standard & Poor's Ratings Services and Fitch, Inc. or any other national rating service to any of the City's obligations (including the ratings to be accorded the Bonds);

(ii) any proceeding shall have been commenced or be threatened in writing by the Securities and Exchange Commission (the "SEC") against the City;

(iii) an amendment to the Constitution of the United States or the State of California shall have been passed or legislation shall have been introduced in or enacted by the Congress of the United States or the California legislature or legislation pending in the Congress of the United States shall have been amended or legislation shall have been recommended to the Congress of the United States or to the California legislature or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation shall have been proposed for consideration by

either such Committee by any member thereof or presented as an option for consideration by either such Committee by the staff of such Committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or legislation shall have been favorably reported for passage to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States or of the State of California or the Tax Court of the United States, or a ruling shall have been made or a regulation or temporary regulation shall have been proposed or made or any other release or announcement shall have been made by the Treasury Department of the United States, the Internal Revenue Service or other federal or State of California authority, with respect to federal or State of California taxation upon revenues or other income of the general character to be derived pursuant to the Resolutions which may have the purpose or effect, directly or indirectly, of affecting the tax status of the City, its property or income, its securities (including the Bonds) or any tax exemption granted or authorized by State of California legislation or, in the reasonable judgment of the Representative, materially and adversely affecting the market for the Bonds or the market price generally of obligations of the general character of the Bonds;

(iv) the declaration of war or engagement in, or escalation of, military hostilities by the United States or the occurrence of any other national emergency or calamity relating to the effective operation of the government of, or the financial community in, the United States;

(v) the declaration of a general banking moratorium by federal, New York or California authorities, or the general suspension of trading on any national securities exchange or the establishment of minimum prices on such national securities exchanges, or the establishment of material restrictions (not in force as the date hereof) upon trading securities generally by any governmental authority or any national securities exchange; or

(vi) an order, decree or injunction of any court of competent jurisdiction, or order, ruling, regulation or official statement by the SEC, or any other governmental agency having jurisdiction of the subject matter, issued or made to the effect that the delivery, offering or sale of obligations of the general character of the Bonds, or the delivery, offering or sale of the Bonds, including any or all underlying obligations, as contemplated hereby or by the Official Statement, is or would be in violation of the federal securities laws as amended and then in effect;

(vii) the New York Stock Exchange or other national securities exchange or any governmental authority, shall impose, as to the Bonds or as to obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, Underwriters;

(viii) the purchase of and payment for the Bonds by the Underwriters, or the resale of the Bonds by the Underwriters, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency or commission.

(d) at or prior to the Closing, the Underwriters shall have received each of the following documents:

(1) the Official Statement, together with any supplements or amendments thereto in the event the Official Statement has been supplemented or amended, with the Official Statement and each supplement or amendment (if any) signed on behalf of the City by its authorized officer;

(2) copies of the adopted Resolutions, certified by the Clerk of the Board of Supervisors as having been duly enacted by the Board of Supervisors of the City and as being in full force and effect;

(3) a certificate of the City executed by its authorized officer(s), substantially in the form attached hereto as Exhibit A;

(4) an opinion of the City Attorney of the City addressed solely to the City substantially in the form attached hereto as Exhibit B;

(5) unqualified opinions of Jones Hall, A Professional Law Corporation and Amira Jackmon, Attorney at Law ("Co-Bond Counsel"), in substantially the form set forth in Appendix G to the Official Statement;

(6) supplemental opinions of Co-Bond Counsel, addressed to the City and the Underwriters, dated the Closing Date and substantially in the form attached hereto as Exhibit C;

(7) an opinion of Hawkins Delafield & Wood LLP, Disclosure Counsel, addressed to the City in form and substance acceptable to the City and the City Attorney;

(8) a letter of _____, Underwriters' Counsel ("Underwriters' Counsel"), dated the Closing Date and addressed to the Underwriters in form and substance acceptable to the Underwriters;

(9) evidence of required filings with the California Debt and Investment Advisory Commission;

(10) evidence satisfactory to the Representative that Moody's Investors Service, Inc., Standard & Poor's Ratings Services and Fitch, Inc. have assigned ratings to the Bonds set forth in the Preliminary Official Statement;

(11) the Continuing Disclosure Certificate duly executed by the City; and

(12) such additional legal opinions, certificates, instruments or other documents as the Representative may reasonably request to evidence the truth and accuracy, as of the date of this Purchase Contract and as of the Closing Date, of the City's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the City on or prior to the Closing Date of all agreements then to be performed and all conditions then to be satisfied by the City.

All of the opinions, letters, certificates, instruments and other documents mentioned in this Purchase Contract shall be deemed to be in compliance with the provisions of this Purchase Contract if, but only if, they are in form and substance satisfactory to the Representative and Underwriters' Counsel (provided that the letter described in subsection (d)(9) above shall be deemed satisfactory for purposes of this paragraph). If the City is unable to satisfy the conditions to the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds contained in this Purchase Contract, or if the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds are terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriters nor the City shall be under further obligations hereunder, except that the respective obligations of the City and the Underwriters set forth in Section 10. of this Purchase Contract shall continue in full force and effect.

Section 11. Good Faith Deposit. To secure the City from any loss resulting from the failure of the Underwriters to comply with the terms of this Purchase Contract, the Representative has sent to the City Treasurer a wire transfer (in immediately available funds) payable to the order of the City Treasurer, for the benefit of the City, in the amount of \$750,000 (the "Good Faith Deposit"), the receipt of which is hereby acknowledged by the City. The Good Faith Deposit will, immediately upon the City's acceptance of this offer, become the property of the City. The Good Faith Deposit will be held and invested for the exclusive benefit of the City. At the Closing, the Underwriters shall pay or cause to be paid the net purchase price of the Bonds (as specified in Section 1 of this Purchase Contract) which takes into account the Good Faith Deposit. If the Underwriters fail to pay the purchase price in full upon tender of the Bonds (other than for a reason expressly set forth in Section 8 of this Purchase Contract), the Underwriters will have no right to recover the Good Faith Deposit or to any allowance or credit therefor, and the Good Faith Deposit, together with any interest thereon, will be retained by the City as and for liquidated damages for such failure by the Underwriters. Retention of the Good Faith Deposit shall constitute the City's sole and exclusive remedy and full liquidated damages for the Underwriters' failure (other than for a reason expressly set forth herein) to purchase and accept delivery of the Bonds pursuant to the terms of this Purchase Contract. Upon such retention, the Underwriters shall be released and discharged from any and all claims for damages by the City against the Underwriters related to such failure and any other defaults by Underwriters hereunder. The Underwriters and the City hereby acknowledge and agree that the amount fixed pursuant to this Section for liquidated damages does not constitute a penalty and is a reasonable estimate of the damages that the City would sustain in the event of the Underwriters' failure to purchase and to accept delivery of the Bonds pursuant to the terms of this Purchase Contract. The amount is agreed upon and fixed as liquidated damages because of the difficulty of ascertaining as of the date hereof the amount of damages that would be sustained

in such event. Each of the Underwriters waives any right to claim that actual damages resulting from such failure are less than the amount of such liquidated damages.

Section 12. Expenses.

(a) Except for those expenses assigned to the Underwriters pursuant to Section 10(b) hereof, the Underwriters shall be under no obligation to pay, and the City shall pay, any expenses incident to the performance of the City's obligations under this Purchase Contract and the fulfillment of the conditions imposed hereunder, including but not limited to: (i) the fees and disbursements of Co-Bond Counsel, Disclosure Counsel and Kitahata & Company, San Francisco, California and First Southwest Company, Santa Monica, California (the "Co-Financial Advisors"); (ii) the fees and disbursements of any counsel, auditors, engineers, consultants or others retained by the City in connection with the transactions contemplated herein; (iii) the costs of preparing and printing the Bonds; (iv) the costs of the printing of the Official Statement (and any amendment or supplement prepared pursuant to Section 4(e) of this Purchase Contract); and (v) any fees charged by investment rating agencies for the rating of the Bonds.

(b) The Underwriters shall pay all expenses incurred by the Underwriters in connection with the offering and distribution of the Bonds, including but not limited to: (i) all advertising expenses in connection with the offering of the Bonds; (ii) the costs of printing the Blue Sky memorandum used by the Underwriters, (iii) all out-of-pocket disbursements and expenses incurred by the Underwriters in connection with the offering and distribution of the Bonds, including the fees of the CUSIP Service Bureau for the assignment of CUSIP numbers; and (iv) all other expenses incurred by the Underwriters in connection with the offering and distribution of the Bonds, including the fees and disbursements of Underwriters' Counsel.

Section 13. Notices. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing to the City at the address set forth above and any notice or other communication to be given to the Underwriters under this Purchase Contract may be given by delivering the same in writing to the Representative:

Attention: _____

Section 14. Parties in Interest. This Purchase Contract is made solely for the benefit of the City and the Underwriters (including the successors or assigns of the Underwriters), and no other person shall acquire or have any right hereunder or by virtue of this Purchase Contract. All of the representations, warranties and agreements of the City contained in this Purchase Contract shall remain operative and in full force and effect, regardless of: (i) any investigations made by or on behalf of the Underwriters; (ii) delivery of and payment for the Bonds, pursuant to this Purchase Contract; and (iii) any termination of this Purchase Contract.

Section 15. Invalid or Unenforceable Provisions. In the event that any provision of this Purchase Contract shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Purchase Contract.

Section 16. Counterparts. This Purchase Contract may be executed by facsimile transmission and in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute the Purchase Contract by signing any such counterpart.

Section 17. Governing Law; Venue. This Purchase Contract shall be governed by and interpreted under the laws of the State of California. Venue for all litigation relative to the formation, interpretation and performance of this Purchase Contract shall be in the City and County of San Francisco.

Section 18. City Contracting Requirements.

(a) Underwriters Shall Not Discriminate. In the performance of this Purchase Contract, the Underwriters agree not to discriminate on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, sex, sexual orientation, gender identity, domestic partner status, marital status, weight, height, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or associated with members of such protected classes, or in retaliation for opposition to discrimination against such classes against any employee of, any City employee working with, or applicant for employment with the Underwriters in any of the Underwriters' operations within the United States, or against any person seeking accommodations, advantages, facilities, privileges, services or membership in all business, social or other establishments or organizations operated by the Underwriters.

(b) Subcontracts. The Underwriters shall incorporate by reference in all subcontracts made in fulfillment of its obligations hereunder the provisions of Section 12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code (copies of which are available from purchasing) and shall require all subcontractors to comply with such provisions. The Underwriters' failure to comply with the obligations in this subsection shall constitute a material breach of this Purchase Contract.

(c) Non-Discrimination in Benefits. The Underwriters do not as of the date of this Purchase Contract and will not during the term of this Purchase Contract, in any of its operations in San Francisco, California, or on real property owned by San Francisco, California, or where the work is being performed for the City elsewhere within the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law

authorizing such registration, subject to the conditions set forth in Section 12B.2(b) of the San Francisco Administrative Code.

(d) HRC Form. The Underwriters shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (Form HRC 12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission.

(e) Incorporation of Administrative Code Provisions by Reference. The provisions of Chapters 12B and 12C of the San Francisco Administrative Code are incorporated in this Section by reference and made a part of this Purchase Contract as though fully set forth herein. The Underwriters shall comply fully with and be bound by all of the provisions that apply to this Purchase Contract under such Chapters of the Administrative Code, including but not limited to the remedies provided in such Chapters. Without limiting the foregoing, the Underwriters understand that pursuant to Section 12B.2(h) of the San Francisco Administrative Code, a penalty of \$50 for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Purchase Contract may be assessed against the Underwriters and/or deducted from any payments due the Underwriters; provided, however that such damages shall not be set off against the payment of rental or other contract related to Bonds, certificates of participation or other debt obligation of the City.

(f) Drug-Free Workplace Policy. The Underwriters acknowledge that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited on City premises. The Underwriters agrees that any violation of this prohibition by the Underwriters, its employees, agents or assigns will be deemed a material breach of this Purchase Contract.

(g) Compliance with Americans with Disabilities Act. Without limiting any other provisions of this Purchase Contract, the Underwriters shall provide the services specified in this Purchase Contract in a manner that complies with the Americans with Disabilities Act ("ADA") Title 24, and any and all other applicable federal, state and local disability rights legislation. The Underwriters agree not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Purchase Contract and further agrees that any violation of this prohibition on the part of the Underwriters, its employees, agents or assigns shall constitute a material breach of this Purchase Contract.

(h) Sunshine Ordinance. In accordance with San Francisco Administrative Code §67.24(e), contracts, contractors' bids, responses to solicitations and all other records of communications between the City and persons or firms seeking contracts, shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person or organization's net worth or other proprietary financial data submitted for qualification for a contract or other benefit until and unless that person or organization is awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

(i) Prohibition on Political Activity with City Funds. In accordance with San Francisco Administrative Code Chapter 12.G, the Underwriters may not participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure in the performance of the services provided under this Purchase Contract. The Underwriters agree to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. In the event the Underwriters violate the provisions of this section, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Purchase Contract, and (ii) prohibit the Underwriters from bidding on or receiving any new City contract for a period of two (2) years.

(j) MacBride Principles—Northern Ireland. The City urges companies doing business in Northern Ireland to move towards resolving employment inequities, and encourages such companies to abide by the MacBride Principles as expressed in San Francisco Administrative Code Section 12F.1, et seq. The City urges San Francisco companies to do business with corporations that abide by the MacBride Principles.

(k) Tropical Hardwood and Virgin Redwood Ban. The City urges companies not to import, purchase, obtain or use for any purpose, any tropical hardwood or tropical hardwood product or any virgin redwood or virgin redwood product.

(l) Repeal of Administrative Code Provisions. To the extent that the City repeals any provision of the Administrative Code incorporated, set forth or referenced in this Section 15, other than pursuant to a restatement or amendment of any such provision, such provision, as incorporated, set forth or referenced herein, shall no longer apply to this Purchase Contract or the Underwriters.

(m) Limitations on Contributions. Through execution of this Purchase Contract, each Underwriter acknowledges that it is familiar with section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or a board on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. Each Underwriter acknowledges that the foregoing restriction applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of \$50,000 or more. Each Underwriter further acknowledges that the prohibition on contributions applies to each prospective party to the contract; each member of such Underwriter's board of directors; such Underwriter's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in such Underwriter; any

subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by such Underwriter. Additionally, each Underwriter acknowledges that such Underwriter must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126.

(n) Requiring Minimum Compensation for Covered Employees. Each Underwriter agrees to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance ("MCO"), as set forth in San Francisco Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 12P are incorporated herein by reference and made a part of this Purchase Contract as though fully set forth. The text of the MCO is available on the web at www.sfgov.org/olse/mco. A partial listing of some of the Underwriters' obligations under the MCO is set forth in this Section. Each Underwriter is required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Section. Capitalized terms used in this Section and not defined in this Purchase Contract shall have the meanings assigned to such terms in Chapter 12P. Consistent with the requirements of the MCO, each Underwriter agrees to all of the following:

(i) The MCO requires each Underwriter to pay such Underwriter's employees a minimum hourly gross compensation wage rate and to provide minimum compensated and uncompensated time off. The minimum wage rate may change from year to year and such Underwriter is obligated to keep informed of the then-current requirements. Any subcontract entered into by an Underwriter shall require the subcontractor to comply with the requirements of the MCO and shall contain contractual obligations substantially the same as those set forth in this Section. It is each Underwriter's obligation to ensure that any subcontractors of any tier under this Purchase Contract comply with the requirements of the MCO. If any subcontractor under this Purchase Contract fails to comply, the City may pursue any of the remedies set forth in this Section against such Underwriter. Nothing in this Section shall be deemed to grant any Underwriter the right to subcontract.

(ii) No Underwriter shall take adverse action or otherwise discriminate against an employee or other person for the exercise or attempted exercise of rights under the MCO. Such actions, if taken within 90 days of the exercise or attempted exercise of such rights, will be rebuttably presumed to be retaliation prohibited by the MCO.

(iii) Each Underwriter shall maintain employee and payroll records as required by the MCO. If such Underwriter fails to do so, it shall be presumed that such Underwriter paid no more than the minimum wage required under State law.

(iv) The City is authorized to inspect each Underwriter's job sites and conduct interviews with employees and conduct audits of such Underwriter.

(v) Each Underwriter's commitment to provide the Minimum Compensation is a material element of the City's consideration for this Purchase Contract. The City in its sole discretion shall determine whether such a breach has

occurred. The City and the public will suffer actual damage that will be impractical or extremely difficult to determine if such Underwriter fails to comply with these requirements. Each Underwriter agrees that the sums set forth in Section 12P.6.1 of the MCO as liquidated damages are not a penalty, but are reasonable estimates of the loss that the City and the public will incur for such Underwriter's noncompliance. The procedures governing the assessment of liquidated damages shall be those set forth in Section 12P.6.2 of Chapter 12P.

(vi) Each Underwriter understands and agrees that if it fails to comply with the requirements of the MCO, the City shall have the right to pursue any rights or remedies available under Chapter 12P (including liquidated damages), under the terms of the contract, and under applicable law. If, within 30 days after receiving written notice of a breach of this Purchase Contract for violating the MCO, such Underwriter fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, such Underwriter fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, the City shall have the right to pursue any rights or remedies available under applicable law, including those set forth in Section 12P.6(c) of Chapter 12P. Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to the City.

(vii) Each Underwriter represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the MCO.

(viii) If an Underwriter is exempt from the MCO when this Purchase Contract is executed because the cumulative amount of agreements with this department for the fiscal year is less than \$25,000, but such Underwriter later enters into an agreement or agreements that cause such Underwriter to exceed that amount in a fiscal year, such Underwriter shall thereafter be required to comply with the MCO under this Purchase Contract. This obligation arises on the effective date of the agreement that causes the cumulative amount of agreements between such Underwriter and this department to exceed \$25,000 in the fiscal year.

(o) Requiring Health Benefits for Covered Employees. Each Underwriter agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance ("HCAO"), as set forth in San Francisco Administrative Code Chapter 12Q, including the remedies provided, and implementing regulations, as the same may be amended from time to time. The provisions of Chapter 12Q are incorporated by reference and made a part of this Purchase Contract as though fully set forth herein. The text of the HCAO is available on the web at www.sfgov.org/olse. Capitalized terms used in this Section and not defined in this Purchase Contract shall have the meanings assigned to such terms in Chapter 12Q.

(i) For each Covered Employee, each Underwriter shall provide the appropriate health benefit set forth in Section 12Q.3 of the HCAO. If such Underwriter chooses to offer the health plan option, such health plan shall meet the minimum standards set forth by the San Francisco Health Commission.

(ii) Notwithstanding the above, if an Underwriter is a small business as defined in Section 12Q.3(e) of the HCAO, it shall have no obligation to comply with part (i) above.

(iii) An Underwriter's failure to comply with the HCAO shall constitute a material breach of this Purchase Contract. The City shall notify such Underwriter if such a breach has occurred. If, within 30 days after receiving City's written notice of a breach of this Purchase Contract for violating the HCAO, such Underwriter fails to cure such breach or, if such breach cannot reasonably be cured within such period of 30 days, such Underwriter fails to commence efforts to cure within such period, or thereafter fails diligently to pursue such cure to completion, the City shall have the right to pursue the remedies set forth in 12Q.5.1 and 12Q.5(f)(1-6). Each of these remedies shall be exercisable individually or in combination with any other rights or remedies available to the City.

(iv) Any Subcontract entered into by an Underwriter shall require the Subcontractor to comply with the requirements of the HCAO and shall contain contractual obligations substantially the same as those set forth in this Section. Such Underwriter shall notify City's Office of Contract Administration when it enters into such a Subcontract and shall certify to the Office of Contract Administration that it has notified the Subcontractor of the obligations under the HCAO and has imposed the requirements of the HCAO on Subcontractor through the Subcontract. Each Underwriter shall be responsible for its Subcontractors' compliance with this Chapter. If a Subcontractor fails to comply, the City may pursue the remedies set forth in this Section against the applicable Underwriter based on the Subcontractor's failure to comply, provided that the City has first provided such Underwriter with notice and an opportunity to obtain a cure of the violation.

(v) No Underwriter shall discharge, reduce in compensation, or otherwise discriminate against any employee for notifying the City with regard to such Underwriter's noncompliance or anticipated noncompliance with the requirements of the HCAO, for opposing any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

(vi) Each Underwriter represents and warrants that it is not an entity that was set up, or is being used, for the purpose of evading the intent of the HCAO.

(vii) Each Underwriter shall maintain employee and payroll records in compliance with the California Labor Code and Industrial Welfare Commission orders, including the number of hours each employee has worked on the City Contract.

(viii) Each Underwriter shall keep itself informed of the current requirements of the HCAO.

(ix) Each Underwriter shall provide reports to the City in accordance with any reporting standards promulgated by the City under the HCAO, including reports on Subcontractors and Subtenants, as applicable.

(x) Each Underwriter shall provide the City with access to records pertaining to compliance with HCAO after receiving a written request from the City to do so and being provided at least ten business days to respond.

(xi) Each Underwriter shall allow the City to inspect such Underwriter's job sites and have access to such Underwriter's employees in order to monitor and determine compliance with HCAO.

(xii) The City may conduct random audits of each Underwriter to ascertain its compliance with HCAO. Each Underwriter agrees to cooperate with the City when it conducts such audits.

(xiii) If an Underwriter is exempt from the HCAO when this Purchase Contract is executed because its amount is less than \$25,000 (\$50,000 for nonprofits), but such Underwriter later enters into an agreement or agreements that cause such Underwriter's aggregate amount of all agreements with the City to reach \$75,000, all the agreements shall be thereafter subject to the HCAO. This obligation arises on the effective date of the agreement that causes the cumulative amount of agreements between such Underwriter and the City to be equal to or greater than \$75,000 in the fiscal year.

(p) Prohibition on Political Activity with City Funds. In accordance with San Francisco Administrative Code Chapter 12.G, no Underwriter may participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure (collectively, "Political Activity") in the performance of the services provided under this Purchase Contract. Each Underwriter agrees to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. In the event that an Underwriter violates the provisions of this section, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Purchase Contract, and (ii) prohibit such Underwriter from bidding on or receiving any new City contract for a period of two (2) years. The Controller will not consider an Underwriter's use of profit as a violation of this section.

(q) Protection of Private Information. Each Underwriter has read and agrees to the terms set forth in San Francisco Administrative Code Sections 12M.2, "Nondisclosure of Private Information," and 12M.3, "Enforcement" of Administrative Code Chapter 12M, "Protection of Private Information," which are incorporated herein as if fully set forth. Each Underwriter agrees that any failure of such Underwriter to comply with the requirements of Section 12M.2 of this Chapter shall be a material breach of this Purchase Contract. In such an event, in addition to any other remedies available to it under equity or law, the City may terminate this Purchase Contract, bring a false claim

action against such Underwriter pursuant to Chapter 6 or Chapter 21 of the Administrative Code, or debar such Underwriter.

(r) Graffiti Removal. Graffiti is detrimental to the health, safety and welfare of the community in that it promotes a perception in the community that the laws protecting public and private property can be disregarded with impunity. This perception fosters a sense of disrespect of the law that results in an increase in crime; degrades the community and leads to urban blight; is detrimental to property values, business opportunities and the enjoyment of life; is inconsistent with the City's property maintenance goals and aesthetic standards; and results in additional graffiti and in other properties becoming the target of graffiti unless it is quickly removed from public and private property. Graffiti results in visual pollution and is a public nuisance. Graffiti must be abated as quickly as possible to avoid detrimental impacts on the City and its residents, and to prevent the further spread of graffiti.

Each Underwriter shall remove all graffiti from any real property owned or leased by such Underwriter in the City and County of San Francisco within forty eight (48) hours of the earlier of such Underwriter's (a) discovery or notification of the graffiti or (b) receipt of notification of the graffiti from the Department of Public Works. This section is not intended to require any Underwriter to breach any lease or other agreement that it may have concerning its use of the real property. The term "graffiti" means any inscription, word, figure, marking or design that is affixed, marked, etched, scratched, drawn or painted on any building, structure, fixture or other improvement, whether permanent or temporary, including by way of example only and without limitation, signs, banners, billboards and fencing surrounding construction sites, whether public or private, without the consent of the owner of the property or the owner's authorized agent, and which is visible from the public right-of-way. "Graffiti" shall not include: (1) any sign or banner that is authorized by, and in compliance with, the applicable requirements of the San Francisco Public Works Code, the San Francisco Planning Code or the San Francisco Building Code; or (2) any mural or other painting or marking on the property that is protected as a work of fine art under the California Art Preservation Act (California Civil Code Sections 987 et seq.) or as a work of visual art under the Federal Visual Artists Rights Act of 1990 (17 U.S.C. §§ 101 et seq.).

Any failure of an Underwriter to comply with this section of this Purchase Contract shall constitute a material breach of this Purchase Contract.

(s) Food Service Waste Reduction Requirements. Each Underwriter agrees to comply fully with and be bound by all of the provisions of the Food Service Waste Reduction Ordinance, as set forth in San Francisco Environment Code Chapter 16, including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Purchase Contract as though fully set forth. This provision is a material term of this Purchase Contract. By entering into this Purchase Contract, each Underwriter agrees that if it breaches this provision, the City will suffer actual damages that will be impractical or extremely difficult to determine; further, each Underwriter agrees that the sum of one hundred dollars (\$100) liquidated damages for the first breach, two hundred dollars

(\$200) liquidated damages for the second breach in the same year, and five hundred dollars (\$500) liquidated damages for subsequent breaches in the same year is reasonable estimate of the damage that the City will incur based on the violation, established in light of the circumstances existing at the time this Purchase Contract was made. Such amount shall not be considered a penalty, but rather agreed monetary damages sustained by the City because of such Underwriter's failure to comply with this provision.

(t) Conflicts of Interest. Through its execution of this Purchase Contract, each Underwriter acknowledges that it is familiar with the provisions of Section 15.103 of the City Charter, Article III, Chapter 2 of the City's Campaign and Governmental Conduct Code, and Sections 87100 et seq. and Sections 1090 et seq. of the Government Code of the State of California, and certifies that it does not know of any facts which constitute a violation of said provisions and agrees that it will immediately notify the City if it becomes aware of any such fact during the term of this Purchase Contract.

Section 19. Headings. The section headings in this Purchase Contract are inserted for convenience only and shall not be deemed to be a part hereof.

Section 20. This Purchase Contract shall become effective upon execution of the acceptance of this Purchase Contract by the City and shall be valid and enforceable as of the time of such acceptance.

Very truly yours,

[UNDERWRITERS]

By: _____, as Representative

By: _____
[Title]

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Deputy Controller

ACCEPTED at [_____] [a.m./p.m.] Pacific Time this ___ day of _____, 2016

APPROVED AS TO FORM:

DENNIS J. HERRERA,
CITY ATTORNEY

By: _____
KENNETH DAVID ROUX
Deputy City Attorney

SCHEDULE 1

<u>Maturity Date</u> <u>()</u>	<u>Principal</u> <u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>
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\$ _____ % Term Bonds Due _____ 1, 20____, Yield: _____%, Price: _____%

\$ _____ % Term Bonds Due _____ 1, 20____, Yield: _____%, Price: _____%

EXHIBIT A

§ _____
CITY AND COUNTY OF SAN FRANCISCO
TAXABLE GENERAL OBLIGATION BONDS (AFFORDABLE HOUSING, 2015)
SERIES 2016F

FORM OF CERTIFICATE OF THE CITY

The undersigned _____, _____ and _____, respectively, of the City and County of San Francisco ("the City"), acting in their official capacities, hereby certify as follows in connection with the execution, delivery and sale of the general obligation bonds captioned above (the "Bonds"):

1. The City is a chartered city and county duly organized and validly existing under its Charter and the Constitution of the State of California (the "State"), with full right, power and authority to (a) manage, control, hold and convey property for the use and benefit of the City, and (b) enter into and perform all of the transactions contemplated by the _____ the Continuing Disclosure Certificate (the "Continuing Disclosure Certificate") executed by the City and the Purchase Contract, dated _____, 20__ (the "Purchase Contract"), between the City and _____, acting on its behalf and on behalf of _____, as underwriters. The Continuing Disclosure Certificate and the Purchase Contract are sometimes referred to in this Certificate as the "City Documents." Capitalized terms not otherwise defined herein shall have the meanings assigned thereto in the Purchase Contract.

2. The persons named below are now, and at all times from and after _____ 1, 20 __, have been duly appointed and qualified officers of the City holding the offices of the City set forth opposite their respective names, and each of the undersigned certifies that the signature affixed following the other of the undersigned's name and office is the genuine signature of such person.

3. The representations and warranties of the City contained in the Purchase Contract are true, complete and correct as of the Closing Date as if made on such Closing Date.

4. The City has duly authorized the execution and delivery of the City Documents and is authorized to perform the obligations on its part to be performed under the City Documents, and each of the City Documents constitutes the legal, valid and binding obligation of the City enforceable against the City in accordance with its respective terms.

5. Except for any information about book-entry or The Depository Trust Company, included therein, as to which we express no opinion or view, as of the date thereof, the Official Statement as of its date did not, and as of the date hereof, does not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

6. The City is not in breach of or in default under any applicable law or administrative regulation of the State or the United States of America or any applicable judgment or decree or any loan agreement, note, ordinance, resolution, agreement or other instrument to which the City is party or otherwise subject, which breach or default would in any way materially and adversely affect the City Documents or the performance of any of the City's obligations thereunder. No event has occurred and is continuing that with the passage of time or giving of notice, or both, would constitute such a breach or default. The execution and delivery by the City of the City Documents and compliance with the provisions thereof will not conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree or any agreement or other instrument to which the City is a party or is otherwise subject; nor will any such execution, delivery or compliance result in the creation or imposition of any lien, charge, encumbrance or security interest of any nature whatsoever upon any of the revenues, property or assets of the City, except as expressly provided or permitted by the Resolutions.

7. No litigation is pending (with service of process having been accomplished) or, to the knowledge of the undersigned, threatened (a) to restrain or enjoin the execution of or the delivery of the Bonds, the execution of and performance by the City under the City Documents or the use and occupancy by the City of the Project (as defined in the Resolutions) or (b) in any way contesting or affecting the validity of the Bonds, the City Documents or the performance by the City under the City Documents.

8. There is no litigation pending (with service of process having been accomplished), or, to the knowledge of the undersigned, threatened against the City or involving any of the property or assets under the control of the City, including, without limitation, the Facilities that involves the possibility of any judgment or uninsured liability which may result in any material adverse change in the business, properties or assets or in the condition, financial, physical, legal or otherwise, of the City or of the Facilities.

10. The City does hereby certify that Resolution No. _____, adopted by the Board of Supervisors of the City on _____, 20__ and signed by the Mayor of the City on _____, 20__, and Resolution No. _____, adopted by the Board of Supervisors of the City on _____, 20__ and signed by the Mayor of the City on _____, 20__ were duly adopted at proceedings duly conducted by the City and that such Resolutions are in full force and effect and have not been amended, modified or rescinded as of the date hereof.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands.

Dated: _____, 2016.

Name

Office

Signature

EXHIBIT B

FORM OF OPINION OF CITY ATTORNEY

EXHIBIT C

FORM OF SUPPLEMENTAL OPINION OF CO-BOND COUNSEL

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER __, 2016

NEW ISSUE – BOOK-ENTRY ONLY

RATINGS: Moody's: ___
S&P: ___
Fitch: ___
(See "Ratings" herein)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel, subject, interest on the Bonds is exempt from California personal income taxes. Interest on the Bonds is not excluded from gross income for federal income tax purposes. See "TAX MATTERS."



**§[Par Amount]*
CITY AND COUNTY OF SAN FRANCISCO
TAXABLE GENERAL OBLIGATION BONDS
(AFFORDABLE HOUSING, 2015),
SERIES 2016F**

Dated: Date of Delivery

Due: June 15, as shown in the inside cover

The City and County of San Francisco Taxable General Obligation Bonds (Affordable Housing, 2015), Series 2016F (the "Bonds") are being issued under the Government Code of the State of California and the Charter of the City and County of San Francisco (the "City"). The issuance of the Bonds has been authorized by certain resolutions adopted by the Board of Supervisors of the City and duly approved by the Mayor of the City, as described under "THE BONDS – Authority for Issuance; Purposes." The proceeds of the Bonds will be used to finance certain affordable housing improvements and related costs as described herein, and to pay certain costs related to the issuance of the Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS."

The Bonds will be dated and bear interest from their date of delivery until paid in full at the rates shown in the maturity schedule on the inside cover hereof. Interest on the Bonds will be payable on June 15 and December 15 of each year, commencing June 15, 2017. Principal will be paid at maturity as shown on the inside cover. See "THE BONDS – Payment of Interest and Principal." The Bonds will be issued only in fully registered form without coupons, and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Individual purchases of the Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Payments of principal and interest on the Bonds will be made by the City Treasurer, as paying agent, to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Form and Registration."

The Bonds will be subject to redemption prior to maturity, as described herein. See "THE BONDS – Redemption."

The Board of Supervisors has the power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) for the payment of the Bonds and the interest thereon when due. See "SECURITY FOR THE BONDS."

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

MATURITY SCHEDULE
(See Inside Cover)

BIDS FOR THE PURCHASE OF THE BONDS WILL BE RECEIVED BY THE CITY AT ___ A.M. PACIFIC TIME ON _____, 2016, AS PROVIDED IN THE OFFICIAL NOTICE OF SALE INVITING BIDS DATED _____, 2016, UNLESS POSTPONED AS SET FORTH IN SUCH OFFICIAL NOTICE OF SALE. See "SALE OF THE BONDS" herein.

The Bonds are offered when, as and if issued by the City and accepted by the initial purchaser, subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by its City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about October __, 2016.

Dated: October __, 2016.

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to deletion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

MATURITY SCHEDULE
(Base CUSIP[†] Number: _____)

\$ _____
2016F Serial Bonds

Maturity Date (June 15)	Principal Amount	Interest Rate	Price/Yield	CUSIP [†] Suffix
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\$ _____ % Term Bonds due June 15, 20__ Price/Yield _____ CUSIP No. _____

[†] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. CUSIP numbers are provided for convenience of reference only. Neither the City nor the initial purchaser take any responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representation 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 City. 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 any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The information set forth herein other than that provided by the City, although obtained from sources which are believed to be reliable, is not guaranteed as to accuracy or completeness. 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 City since the date hereof.

The City maintains a website. The information presented on such website is *not* incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds. Various other websites referred to in this Official Statement also are not incorporated herein by such references.

This Official Statement is not to be construed as a contract with the initial purchaser of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

The issuance and sale of the Bonds have not been registered under the Securities Act of 1933 in reliance upon the exemption provided thereunder by Section 3(a)(2) for the issuance and sale of municipal securities.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVERALLLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Edwin M. Lee

BOARD OF SUPERVISORS

London Breed, *Board President, District 5*

Eric Mar, *District 1*
Mark Farrell, *District 2*
Aaron Peskin, *District 3*
Katy Tang, *District 4*
Jane Kim, *District 6*

Norman Yee, *District 7*
Scott Wiener, *District 8*
David Campos, *District 9*
Malia Cohen, *District 10*
John Avalos, *District 11*

CITY ATTORNEY

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OFFICIAL STATEMENT

[\$Par Amount]*
CITY AND COUNTY OF SAN FRANCISCO
TAXABLE GENERAL OBLIGATION BONDS
(AFFORDABLE HOUSING, 2015),
SERIES 2016F

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the public offering by the City and County of San Francisco (the "City") of its City and County of San Francisco Taxable General Obligation Bonds (Affordable Housing, 2015), Series 2016F (the "Bonds"). The Board of Supervisors of the City has the power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds when due. See "SECURITY FOR THE BONDS" herein.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Except as required by the Continuing Disclosure Certificate to be executed by the City with respect to the Bonds, the City has no obligation to update the information in this Official Statement. See "CONTINUING DISCLOSURE" and APPENDIX D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein.

Quotations from and summaries and explanations of the Bonds, the resolutions providing for the issuance and payment of the Bonds, and provisions of the constitution and statutes of the State of California (the "State"), the charter of the City (the "Charter") and City ordinances, and other documents described herein, do not purport to be complete, and reference is made to said laws and documents for the complete provisions thereof. Copies of those documents and information concerning the Bonds are available from the City through the Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102-4682. Reference is made herein to various other documents, reports, websites, etc., which were either prepared by parties other than the City, or were not prepared, reviewed and approved by the City with a view towards making an offering of public securities, and such materials are therefore not incorporated herein by such references nor deemed a part of this Official Statement.

THE CITY AND COUNTY OF SAN FRANCISCO

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's population in fiscal year 2014-15 was approximately 864,400.

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 retail,

* Preliminary, subject to change.

entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology and higher education.

The City is a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2014, approximately 18.01 million people visited the City and spent an estimated \$10.67 billion during their stay. The City is also a leading center for financial activity in the State and is the headquarters of the Twelfth Federal Reserve District, the Eleventh District Federal Home Loan Bank, and the San Francisco Regional Office of Thrift Supervision.

The City benefits from a highly skilled, educated and professional labor force. The per-capita personal income of the City for fiscal year 2014-15 was \$75,930. The San Francisco Unified School District operates 16 transitional kindergarten schools, 72 elementary and K-8 school sites, 12 middle schools, 18 senior high schools (including two continuation schools and an independent study school), and 46 State-funded preschool sites, and sponsors 13 independent charter schools. 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 and owned and operated by the City, is the principal commercial service airport for the Bay Area and one of the nation’s principal gateways for Pacific traffic. In fiscal year 2014-15, SFO serviced approximately 48.2 million passengers and handled 441,797 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (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 City, 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.

The City is governed by a Board of Supervisors elected from eleven districts to serve four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a four-year term. Edwin M. Lee is the 43rd and current Mayor of the City, having been elected by the voters of the City to his current term on November 3, 2015. The City’s adopted budget for fiscal years 2015-16 and 2016-17 totals \$8.94 billion and \$8.99 billion, respectively. The General Fund portion of each year’s adopted budget is \$4.59 billion in fiscal year 2015-16 and \$4.68 billion in fiscal year 2016-17, with the balance being allocated to all other funds, including enterprise fund departments, such as SFO, the San Francisco Municipal Transportation Agency, the Port Commission and the San Francisco Public Utilities Commission. The City employed 30,156 full-time-equivalent employees at the end of fiscal year 2014-15. According to the Controller of the City (the “Controller”), the fiscal year 2015-16 total net assessed valuation of taxable property in the City is approximately \$194.4 billion.

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” and in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2015.”

THE BONDS

Authority for Issuance; Purposes

The Bonds will be issued under the Government Code of the State and the Charter. The City authorized the issuance of the Bonds by Resolution No. ____ and Resolution No. ____, adopted by the Board of Supervisors of the City on _____, 2016, and duly approved by the Mayor of the City on _____, 2016 (together, the "Resolution").

The Bonds will constitute the first series of bonds to be issued from an aggregate authorized amount of \$310,000,000 of City and County of San Francisco Taxable and Tax-Exempt General Obligation Bonds (Affordable Housing, 2015), duly approved by at least two-thirds of the voters voting on Proposition A at an election held on November 3, 2015 ("Proposition A (2015)"), to provide funds for the purposes authorized in Proposition A (2015), which are summarized as follows: to finance the construction, development, acquisition, and preservation of housing affordable to low- and middle-income households through programs that will prioritize vulnerable populations such as San Francisco's working families, veterans, seniors, disabled persons; to assist in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; to repair and reconstruct dilapidated public housing; to fund a middle-income rental program; and to provide for homeownership down payment assistance opportunities for educators and middle-income households.

The Administrative Code of the City (the "Administrative Code") and Proposition A (2015) provide that, to the extent permitted by law, 0.1% of the gross proceeds of all proposed bonds, including the Bonds, be deposited by the Controller and used to fund the costs of the City's independent citizens' general obligation bond oversight committee. The committee was created by the Administrative Code and is appointed by the Board of Supervisors of the City to inform the public concerning the expenditure of general obligation bond proceeds in accordance with the voter authorization.

Form and Registration

The Bonds will be issued in the principal amounts set forth on the inside cover hereof, in the denomination of \$5,000 each or any integral multiple thereof, and will be dated their date of delivery. The Bonds will be issued in fully registered form, without coupons. The Bonds will be initially registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company ("DTC"), which is required to remit payments of principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX E - "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Payment of Interest and Principal

Interest on the Bonds will be payable on each June 15 and December 15 to maturity or prior redemption, commencing June 15, 2017, at the interest rates shown on the inside cover hereof. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The City Treasurer will act as paying agent and registrar with respect to the Bonds. The interest on the Bonds will be payable in lawful money of the United States to the person whose name appears on the Bond registration books of the City Treasurer as the owner thereof as of the close of business on the last day of the month immediately preceding an interest payment date (the "Record Date"), whether or not such day is a business day. Each Bond authenticated on or before May 31, 2017 will bear interest from the date of delivery. Every other Bond will bear interest from the interest payment date next preceding its date of authentication unless it is authenticated as of a day during the period from the Record Date next preceding any interest payment date to the interest payment date, inclusive, in which event it will bear interest from such interest payment date; provided, that if, at the time of authentication of any Bond, interest is then in default on the Bonds, such Bond will bear interest from the interest payment date to which interest has previously been paid or made available for payment on the Bonds.

The Bonds will mature on the dates shown on the inside cover page hereof. The Bonds will be subject to redemption prior to maturity, as described below. See “– Redemption” below. The principal of the Bonds will be payable in lawful money of the United States to the owner thereof upon the surrender thereof at maturity or earlier redemption at the office of the City Treasurer.

Redemption*

Optional Redemption of the Bonds

The Bonds maturing on or before June 15, 20__ will not be subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after June 15, 20__ will be subject to optional redemption prior to their respective stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part on any date (with the maturities to be redeemed to be determined by the City and pro rata within a maturity), on or after June 15, 20__, at the redemption price equal to the principal amount of the Bonds redeemed, together with accrued interest to the date fixed for redemption (the “Redemption Date”), without premium.

Mandatory Redemption

The Bonds maturing on June 15, 20__ will be subject to redemption prior to their stated maturity date, in part, pro rata, from mandatory sinking fund payments, on each June 15, as shown in the table below, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Sinking Fund Redemption Date (June 15)	Sinking Fund Payment Principal Amount
20__ [†]	
† Maturity	

Selection of Bonds for Redemption

Whenever less than all of the outstanding Bonds are called for redemption on any one date, the City Treasurer will select the maturities of Bonds to be redeemed in the sole discretion of the City Treasurer, and whenever less than all the outstanding Bonds maturing on any one date are called for redemption on any date, the particular Bonds or portions thereof to be redeemed will be selected on a pro rata basis. If the City Treasurer does not provide DTC with the necessary information and identify the redemption as on a pro rata basis, the Bonds will be selected for redemption by lot in accordance with DTC procedures. The Bonds may be redeemed in denominations of \$5,000 or any integral multiple thereof.

* Preliminary, subject to change.

Notice of Redemption

The City Treasurer will mail, or cause to be mailed, notice of any redemption of the Bonds, postage prepaid, to the respective registered owners thereof at the addresses appearing on the Bond registration books not less than 20 days and not more than 60 days prior to the Redemption Date.

Notice of redemption also will be given, or caused to be given, by the City Treasurer, by (i) registered or certified mail, postage prepaid, (ii) confirmed facsimile transmission, (iii) overnight delivery service, or (iv) to the extent applicable to the intended recipient, email or similar electronic means, to (a) all organizations registered with the Securities and Exchange Commission as securities depositories and (b) such other services or organizations as may be required in accordance with the Continuing Disclosure Certificate. See "CONTINUING DISCLOSURE" and APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein.

Each notice of redemption will (a) state the Redemption Date; (b) state the redemption price; (c) state the maturity dates of the Bonds called for redemption, and, if less than all of any such maturity is called for redemption, the distinctive numbers of the Bonds of such maturity to be redeemed, and in the case of a Bond redeemed in part only, the respective portions of the principal amount thereof to be redeemed; (d) state the CUSIP number, if any, of each Bond to be redeemed; (e) require that such Bonds be surrendered by the owners at the office of the City Treasurer or his or her agent; and (f) give notice that interest on such Bonds or portions of such Bonds to be redeemed will cease to accrue after the designated Redemption Date. Any notice of redemption may be conditioned on the receipt of funds or any other event specified in the notice. See "Conditional Notice; Right to Rescind Notice of Optional Redemption" below.

The actual receipt by the owner of any Bond of such notice of redemption will not be a condition precedent to redemption of such Bond, and failure to receive such notice, or any defect in such notice, will not affect the validity of the proceedings for the redemption of such Bond or the cessation of the accrual of interest on such Bond on the Redemption Date.

Effect of Notice of Redemption

When notice of optional redemption has been given as described above, and when the amount necessary for the redemption of the Bonds called for redemption (principal, premium, if any and accrued interest to the Redemption Date) is set aside for that purpose in the redemption account for the Bonds (the "Redemption Account") established under the Resolution, the Bonds designated for redemption will become due and payable on the Redemption Date, and upon presentation and surrender of said Bonds at the place specified in the notice of redemption, those Bonds will be redeemed and paid at said redemption price out of the Redemption Account. No interest will accrue on such Bonds called for redemption after the Redemption Date and the registered owners of such Bonds will look for payment of such Bonds only to the Redemption Account. Moneys held in the Redemption Account will be invested by the City Treasurer pursuant to the City's policies and guidelines for investment of moneys in the General Fund of the City. See APPENDIX C – "CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE TREASURER – INVESTMENT POLICY."

Conditional Notice; Right to Rescind Notice of Optional Redemption

Any notice of optional redemption may provide that such redemption is conditioned upon: (i) deposit of sufficient moneys to redeem the applicable Bonds called for redemption on the anticipated Redemption Date, or (ii) the occurrence of any other event specified in the notice of redemption. In the event that such conditional notice of optional redemption has been given and on the scheduled Redemption Date (i) sufficient moneys to redeem the Bonds have not been deposited or (ii) any other event specified in the notice of redemption did not occur, such Bonds for which notice of conditional optional redemption was given will not

be redeemed and will remain Outstanding for all purposes and the redemption not occurring will not constitute a default under the Resolution.

In addition, the City may rescind any optional redemption and notice thereof for any reason on any date prior to any Redemption Date by causing written notice of the rescission to be given to the Registered Owner of all Bonds so called for redemption. Notice of such rescission of redemption will be given in the same manner notice of redemption was originally given. The actual receipt by the Registered Owner of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice so mailed will not affect the validity of the rescission.

Defeasance

Payment of all or any portion of the Bonds may be provided for prior to such Bonds' respective stated maturities by irrevocably depositing with the City Treasurer (or any commercial bank or trust company designated by the City Treasurer to act as escrow agent with respect thereto): (a) an amount of cash equal to the principal amount of all of such Bonds or a portion thereof, and all unpaid interest thereon to maturity, except that in the case of Bonds which are to be redeemed prior to such Bonds' respective stated maturities and in respect of which notice of such redemption will have been given as described above or an irrevocable election to give such notice will have been made by the City, the amount to be deposited will be the principal amount thereof, all unpaid interest thereon to the Redemption Date, and premium, if any, due on such Redemption Date; or (b) Defeasance Securities (as defined below) not subject to call, except as described in the definition below, maturing and paying interest at such times and in such amounts, together with interest earnings and cash, if required, as will, without reinvestment, as certified by an independent certified public accountant, be fully sufficient to pay the principal and all unpaid interest to maturity, or to the Redemption Date, as the case may be, and any premium due on the Bonds to be paid or redeemed, as such principal and interest come due; provided, that, in the case of the Bonds which are to be redeemed prior to maturity, notice of such redemption will be given as described above or an irrevocable election to give such notice will have been made by the City; then, all obligations of the City with respect to said outstanding Bonds will cease and terminate, except only the obligation of the City to pay or cause to be paid from the funds deposited as described in this paragraph, to the owners of said Bonds all sums due with respect thereto, and the tax covenant obligations of the City with respect to such Bonds; provided, that the City will have received an opinion of nationally recognized bond counsel that provision for the payment of said Bonds has been made as required by the Resolution.

As used in this section, the following terms have the meanings given below:

"Defeasance Securities" means any of the following which at the time are legal investments under the laws of the State of California for the moneys proposed to be invested therein: (1) United States Obligations (as defined below); and (2) Pre-refunded fixed interest rate municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee or paying agent has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash or United States Obligations (as defined below); (c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund or the applicable Redemption Account) are sufficient to meet the liabilities of the municipal obligations; (d) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (f) the municipal obligations are rated (without regard to any numerical modifier, plus or minus sign or other modifier), at the time of original deposit to the escrow fund, by any two Rating Agencies (as defined below) not lower than the rating then maintained by the respective Rating Agency on such United States Obligations.

“United States Obligations” means (i) direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including without limitation, the interest component of Resolution Funding Corporation (REFCORP) bonds that have been stripped by request to the Federal Reserve Bank of New York in book-entry form, or (ii) any security issued by an agency or instrumentality of the United States of America that is selected by the Director of Public Finance that results in the escrow fund being rated by any two Rating Agencies (as defined below) at the time of the initial deposit to the escrow fund and upon any substitution or subsequent deposit to the escrow fund, no lower than the rating then maintained by the respective Rating Agency on United States Obligations described in (i) herein.

“Rating Agencies” means Moody’s Investors Service, Inc., Fitch Ratings, and S&P Global Ratings, a division of The McGraw-Hill Companies, Inc., or any other nationally-recognized bond rating agency that is the successor to any of the foregoing rating agencies or that is otherwise established after the date of adoption of the related Resolution.

SOURCES AND USES OF FUNDS

The following are the estimated sources and uses of funds in connection with the Bonds:

Sources

Principal Amount of Bonds
 Net Original Issue Premium
Total Sources of Funds

Uses

Deposit to Project Subaccount
 Deposit to Bond Subaccount
 Oversight Committee
 Underwriter’s Discount
 Costs of Issuance*
Total Uses of Funds

* Includes fees for services of rating agencies, Co-Financial Advisors, Co-Bond Counsel, Disclosure Counsel, costs to the City, printing costs, other miscellaneous costs associated with the issuance of the Bonds, and rounding amounts.

Deposit and Investment of Bond Proceeds

Any bid premium received upon the delivery of the Bonds, and all taxes collected for payment of the Bonds, will be deposited into a special subaccount established for the payment of the Bonds. The subaccount was created by the Resolution specifically for payment of principal of and interest on the Bonds (the “Bond Subaccount”).

All remaining proceeds of the sale of the Bonds are required to be deposited by the City Treasurer into a special subaccount within the Project Account created by the City to hold proceeds of the sale of all of the Proposition A (2015) bonds, which proceeds are required to be applied exclusively to the purposes approved by the voters in Proposition A (2015), and to pay costs of issuance of such bonds. See “THE BONDS – Authority for Issuance; Purposes.” The subaccount was created by the Resolution specifically to hold the proceeds of the Bonds (the “Project Subaccount”).

Under the Resolution, the Bond Subaccount and the Project Subaccount may each be invested in any investment of the City in which moneys in the General Fund of the City are invested. The City Treasurer may

commingle any of the moneys held in any such account with other City moneys, or deposit amounts credited to such accounts into a separate fund or funds for investment purposes only. All interest earned on any such account will be retained in that account. See APPENDIX C – “CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE TREASURER – INVESTMENT POLICY.”

A portion of the proceeds of the Bonds will be used to pay certain costs related to the issuance of the Bonds. Up to 0.1% of the proceeds of the Bonds are required to be appropriated to fund the Citizens’ General Obligation Bond Oversight Committee, created to oversee various general obligation bond programs of the City. See “THE BONDS – Authority for Issuance; Purposes” herein.

DEBT SERVICE SCHEDULE

The scheduled debt service payable with respect to the Bonds is as follows:

**City and County of San Francisco
General Obligation Bonds
Series 2016F⁽¹⁾⁽²⁾**

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>	<u>Fiscal Year Total</u>
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⁽¹⁾ A portion of the debt service will be paid from original issue premium deposited in the Bond Subaccount relating to the Bonds. See “SOURCES AND USES OF FUNDS.”

⁽²⁾ Amounts are rounded off to the nearest dollar.

SECURITY FOR THE BONDS

General

The Board of Supervisors of the City has the power and is obligated, and under the Resolution has covenanted, to levy *ad valorem* taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds when due.

Factors Affecting Property Tax Security for the Bonds

The annual property tax rate for repayment of the Bonds will be based on the total assessed value of taxable property in the City and the scheduled debt service on the Bonds in each year, less any other lawfully available funds applied by the City for repayment of the Bonds. Fluctuations in the annual debt service on the Bonds, the assessed value of taxable property in the City, and the availability of such other funds in any year, may cause the annual property tax rate applicable to the Bonds to fluctuate. Issuance by the City of additional authorized bonds payable from *ad valorem* property taxes may cause the overall property tax rate to increase.

Discussed below are certain factors that may affect the City's ability to levy and collect sufficient taxes to pay scheduled debt service on the Bonds each year. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" for additional information on these factors.

Total Assessed Value of Taxable Property in the City. The greater the assessed value of taxable property in the City, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on bonds. The total net assessed valuation of taxable property in the City in fiscal year 2015-16 is approximately \$194.4 billion. During economic downturns, declining real estate values, increased foreclosures, and increases in requests submitted to the Assessor and the Assessment Appeals Board for reductions in assessed value have generally caused a reduction in the assessed value of some properties in the City. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – PROPERTY TAXATION – Assessed Valuations, Tax Rates and Tax Delinquencies."

Natural and economic forces can affect the assessed value of taxable property in the City. The City is located in a seismically active region, and damage from an earthquake in or near the City could cause moderate to extensive or total damage to taxable property. See "Seismic Risks" below. Other natural or man-made disasters, such as flood, fire, toxic dumping or acts of terrorism, could also cause a reduction in the assessed value of taxable property within the City. Economic and market forces, such as a downturn in the Bay Area's economy generally, can also affect assessed values, particularly as these forces might reverberate in the residential housing and commercial property markets. In addition, the total assessed value can be reduced through the reclassification of taxable property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

Concentration of Taxable Property Ownership. The more property (by assessed value) owned by any single assessee, the more exposure of tax collections to weakness in that taxpayer's financial situation and ability or willingness to pay property taxes. For fiscal year 2014-15, no single assessee owned more than 0.52% of the total taxable property in the City. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – PROPERTY TAXATION – Tax Levy and Collection."

Property Tax Rates. One factor in the ability of taxpayers to pay additional taxes for general obligation bonds is the cumulative rate of tax. The total tax rate per \$100 of assessed value (including the basic countywide 1% rate required by statute) is discussed further in APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – PROPERTY TAXATION – Assessed Valuations, Tax Rates and Tax Delinquencies.”

Debt Burden on Owners of Taxable Property in the City. Another measure of the debt burden on local taxpayers is total debt as a percentage of taxable property value. Issuance of general obligation bonds by the City is limited under Section 9.106 of the Charter to 3.00% of the assessed value of all taxable real and personal property located within the City’s boundaries. For purposes of this provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City’s gross general obligation debt limit for fiscal year 2015-16 is approximately \$5.83 billion, based on a net assessed valuation of approximately \$194.4 billion. As of March 1, 2016, the City had outstanding approximately \$2.02 billion in aggregate principal amount of general obligation bonds, which equals approximately 1.04% of the net assessed valuation for fiscal year 2015-16. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS.”

Additional Debt; Authorized but Unissued Bonds. Issuance of additional authorized bonds can cause the overall property tax rate to increase. As of March 1, 2016, the City had voter approval to issue up to \$1.45 billion in additional aggregate principal amount of new bonds payable from *ad valorem* property taxes. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – General Obligation Bonds.” In addition, the City expects that it will propose further bond measures to the voters from time to time to help meet its capital needs. The City’s most recent adopted ten-year capital plan sets forth \$32 billion of capital needs. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – Capital Plan.”

City Long-Term 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. 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.

Significant capital investments are proposed in the City’s adopted ten-year capital plan. However identified funding resources are below those necessary to maintain and enhance the City’s physical infrastructure. As a result, over \$10 billion in capital needs are deferred from the capital plan’s ten-year horizon. Over two-thirds of these unfunded needs relate to the City’s transportation and waterfront infrastructure, where state of good repair investment has lagged for decades. Mayor Edwin Lee has convened a taskforce to recommend funding mechanisms and strategies to bridge a portion of the gaps in the City’s transportation needs, but it is likely that significant funding gaps will remain even assuming the identification of significant new funding resources.

In addition, the City faces long term challenges with respect to the management of pension and post-employment retirement obligations. The City has taken significant 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 significant 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.

Lastly, while the City has adopted a number of measures to better position the City's operating budget for future economic downturns, these measures may not be sufficient. Economic stabilization reserves have grown significantly during the last three fiscal years and now exceed pre-recession peaks, but remain below adopted target levels of 10% of discretionary General Fund revenues.

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" and in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2015."

Seismic Risks

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 about three miles to the southeast 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.

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 or larger will occur in the San Francisco Bay Area before the year 2045. Such earthquakes may 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.

In early 2016, the Port Commission of the City and County of San Francisco commissioned an earthquake vulnerability study of the Northern Waterfront Seawall. The 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.

Risk of Sea Level Changes and Flooding

In May 2009, the California Climate Change Center released a final paper, for informational purposes only, which was funded by the California Energy Commission, the California Environmental Protection Agency, the Metropolitan Transportation Commission, the California Department of Transportation and the California Ocean Protection Council. The title of the paper is "The Impacts of Sea-Level Rise on the California Coast." The paper posits that increases in sea level will be a significant consequence of climate change over the next century. The paper evaluated the population, infrastructure, and property at risk from projected sea-level rise if no actions are taken to protect the coast. The paper concluded that significant property is at risk of flooding from 100-year flood events as a result of a 1.4 meter sea level rise. The paper further estimates that the replacement value of this property totals nearly \$100 billion (in 2000 dollars). Two-thirds of this at-risk property is concentrated in San Francisco Bay, indicating that this region is particularly vulnerable to impacts associated with sea-level rise due to extensive development on the margins of the Bay. A wide range of critical infrastructure, such as roads, hospitals, schools, emergency facilities, wastewater treatment plants, power plants, and wetlands is also vulnerable. Continued development in vulnerable areas will put additional assets at risk and raise protection costs.

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 and the local economy.

Other Events

Seismic events, wildfires, tsunamis, and other natural or man-made events such as cybersecurity breaches may 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 generator and transmission facilities and water transmission facilities. 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. In September 2010, a Pacific Gas and Electric Company ("PG&E") high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. There are numerous gas transmission and distribution pipelines owned, operated and maintained by PG&E throughout the City.

TAX MATTERS

The interest on the Bonds is not intended by the City to be excluded from gross income for federal income tax purposes. However, in the opinion of Jones Hall, A Professional Law Corporation ("Co-Bond Counsel"), San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, interest on the Bonds is exempt from California personal income taxes. The proposed form of opinion of Co-Bond Counsel with respect to the Bonds to be delivered on the date of issuance of the Bonds is set forth in APPENDIX F.

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Co-Bond Counsel express no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

OTHER LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds and with regard to the tax status of the interest on the Bonds (see "TAX MATTERS" herein) are subject to the legal opinions of Jones Hall, A Professional Law Corporation, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel to the City. The signed legal opinions of Co-Bond Counsel, dated and premised on facts existing and law in effect as of the date of original delivery of the Bonds, will be delivered to the initial purchaser of the Bonds at the time of original delivery of the Bonds.

The proposed form of the legal opinion of Co-Bond Counsel are set forth in APPENDIX F hereto. The legal opinions to be delivered may vary that text if necessary to reflect facts and law on the date of delivery. The opinions will speak only as of their date, and subsequent distributions of them by recirculation of this Official Statement or otherwise will create no implication that Co-Bond Counsel have reviewed or express any opinion concerning any of the matters referred to in the respective opinions subsequent to their date. In rendering their opinions, Co-Bond Counsel will rely upon certificates and representations of facts to be contained in the transcript of proceedings for the Bonds, which Co-Bond Counsel will not have independently verified.

Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon for the City by the City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel.

Hawkins Delafield & Wood LLP has served as disclosure counsel to the City and in such capacity has advised the City with respect to applicable securities laws and participated with responsible City officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the statements or information presented in this Official Statement and has not undertaken to independently verify any of such statements or information. Rather, the City is solely responsible for the accuracy and completeness of the statements and information contained in this Official Statement. Upon the delivery of the Bonds, Disclosure Counsel will deliver a letter to the City which advises the City, subject to the assumptions, exclusions, qualifications and limitations set forth therein, that no facts came to attention of such firm which caused them to believe that this Official Statement as of its date and as of the date of delivery of the Bonds contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. No purchaser or holder of the Bonds, or other person or party other than the City, will be entitled to or may rely on such letter or Hawkins Delafield & Wood LLP's having acted in the role of disclosure counsel to the City.

PROFESSIONALS INVOLVED IN THE OFFERING

Public Resources Advisory Group, Oakland, California and Ross Financial, San Francisco, California, have served as Co-Financial Advisors to the City with respect to the sale of the Bonds. The Co-Financial Advisors have assisted the City in the City's review and preparation of this Official Statement and in other matters relating to the planning, structuring, and sale of the Bonds. The Co-Financial Advisors have not independently verified any of the data contained herein nor conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement and assume no responsibility for the accuracy or completeness of any of the information contained herein. The Co-Financial Advisors, Co-Bond Counsel and Disclosure Counsel will all receive compensation from the City for services rendered in connection with the Bonds contingent upon the sale and delivery of the Bonds. The City Treasurer is acting as paying agent and registrar with respect to the Bonds.

ABSENCE OF LITIGATION

No litigation is pending or threatened concerning the validity of the Bonds, the ability of the City to levy the ad valorem tax required to pay debt service on the Bonds, the corporate existence of the City, or the entitlement to their respective offices of the officers of the City who will execute and deliver the Bonds and other documents and certificates in connection therewith. The City will furnish to the initial purchaser of the Bonds a certificate of the City as to the foregoing as of the time of the original delivery of the Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for fiscal year 2015-16, which is due not later than March 27, 2017, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB"). The notices of enumerated events will be filed by the City with 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 D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the purchaser of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The ratings on certain obligations of the City were upgraded by Fitch Ratings on March 28, 2013. Under certain continuing disclosure undertakings of the City, the City was required to file a notice of such upgrade with the Electronic Municipal Market Access system of the MSRB by April 11, 2013. The City filed such notice on May 17, 2013.

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.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), S&P Global Ratings ("S&P"), and Fitch Ratings ("Fitch"), have assigned municipal bond ratings of "___," "___," and "___," respectively, to the Bonds. Certain information not included in this Official Statement was supplied by the City to the rating agencies to be considered in evaluating the Bonds. The ratings reflect only the views of each rating agency, and any explanation of the significance of any rating may be obtained only from the respective credit rating agencies: Moody's, at www.moodys.com; S&P, at www.spratings.com; and Fitch, at www.fitchratings.com. The information presented on the website of each rating agency is not incorporated by reference as part of this Official Statement. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. No assurance can be given that any rating issued by a rating agency will be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price or marketability of the Bonds. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

SALE OF THE BONDS

The Bonds are scheduled to be sold at competitive bid on _____, 2016, as provided in the Official Notice of Sale, dated _____, 2016 (the "Official Notice of Sale"). The Official Notice of Sale provides that all Bonds would be purchased if any were purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, the approval of certain legal matters by Co-Bond Counsel and certain other conditions. The purchaser will represent to the City that the Bonds have been reoffered to the public at the prices or yields to be stated on the inside cover page hereof, and the City will take no responsibility for the accuracy of those prices or yields. The purchaser may offer and sell Bonds to

certain dealers and others at yields that differ from those that will be stated on the inside cover. The offering prices or yields may be changed from time to time by the purchaser.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the City and the initial purchaser or owners and beneficial owners of any of the Bonds.

The preparation and distribution of this Official Statement have been duly authorized by the Board of Supervisors of the City.

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Benjamin Rosenfield
Controller

APPENDIX A

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

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

§ _____
CITY AND COUNTY OF SAN FRANCISCO
GENERAL OBLIGATION BONDS
(AFFORDABLE HOUSING, 2015),
SERIES 2016F

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of San Francisco (the "City") in connection with the issuance of the bonds captioned above (the "Bonds"). The Bonds are issued pursuant to Resolution No. _____ and Resolution No. _____, adopted by the Board of Supervisors of the City on _____, 2016 and _____, 2016, respectively, and duly approved by the Mayor of the City on _____, 2016 and _____, 2016, respectively (together, the "Resolution"). The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. The following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which: (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any Bonds or to dispose of ownership of any Bonds; or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent under this Disclosure Certificate, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Holder" shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) and 5(b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

"Participating Underwriter" shall mean any of the original underwriters or purchasers of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s fiscal year (which is June 30); commencing with the report for the 2015-16 Fiscal Year (which is due not later than March 27, 2017), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the City, the City shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

(b) If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the City), file a report with the City certifying the date that the Annual Report was provided to the MSRB pursuant to this Disclosure Certificate.

SECTION 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following information, as required by the Rule:

- (a) the audited general purpose financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental entities;
- (b) a summary of budgeted general fund revenues and appropriations;
- (c) a summary of the assessed valuation of taxable property in the City;
- (d) a summary of the *ad valorem* property tax levy and delinquency rate;
- (e) a schedule of aggregate annual debt service on tax-supported indebtedness of the City; and
- (f) summary of outstanding and authorized but unissued tax-supported indebtedness of the City.

Any or all of the items listed above may be set forth in a document or set of documents, or may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB website. If the document included by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events numbered 1-9 with respect to the Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB) or adverse tax opinions;
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events numbered 10-16 with respect to the Bonds not later than ten business days after the occurrence of the event, if material:

10. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
11. Modifications to rights of Bond holders;
12. Unscheduled or contingent Bond calls;
13. Release, substitution, or sale of property securing repayment of the Bonds;
14. Non-payment related defaults;
15. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
16. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The City shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3, as provided in Section 3(b).

(d) Whenever the City obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City shall determine if such event would be material under applicable federal securities laws.

(e) If the City learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under

applicable federal securities laws, the City shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection 5(b)(12) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend or waive this Disclosure Certificate or any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 3(b), 4, 5(a) or 5(b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of the City Attorney or nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the owners of a majority in aggregate principal amount of the Bonds or (ii) does not, in the opinion of the City Attorney or nationally recognized bond counsel, materially impair the interests of the Holders.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5; and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Remedies. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate to cause the City to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California, and that the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____, 2016.

CITY AND COUNTY OF SAN FRANCISCO

Benjamin Rosenfield
Controller

Approved as to form:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

**FORM OF NOTICE TO THE
MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of City: CITY AND COUNTY OF SAN FRANCISCO

Name of Bond Issue: CITY AND COUNTY OF SAN FRANCISCO TAXABLE GENERAL
OBLIGATION BONDS
(AFFORDABLE HOUSING, 2015) SERIES 2016F

Date of Issuance: _____, 2016

NOTICE IS HEREBY GIVEN to the Municipal Securities Rulemaking Board that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated _____, 2016. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY AND COUNTY OF SAN FRANCISCO

By: _____ [to be signed only if filed]
Title: _____

APPENDIX E

DTC AND THE BOOK ENTRY ONLY SYSTEM

The information in numbered paragraphs 1-10 of this Appendix E, concerning The Depository Trust Company ("DTC") and DTC's book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC. As used in this appendix, "Securities" means the Bonds, "Issuer" means the City, and "Agent" means the Paying Agent.

Information Furnished by DTC Regarding its Book-Entry Only System

1. The Depository Trust Company ("DTC") will act as securities depository for the securities (the "Securities"). The Securities 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 Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

2. 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 3.5 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 a Standard & Poor's 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 and www.dtc.org.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities 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 certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC will determine pro rata the amount of the interest of each Direct Participant in such maturity to be redeemed as notified by the City Treasurer. DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, 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, Agent, or Issuer, 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 Issuer or Agent, 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.

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

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

Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer and exchange of the Bonds.

Payment of the interest on any Bond shall be made by check mailed on the interest payment date to the owner at the owner's address as it appears on the registration books described below as of the Record Date (as defined herein).

The City Treasurer will keep or cause to be kept, at the office of the City Treasurer, or at the designated office of any registrar appointed by the City Treasurer, sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection, and, upon presentation for such purpose, the City Treasurer shall, under such reasonable regulations as he or she may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided.

Any Bond may, in accordance with its terms, be transferred, upon the registration books described above, by the person in whose name it is registered, in person or by the duly authorized attorney of such person, upon surrender of such Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the City Treasurer.

Any Bonds may be exchanged at the office of the City Treasurer for a like aggregate principal amount of other authorized denominations of the same interest rate and maturity.

Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the designated City officials shall execute and the City Treasurer shall authenticate and deliver a new Bond or Bonds of the same series, interest rate and maturity, for a like aggregate principal amount. The City Treasurer shall require the payment by any Bond owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

No transfer or exchange of Bonds shall be required to be made by the City Treasurer during the period from the Record Date (as defined in this Official Statement) next preceding each interest payment date to such interest payment date or after a notice of redemption shall have been mailed with respect to such Bond.

APPENDIX F

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

[Closing Date]

City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102

Re: \$_____ City and County of San Francisco Taxable General Obligation Bonds
(Affordable Housing, 2015), Series 2016F

Ladies and Gentlemen:

[To come]

APPENDIX A

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

This Appendix contains information that is current as of April 30, 2016.

This Appendix A to the Official Statement of the City and County of San Francisco (the “City” or “San Francisco”) covers general information about the City’s governance structure, budget processes, property taxation system and other tax and revenue sources, City expenditures, labor relations, employment benefits and retirement costs, and investments, bonds and other long-term obligations.

The various reports, documents, websites and other information referred to herein are not incorporated herein by such references. The City has referred to certain specified documents in this Appendix A which are hosted on the City’s website. A wide variety of other information, including financial information, concerning the City is available from the City’s publications, websites and its departments. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded and is not a part of or incorporated into this Appendix A. The information contained in this Official Statement, including this Appendix A, speaks only as of its date, and the information herein is subject to change. Prospective investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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CITY GOVERNMENT

City Charter

San Francisco is governed as a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California (the "State"), and is the only consolidated city and county in the State. In addition to its powers under its charter in respect of municipal affairs granted under the State Constitution, San Francisco generally can exercise the powers of both a city and a county under State law. On April 15, 1850, several months before California became a state, the original charter was granted by territorial government to the City. New City charters were adopted by the voters on May 26, 1898, effective January 8, 1900, and on March 26, 1931, effective January 8, 1932. In November 1995, the voters of the City approved the current charter, which went into effect in most respects on July 1, 1996 (the "Charter").

The City is governed by a Board of Supervisors consisting of eleven members elected from supervisorial districts (the "Board of Supervisors"), and a Mayor elected at large who serves as chief executive officer (the "Mayor"). Members of the Board of Supervisors and the Mayor each serve a four-year term. The Mayor and members of the Board of Supervisors are subject to term limits as established by the Charter. Members of the Board of Supervisors may serve no more than two successive four-year terms and may not serve another term until four years have elapsed since the end of the second successive term in office. The Mayor may serve no more than two successive four-year terms, with no limit on the number of non-successive terms of office. The City Attorney, Assessor-Recorder, District Attorney, Treasurer and Tax Collector, Sheriff, and Public Defender are also elected directly by the citizens and may serve unlimited four-year terms. The Charter provides a civil service system for most City employees. School functions are carried out by the San Francisco Unified School District (grades K-12) ("SFUSD") and the San Francisco Community College District (post-secondary) ("SFCCD"). Each is a separate legal entity with a separately elected governing board.

Under its original charter, the City committed itself to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. In 1927, the City dedicated Mill's Field Municipal Airport at a site in what is now San Mateo County 14 miles south of downtown San Francisco, which would grow to become today's San Francisco International Airport (the "Airport"). In 1969, the City acquired the Port of San Francisco (the "Port") in trust from the State. Substantial expansions and improvements have been made to these enterprises since their original acquisition. The Airport, the Port, the Public Utilities Commission ("Public Utilities Commission") (which now includes the Water Enterprise, the Wastewater Enterprise and the Hetch Hetchy Water and Power Project), the Municipal Transportation Agency ("MTA") (which operates the San Francisco Municipal Railway or "Muni" and the Department of Parking and Traffic ("DPT"), including the Parking Authority and its five public parking garages), and the City-owned hospitals (San Francisco General and Laguna Honda), are collectively referred to herein as the "enterprise fund departments," as they are not integrated into the City's General Fund operating budget. However, certain of the enterprise fund departments, including San Francisco General Hospital, Laguna Honda Hospital and the MTA receive significant General Fund transfers on an annual basis.

The Charter distributes governing authority among the Mayor, the Board of Supervisors, the various other elected officers, the City Controller and other appointed officers, and the boards and commissions that oversee the various City departments. Compared to the governance of the City prior to 1995, the Charter concentrates relatively more power in the Mayor and Board of Supervisors. The Mayor appoints most commissioners subject to a two-thirds vote of the Board of Supervisors, unless otherwise provided in the Charter. The Mayor appoints each department head from among persons nominated to the position by the appropriate commission, and may remove department heads.

Mayor and Board of Supervisors.

Edwin M. Lee is the 43rd and current Mayor of the City. The Mayor has responsibility for general administration and oversight of all departments in the executive branch of the City. Mayor Lee was elected to his current four-year term on November 3, 2015. Prior to being elected, Mayor Lee was appointed by the Board of Supervisors in January 2011 to fill the remaining year of former Mayor Gavin Newsom's term when Mayor Newsom was sworn in as the State's Lieutenant Governor. Mayor Lee served as the City Administrator from 2005 until his appointment to

Mayor. He also previously served in each of the following positions: the City's Director of Public Works, the City's Director of Purchasing, the Director of the Human Rights Commission, the Deputy Director of the Employee Relations Division, and coordinator for the Mayor's Family Policy Task Force.

Table A-1 lists the current members of the Board of Supervisors. The Supervisors are elected for staggered four-year terms and are elected by district. Vacancies are filled by appointment by the Mayor.

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO
Board of Supervisors

Name	First Elected or Appointed	Current Term Expires
Eric Mar, <i>District 1</i>	2008	2017
Mark Farrell, <i>District 2</i>	2010	2019
Aaron Peskin, <i>District 3</i>	2016	2017
Katy Tang, <i>District 4</i>	2013	2019
London Breed, Board President, <i>District 5</i>	2012	2017
Jane Kim, <i>District 6</i>	2010	2019
Norman Yee, <i>District 7</i>	2012	2017
Scott Wiener, <i>District 8</i>	2010	2019
David Campos, <i>District 9</i>	2008	2017
Malia Cohen, <i>District 10</i>	2010	2019
John Avalos, <i>District 11</i>	2008	2017

Other Elected and Appointed City Officers

Dennis J. Herrera was re-elected to a four-year term as City Attorney in November 2015. The City Attorney represents the City in legal proceedings in which the City has an interest. Mr. Herrera was first elected City Attorney in December 2001. Before becoming City Attorney, Mr. Herrera had been a partner in a private law firm and had served in the Clinton Administration as Chief of Staff of the U.S. Maritime Administration. He also served as president of the San Francisco Police Commission and was a member of the San Francisco Public Transportation Commission.

Carmen Chu was elected Assessor-Recorder of the City in November 2013. The Assessor-Recorder administers the property tax assessment system of the City. Before becoming Assessor-Recorder, Ms. Chu was elected in November 2008 and November 2010 to the Board of Supervisors, representing the Sunset/Parkside District 4 after being appointed by then-Mayor Newsom in September 2007.

José Cisneros was re-elected to a four-year term as Treasurer of the City in November 2015. The Treasurer is responsible for the deposit and investment of all City moneys, and also acts as Tax Collector for the City. Mr. Cisneros has served as Treasurer since September 2004, following his appointment by then-Mayor Newsom. Prior to being appointed Treasurer, Mr. Cisneros served as Deputy General Manager, Capital Planning and External Affairs for the MTA.

Benjamin Rosenfield was appointed to a ten-year term as Controller of the City by then-Mayor Newsom in March 2008, and was confirmed by the Board of Supervisors in accordance with the Charter. The City Controller is responsible for timely accounting, disbursement, and other disposition of City moneys, certifies the accuracy of budgets, estimates the cost of ballot measures, provides payroll services for the City's employees, and, as the Auditor for the City, directs performance and financial audits of City activities. Before becoming Controller, Mr. Rosenfield served as the Deputy City Administrator under former City Administrator Edwin Lee from 2005 to 2008. He was responsible for the preparation and monitoring of the City's ten-year capital plan, oversight of a

number of internal service offices under the City Administrator, and implementing the City's 311 non-emergency customer service center. From 2001 to 2005, Mr. Rosenfield worked as the Budget Director for then-Mayor Willie L. Brown, Jr. and then-Mayor Newsom. As Budget Director, Mr. Rosenfield prepared the City's proposed budget for each fiscal year and worked on behalf of the Mayor to manage City spending during the course of each year. From 1997 to 2001, Mr. Rosenfield worked as an analyst in the Mayor's Budget Office and a project manager in the Controller's Office.

Naomi M. Kelly was appointed to a five-year term as City Administrator by Mayor Lee on February 7, 2012. The City Administrator has overall responsibility for the management and implementation of policies, rules and regulations promulgated by the Mayor, the Board of Supervisors and the voters. In January 2012, Mrs. Kelly became Acting City Administrator. From January 2011, she served as Deputy City Administrator where she was responsible for the Office of Contract Administration, Purchasing, Fleet Management and Central Shops. Mrs. Kelly led the effort to successfully roll out the City's new Local Hire program last year by streamlining rules and regulations, eliminating duplication and creating administrative efficiencies. In 2004, Mrs. Kelly served as the City Purchaser and Director of the Office of Contract Administration. Mrs. Kelly has also served as Special Assistant in the Mayor's Office of Neighborhood Services, in the Mayor's Office of Policy and Legislative Affairs and served as the City's Executive Director of the Taxicab Commission.

CITY BUDGET

Overview

This section discusses the City's budget procedures, while following sections of this Appendix A describe the City's various sources of revenues and expenditure obligations.

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, through its annual budget. In July 2015, the City adopted a full two-year budget. The City's fiscal year 2015-16 adopted budget appropriates annual revenues, fund balance, transfers and reserves of approximately \$8.94 billion, of which the City's General Fund accounts for approximately \$4.59 billion. In fiscal year 2016-17 appropriated revenues, fund balance, transfers and reserves total approximately \$8.99 billion and \$4.68 billion of General Fund budget. For a further discussion of the fiscal years 2015-16 and 2016-17 adopted budgets, see "City Budget Adopted for Fiscal years 2015-16 and 2016-17" herein.

Each year the Mayor prepares budget legislation for the City departments, which must be approved by the Board of Supervisors. Revenues consist largely of local property taxes, business taxes, sales taxes, other local taxes and charges for services. A significant portion of the City's revenues come in the form of intergovernmental transfers from the State and federal governments. Thus, the City's fiscal situation is affected by the health of the local real estate market, the local business and tourist economy, and by budgetary decisions made by the State and federal governments which depend, in turn, on the health of the larger State and national economies. All of these factors are almost wholly outside the control of the Mayor, the Board of Supervisors and other City officials. In addition, the State Constitution strictly limits the City's ability to raise taxes and property-based fees without a two-thirds popular vote. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" herein. Also, the fact that the City's annual budget must be adopted before the State and federal budgets adds uncertainty to the budget process and necessitates flexibility so that spending decisions can be adjusted during the course of the Fiscal year. See "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

Budget Process

The City's fiscal year commences on July 1. The City's budget process for each fiscal year begins in the middle of the preceding fiscal year as departments prepare their budgets and seek any required approvals from the applicable City board or commission. Departmental budgets are consolidated by the City Controller, and then transmitted to the Mayor no later than the first working day of March. By the first working day of May, the Mayor is required to submit a proposed budget to the Board of Supervisors for certain specified departments, based on criteria set forth in the Administrative Code. On or before the first working day of June, the Mayor is required to submit the complete budget, including all departments, to the Board of Supervisors.

Under the Charter, following the submission of the Mayor's proposed budget, the City Controller must provide an opinion to the Board of Supervisors regarding the accuracy of economic assumptions underlying the revenue estimates and the reasonableness of such estimates and revisions in the proposed budget (the City Controller's "Revenue Letter"). The City Controller may also recommend reserves that are considered prudent given the proposed resources and expenditures contained in the Mayor's proposed budget. The City Controller's current Revenue Letter can be viewed online at www.sfcontroller.org. The Revenue Letter and other information from the said website are not incorporated herein by reference. The City's Capital Planning Committee also reviews the proposed budget and provides recommendations based on the budget's conformance with the City's adopted ten-year capital plan. For a further discussion of the Capital Planning Committee and the City's ten-year capital plan, see "CAPITAL FINANCING AND BONDS – Capital Plan" herein.

The City is required by the Charter to adopt a budget which is balanced in each fund. During its budget approval process, the Board of Supervisors has the power to reduce or augment any appropriation in the proposed budget, provided the total budgeted appropriation amount in each fund is not greater than the total budgeted appropriation amount for such fund submitted by the Mayor. The Board of Supervisors must approve the budget by adoption of the Annual Appropriation Ordinance (also referred to herein as the "Original Budget") by no later than August 1 of each year.

The Annual Appropriation Ordinance becomes effective with or without the Mayor's signature after ten days; however, the Mayor has line-item veto authority over specific items in the budget. Additionally, in the event the Mayor were to disapprove the entire ordinance, the Charter directs the Mayor to promptly return the ordinance to the Board of Supervisors, accompanied by a statement indicating the reasons for disapproval and any recommendations which the Mayor may have. Any Annual Appropriation Ordinance so disapproved by the Mayor shall become effective only if, subsequent to its return, it is passed by a two-thirds vote of the Board of Supervisors.

Following the adoption and approval of the Annual Appropriation Ordinance, the City makes various revisions throughout the fiscal year (the Original Budget plus any changes made to date are collectively referred to herein as the "Revised Budget"). A "Final Revised Budget" is prepared at the end of the fiscal year reflecting the year-end revenue and expenditure appropriations for that fiscal year.

November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle

On November 3, 2009, voters approved Proposition A amending the Charter to make changes to the City's budget and financial processes which are intended to stabilize spending by requiring multi-year budgeting and financial planning.

Proposition A requires four significant changes:

- Specifies a two-year (biennial) budget, replacing the annual budget. Fixed two-year budgets were approved beginning in July 2012 by the Board of Supervisors for four departments: the Airport, the Port, the Public Utilities Commission and MTA. In July 2015, the Board also approved fixed two year budgets for the Library, Retirement and Child Support Services departments. All other departments prepared balanced, rolling two-year budgets.
- Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The most recent five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the Mayor, Budget Analyst for the Board of Supervisors and Controller's Office on December 9, 2014, for fiscal year 2015-16 through fiscal year 2019-20, to be considered by the Board of Supervisors. On December 7, 2015, a joint report, (the "Joint Report") was issued by the three offices updating budget estimates for the remaining four years of the City's five year financial plan. See "Five Year Financial Plan" below.
- Charges the Controller's Office with proposing to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt and financial measures in the case of disaster recovery

and requires the City to adopt budgets consistent with these policies once approved. The Controller's Office may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent year.

- Standardizes the processes and deadlines for the City to submit labor agreements for all public employee unions by May 15.

On April 13, 2010, the Board of Supervisors unanimously adopted policies to 1) codify year the City's current practice of maintaining an annual General Reserve for current year fiscal pressures not anticipated in the budget and roughly double the size of the General Reserve by fiscal year 2015-16, and 2) create a new Budget Stabilization Reserve funded by excess receipts from volatile revenue streams to augment the existing Rainy Day Reserve to help the City mitigate the impact of multi-year downturns. On November 8 and 22, 2011, the Board of Supervisors unanimously adopted additional financial policies limiting the future approval of Certificates of Participation and other long-term obligations to 3.25% of discretionary revenue, and specifying that selected nonrecurring revenues may only be spent on nonrecurring expenditures. On December 16, 2014, the Board of Supervisors unanimously adopted financial policies to implement voter-approved changes to the City's Rainy Day Reserve, as well as changes to the General Reserve which would increase the cap from 2% to 3% of revenues and reduce deposit requirements during a recession. These policies are described in further detail below under "Budgetary Reserves." The Controller's Office may propose additional financial policies by October 1 of any year.

Role of Controller; Budgetary Analysis and Projections

As Chief Fiscal Officer and City Services Auditor, the City Controller monitors spending for all officers, departments and employees charged with receipt, collection or disbursement of City funds. Under the Charter, no obligation to expend City funds can be incurred without a prior certification by the Controller that sufficient revenues are or will be available to meet such obligation as it becomes due in the then-current fiscal year, which ends June 30. The Controller monitors revenues throughout the fiscal year, and if actual revenues are less than estimated, the City Controller may freeze department appropriations or place departments on spending "allotments" which will constrain department expenditures until estimated revenues are realized. If revenues are in excess of what was estimated, or budget surpluses are created, the Controller can certify these surplus funds as a source for supplemental appropriations that may be adopted throughout the year upon approval of the Mayor and the Board of Supervisors. The City's annual expenditures are often different from the estimated expenditures in the Annual Appropriation Ordinance due to supplemental appropriations, continuing appropriations of prior years, and unexpended current-year funds.

In addition, to the five year planning responsibilities established in Proposition A of November 2009, and discussed above, Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued the most recent of these reports, the fiscal year 2015-16 Six Month Budget Status Report (the "Six Month Report"), on February 10, 2016. The City Charter also directs the Controller to annually report on the accuracy of economic assumptions underlying the revenue estimates in the Mayor's proposed budget. On June 9, 2015 the Controller released the Discussion of the Mayor's fiscal year 2015-16 and fiscal year 2016-17 Proposed Budget (the "Revenue Letter"). All of these reports are available from the Controller's website: www.sfcontroller.org. The information from said website is not incorporated herein by reference.

General Fund Results: Audited Financial Statements

The General Fund portions of the fiscal years 2015-16 and 2016-17 Original Budgets total \$4.59 billion, and \$4.68 billion respectively. This does not include expenditures of other governmental funds and enterprise fund departments such as the Airport, the MTA, the Public Utilities Commission, the Port and the City-owned hospitals (San Francisco General and Laguna Honda). Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2011-12 through 2014-15 and the Original Budgets for fiscal years 2015-16 and 2016-17. See "PROPERTY TAXATION - Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

The City's most recently completed Comprehensive Annual Financial Report (the "CAFR" which includes the City's audited financial statements) for fiscal year 2014-15 was issued on November 23, 2015. The fiscal year 2014-15 CAFR reported that as of June 30, 2015, the General Fund available for appropriation in subsequent years was \$391 million (see Table A-4), of which \$180 million was assumed in the fiscal year 2015-16 Original Budget and \$194 million was assumed in the fiscal year 2016-17 Original Budget. This represents a \$96 million increase in available fund balance over the \$295 million available as of June 30, 2014 and resulted primarily from savings and greater-than-budgeted additional tax revenue, particularly property transfer tax, business tax and state hospital revenues in fiscal year 2014-15. The fiscal year 2015-16 CAFR is scheduled to be completed in late November 2016.

TABLE A-2

CITY AND COUNTY OF SAN FRANCISCO						
Budgeted General Fund Revenues and Appropriations for						
Fiscal Years 2011-12 through 2016-17						
	(000s)					
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
	Final Revised	Final Revised	Final Revised	Final Revised	Original	Original
	Budget	Budget	Budget	Budget	Budget ²	Budget ³
Prior-Year Budgetary Fund Balance & Reserves	\$427,886	\$557,097	\$674,637	\$941,702	\$183,249	\$197,662
<u>Budgeted Revenues</u>						
Property Taxes	\$1,028,677	\$1,078,083	\$1,153,417	\$1,232,927	\$1,291,000	\$1,312,000
Business Taxes	389,878	452,853	532,988	572,385	634,460	664,260
Other Local Taxes	602,455	733,295	846,924	910,430	1,062,535	1,082,629
Licenses, Permits and Franchises	24,257	25,378	25,533	27,129	27,163	27,263
Fines, Forfeitures and Penalties	7,812	7,194	4,994	4,242	4,577	4,577
Interest and Investment Earnings	6,219	6,817	10,946	6,853	10,680	11,740
Rents and Concessions	22,895	21,424	23,060	22,692	15,432	14,325
Grants and Subventions	680,091	721,837	799,188	856,336	904,187	932,015
Charges for Services	153,318	169,058	177,081	210,020	215,485	216,766
Other	14,803	13,384	14,321	21,532	31,084	6,952
Total Budgeted Revenues	\$2,930,405	\$3,229,323	\$3,588,452	\$3,864,545	\$4,196,603	\$4,272,528
Bond Proceeds & Repayment of Loans	589	627	1,105	1,026	918	881
<u>Expenditure Appropriations</u>						
Public Protection	\$991,840	\$1,058,324	\$1,102,667	\$1,158,771	\$1,223,981	\$1,267,572
Public Works, Transportation & Commerce	53,878	68,351	79,635	89,270	161,545	160,575
Human Welfare & Neighborhood Development	677,953	670,958	745,277	828,555	857,055	874,260
Community Health	573,970	635,960	703,092	703,569	787,554	814,671
Culture and Recreation	99,762	105,580	112,624	119,051	137,062	129,811
General Administration & Finance	190,014	190,151	199,709	214,958	286,871	271,667
General City Responsibilities ¹	99,274	86,527	86,516	116,322	186,068	197,290
Total Expenditure Appropriations	\$2,686,691	\$2,815,852	\$3,029,520	\$3,230,496	\$3,640,136	\$3,715,846
Budgetary reserves and designations, net	\$11,112	\$4,191	\$0	\$39,966	\$43,680	\$40,720
Transfers In	\$160,187	\$195,388	\$242,958	\$199,175	\$206,782	\$208,139
Transfers Out	(567,706)	(646,018)	(720,806)	(873,592)	(903,735)	(922,645)
Net Transfers In/Out	(\$407,519)	(\$450,630)	(\$477,848)	(\$674,417)	(\$696,953)	(\$714,506)
<u>Budgeted Excess (Deficiency) of Sources</u>						
Over (Under) Uses	\$253,558	\$516,375	\$756,825	\$862,394	\$0	\$0
Variance of Actual vs. Budget	299,547	146,901	184,184	373,696		
Total Actual Budgetary Fund Balance ³	\$553,105	\$663,276	\$941,009	\$1,236,090	\$0	\$0

¹ Over the past five years, the City has consolidated various departments to achieve operational efficiencies. This has resulted in changes in how departments were summarized in the service area groupings above for the time periods shown.

² Fiscal year 2015-16 Final Revised Budget will be available upon release of the FY 2015-16 CAFR.

³ Fiscal year 2016-17 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the previous year's Final Revised Budget.

Source: Office of the Controller, City and County of San Francisco.

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2015 was \$1.1 billion (as shown in Table A-3 and Table A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of \$4.1 billion. Audited General Fund balances are shown in Table A-3 on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2011 through June 30, 2015.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO
Summary of Audited General Fund Balances
Fiscal Years 2010-11 through 2014-15
(000s)

	2011	2012	2013	2014	2015
Restricted for rainy day (Economic Stabilization account)	\$33,439	\$31,099	\$23,329	\$60,289	\$71,904
Restricted for rainy day (One-time Spending account)	-	3,010	3,010	22,905	43,065
Committed for budget stabilization (citywide)	27,183	74,330	121,580	132,264	132,264
Committed for Recreation & Parks expenditure savings reserve	6,248	4,946	15,907	12,862	10,551
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	57,846	62,699	74,815	92,269	137,641
Assigned for appropriation carryforward	73,984	85,283	112,327	159,345	201,192
Assigned for budget savings incentive program (citywide)	8,684	22,410	24,819	32,088	33,939
Assigned for salaries and benefits (MOU)	7,151	7,100	6,338	10,040	20,155
Total Fund Balance Not Available for Appropriation	\$214,535	\$290,877	\$382,125	\$522,062	\$650,711
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies	\$44,900	\$23,637	\$30,254	79,223	131,970
Assigned for General reserve		\$22,306	\$21,818	-	-
Assigned for subsequent year's budget	159,390	104,284	122,689	135,938	180,179
Unassigned for General Reserve		-	-	45,748	62,579
Unassigned - Budgeted for use second budget year	-	103,575	111,604	137,075	194,082
Unassigned - Available for future appropriation	9,061	12,418	6,147	21,656	16,569
Total Fund Balance Available for Appropriation	\$213,351	\$266,220	\$292,512	\$419,640	\$585,379
Total Fund Balance, Budget Basis	\$427,886	\$557,097	\$674,637	\$941,702	\$1,236,090
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$427,886	\$557,097	\$674,637	\$941,702	\$1,236,090
Unrealized gain or loss on investments	1,610	6,838	(1,140)	935	1,141
Nonspendable fund balance	20,501	19,598	23,854	24,022	24,786
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(43,072)	(46,140)	(38,210)	(37,303)	(37,303)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(63,898)	(62,241)	(93,910)	(66,415)	(50,406)
Deferred Amounts on Loan Receivables	(13,561)	(16,551)	(20,067)	(21,670)	(23,212)
Pre-paid lease revenue	(1,460)	(2,876)	(4,293)	(5,709)	(5,900)
Total Fund Balance, GAAP Basis	\$328,006	\$455,725	\$540,871	\$835,562	\$1,145,196

Source: Office of the Controller, City and County of San Francisco.

Table A-4, entitled "Audited Statement of Revenues, Expenditures and Changes in General Fund Balances," is extracted from information in the City's CAFR for the five most recent fiscal years. Audited financial statements for the fiscal year ended June 30, 2015 are included herein as Appendix B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2015." Prior years' audited financial statements can be obtained from the City Controller's website. Information from the City Controller's website is not incorporated herein by reference. Excluded from this Statement of General Fund Revenues and Expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

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TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Audited Statement of Revenues, Expenditures and Changes in General Fund Balances
Fiscal Years 2010-11 through 2014-15¹
(000s)

	2011	2012	2013	2014	2015
Revenues:					
Property Taxes	\$1,090,776	\$1,056,143	\$1,122,008	\$1,178,277	\$1,272,623
Business Taxes ²	391,057	435,316	479,627	562,896	609,614
Other Local Taxes	608,197	751,301	756,346	922,205	1,085,381
Licenses, Permits and Franchises	25,252	25,022	26,273	26,975	27,789
Fines, Forfeitures and Penalties	6,868	8,444	6,226	5,281	6,369
Interest and Investment Income	5,910	10,262	2,125	7,866	7,867
Rents and Concessions	21,943	24,932	35,273	25,501	24,339
Intergovernmental	657,238	678,808	720,625	827,750	854,464
Charges for Services	146,631	145,797	164,391	180,850	215,036
Other	10,377	17,090	14,142	9,760	9,162
Total Revenues	\$2,964,249	\$3,153,115	\$3,327,036	\$3,747,361	\$4,112,644
Expenditures:					
Public Protection	\$950,548	\$991,275	\$1,057,451	\$1,096,839	\$1,148,405
Public Works, Transportation & Commerce	25,508	52,815	68,014	78,249	87,452
Human Welfare and Neighborhood Development	610,063	626,194	660,657	720,787	786,362
Community Health	493,939	545,962	634,701	668,701	650,741
Culture and Recreation	99,156	100,246	105,870	113,019	119,278
General Administration & Finance	175,381	182,898	186,342	190,335	208,695
General City Responsibilities	85,422	96,132	81,657	86,968	98,620
Total Expenditures	\$2,440,017	\$2,595,522	\$2,794,692	\$2,954,898	\$3,099,553
Excess of Revenues over Expenditures	\$524,232	\$557,593	\$532,344	\$792,463	\$1,013,091
Other Financing Sources (Uses):					
Transfers In	\$108,072	\$120,449	\$195,272	\$216,449	\$164,712
Transfers Out	(502,378)	(553,190)	(646,912)	(720,806)	(873,741)
Other Financing Sources	6,302	3,682	4,442	6,585	5,572
Other Financing Uses	-	-	-	-	-
Total Other Financing Sources (Uses)	(\$388,004)	(\$429,059)	(\$447,198)	(\$497,772)	(\$703,457)
Extraordinary gain/(loss) from dissolution of the Redevelopment Agency		(815)	-	-	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$136,228	\$127,719	\$85,146	\$294,691	\$309,634
Total Fund Balance at Beginning of Year	\$191,778	\$328,006	\$455,725	\$540,871	\$835,562
Total Fund Balance at End of Year -- GAAP Basis⁴	\$328,006	\$455,725	\$540,871	\$835,562	\$1,145,196
Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End					
-- GAAP Basis	\$48,070	\$133,794	\$135,795	\$178,066	\$234,273
-- Budget Basis	\$168,451	\$220,277	\$240,410	\$294,669	\$390,830

¹ Summary of financial information derived from City CAFRs. Fund balances include amounts reserved for rainy day (Economic Stabilization and One-time Spending accounts), encumbrances, appropriation carryforwards and other purposes (as required by the Charter or appropriate accounting practices) as well as unreserved designated and undesignated available fund balances (which amounts constitute unrestricted General Fund balances).

² Does not include business taxes allocated to special revenue fund for the Community Challenge Grant program.

⁴ Total fiscal year 2012-13 amount is comprised of \$122.7 million in assigned balance subsequently appropriated for use in fiscal year 2013-14 plus \$117.8 million unassigned balance available for future appropriations.

Sources: Comprehensive Annual Financial Report; Office of the Controller, City and County of San Francisco.

Five-Year Financial Plan

The Five-Year Financial Plan ("Plan") is required under Proposition A, a Charter amendment approved by voters in November 2009. The Charter requires the Plan to forecast expenditures and revenues for the next five fiscal years, propose actions to balance revenues and expenditures during each year of the Plan, and discuss strategic goals and corresponding resources for City departments. Proposition A required that a Plan be adopted every two years. The City updates the Plan annually.

On December 9, 2014, the Mayor, Budget Analyst for the Board of Supervisors and the Controller's Office issued a proposed Plan for fiscal year 2015-16 through fiscal year 2019-20, to be considered by the Board of Supervisors. The Plan projected shortfalls of \$16 million, \$88 million, \$275 million, \$376 million, and \$418 million cumulatively for fiscal years 2015-16 through fiscal year 2019-20, respectively. On March 12, 2015, the Plan was updated with the most recent information on the City's fiscal condition. For General Fund Supported operations, the updated Plan projects budgetary shortfalls of \$21 million, \$67 million, \$289 million, and \$376 million and \$402 cumulatively over the next five fiscal years.

On December 7, 2015, the Joint Report was issued updating the Plan for fiscal year 2016-17 through fiscal year 2019-20. The Joint Report projects expenditure growth of \$972.9 million, or 21.2% from fiscal year 2015-16 budgeted amounts leading to shortfalls of \$100 million, \$240 million, \$475 million, and \$538 million cumulatively over the next four fiscal years. This is an increase of \$136 million in the projected cumulative deficit projected by the Plan update published in March 2015 (\$402 million). This increase is largely due to increases in the projected employer contribution rates for the City's retirement system, and the adoption of several voter-approved baselines and set-asides with spending requirements without commensurate revenue increases. An update to the Joint Report was published on March 24, 2016 with the most recent forecast. The City currently projects budget shortfalls of \$86 million, \$161 million, \$555 million, and \$690 million cumulatively over the next four years, which is an increase of \$152 million from the Joint Report published in December. The increase in the projected budgetary shortfall is primarily attributable to the projected increases in salary and benefit costs tied to expected increases in the Consumer Price Index (CPI).

Increase in Employer Contribution Rates to City Retirement System: The Plan updated in March, 2015 anticipated a decline in retirement costs after fiscal year 2014-15. However, three main factors have led to a reversal of this downward trend including: lower than expected actual fiscal year 2014-15 investment earnings; updated demographic assumptions, which show that retirees are living longer and collecting pensions longer than previously expected; and an appellate court ruling against the City which found that voter-adopted changes to the conditions under which retirees could receive a supplemental COLA violated retirees' vested rights.

The cumulative effect of these factors on employer contribution rates is significant because it reverses the downward trend anticipated by the City and employees alike. The City's March, 2015 projections reduced overall General Fund pension contributions from approximately \$300 million annually to approximately \$260 million annually by fiscal year 2019-20. The net impact of the December, 2015 changes identified above reverse that trend, growing the employer contributions by \$104 million cumulatively through the end of the projection period. The March 2016 Joint Report update increases projected employer contributions further to account for investment losses in the current year, projected to be 5.0% through year end. This increases projected employer contributions by \$217 million cumulatively through the end of the projection period, an increase of \$113 million from the December 2015 Joint Report.

Increases in Voter Adopted Baselines and Set-Asides: Over the past several years, City voters have adopted several baselines and set-asides to provide additional funding for housing, transportation, children's services, to increase the City's minimum wage rate, and most recently to support legacy businesses. When voters approve additional increases to existing baselines, set-asides, or other spending increases without commensurate revenue increases from new funding sources, this grows the projected deficits and future obligations of the City and also reduces policymakers' flexibility when balancing the budget.

While the projected shortfalls in the Plan reflect the difference in projected revenues and expenditures over the next five years if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and/or additional

revenues. These projections assume no ongoing solutions are implemented. To the extent budgets are balanced with ongoing solutions, future shortfalls will decrease.

Included in the updated Plan is consideration of the potential impact of a recession on the City's budgetary outlook. The base case does not assume an economic downturn due to the difficulty of predicting recessions; however, the City has historically not experienced more than six consecutive years of expansion and the current economic expansion began over six years ago. The recession scenario projects a cumulative deficit of \$858 million in fiscal year 2019-20 as compared to the base case cumulative deficit of \$538 million in fiscal year 2019-20. At a high level, the recession scenario would necessitate significant reductions in expenditures.

City Budget Adopted for Fiscal Years 2015-16 and 2016-17

On July 29, 2015, Mayor Lee signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for fiscal years ending June 30, 2016 and June 30, 2017. This is the fourth two-year budget for the entire City. The adopted budget closed the \$21 million and \$67 million General Fund shortfalls for fiscal year 2015-16 and fiscal year 2016-17 identified in the Plan update through a combination of increased revenues and expenditures savings. This deficit projection was smaller than the City had seen in at least 15 years; therefore, the Mayor's Budget Instructions to departments required no reductions in fiscal year 2015-16 and a modest reduction of 1.0 percent in fiscal year 2016-17.

The Original Budget for fiscal years 2015-16 and fiscal year 2016-17 totals \$8.94 billion and \$8.99 billion respectively, representing year over year increases of \$360 million and \$50 million. The General Fund portion of each year's budget is \$4.59 billion in fiscal year 2015-16 and \$4.68 billion in fiscal year 2016-17 representing increases of \$320 million and \$90 million. There are 29,553 funded full time positions in the fiscal year 2015-16 Original Budget and 30,017 in the fiscal year 2016-17 Original Budget representing increases of 1,117 and 465 positions, respectively. On December 7, 2015, the Joint Report was issued updating projected revenues and expenditures for fiscal year 2016-17. See "Five Year Financial Plan" above.

The budget for fiscal years 2015-16 and 2016-17 adheres to the City's policy limiting the use of certain nonrecurring revenues to nonrecurring expenses proposed by the Controller's Office and approved unanimously by the Board of Supervisors on November 22, 2011. The policy was approved by the Mayor on December 1, 2011 and can only be suspended for a given fiscal year by a two-thirds vote of the Board. Specifically, this policy limited the Mayor and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance (defined as General Fund prior year unassigned fund balance before deposits to the Rainy Day Reserve or Budget Stabilization Reserve in excess of the average of the previous five years), the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves, acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long term obligations.

Impact of the State of California Budget on Local Finances

Revenues from the State represent approximately 14% of the General Fund revenues appropriated in the budget for fiscal years 2015-16 and 2016-17, and thus changes in State revenues could have a significant impact on the City's finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor's Proposed Budget required to be submitted in January; and 2) the "May Revise" to the Governor's Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget. City policy makers review and estimate the impact of both the Governor's Proposed and May Revise Budgets prior to the City adopting its own budget.

On June 25, 2015, the Governor signed the 2015-16 State Budget, spending \$167.6 billion from the General Fund and other state funds. General Fund appropriations total \$115.4 billion, \$900 million more than the revised 2014-15 spending level. An increase in state revenues boosted 2014-15 spending above the levels approved by the

Legislature in June 2014. The 2015–16 budget represents a \$7.4 billion increase, or 6.9%, over that pre-revision 2014–15 spending plan.

The budget agreement maintains the fiscal framework of the May Revision, including the General Fund revenue forecast, overall spending levels, a \$1.1 billion operating reserve, Proposition 2 debt payments and Rainy Day Fund deposits. By redirecting spending and using identified savings, including a reform of the Middle Class Scholarship program and correcting an error in the estimate for Medi-Cal, the budget agreement provides for additional spending, including paying off school deferrals (\$1 billion) and debts owed to local governments since 2004 (\$765 million). The budget also retires \$15 billion in Economic Recovery Bonds used to cover budget deficits as far back as 2002, as well as \$3.8 billion in mandate debt owed to K-14 schools. Finally, to protect against future economic uncertainty the budget deposits \$1.9 billion to the state’s Rainy Day Fund as required by Proposition 2, bringing the balance to \$3.5 billion.

On January 7, 2016, the Governor released the 2016-17 Proposed State Budget, which projects fiscal year 2015-16 General Fund revenues and transfers of \$117.5 billion, total expenditures of \$116.1 billion and a year-end surplus of \$5.2 billion, of which \$966 million would be reserved for the liquidation of encumbrances and \$4.2 billion would be deposited in a reserve for economic uncertainties. The Fiscal Year 2016-17 Proposed State Budget projects Fiscal Year 2016-17 general fund revenues and transfers of \$120.6 billion, total expenditures of \$122.6 billion and a year-end surplus of \$3.2 billion, of which \$966 million would be reserved for liquidation of encumbrances and \$2.2 billion would be deposited in a reserve for economic uncertainties. The Fiscal Year 2016-17 Proposed State Budget also proposes a deposit of \$3.56 billion into the State's Rainy Day Fund. The City is currently evaluating the Governor's proposed budget for local impacts.

Other Budget Updates

On February 10, 2016, the Controller’s Office issued a Six-Month General Fund Status report (Six-Month Report) which projected the General Fund would end fiscal year 2015-16 with a balance of \$310.2 million. This represents a \$58.9 million improvement from the projected ending balance contained in the Five Year Financial Plan Update and Mayor’s Budget Instructions issued in December 2015. The fund balance projection includes \$210.7 million in prior year ending fund balance, a projected \$60.4 million in fiscal year 2015-16 revenue surplus, \$55.8 million from departmental cost savings, offset by \$9.8 million in increased contributions to baselines and \$6.9 million in increased reserve deposits. The general revenue improvements are driven primarily by a significant increase in property tax revenues as a result of increased supplemental and escape property tax assessments.

Impact of Federal Budget Tax Increases and Expenditure Reductions on Local Finances

On December 18, 2015, the United States Congress passed a \$1.15 trillion spending measure for fiscal year 2015-16, including spending increases of \$66 billion for military and domestic programs. Of most immediate impact to the City is a provision delaying implementation of the “Cadillac Tax” from fiscal year 2017-2018 until fiscal year 2019-20. The tax is a 40% levy on certain employer sponsored health plan premiums that may apply to some City offered plans. The spending measure is expected to be signed by the President shortly. The Controller’s Office will continue to monitor federal budget changes and reflect their financial impact on the City in upcoming quarterly budget updates and long term financial plans.

Budgetary Reserves

Under the Charter, the Treasurer, upon recommendation of the City Controller, is authorized to transfer legally available moneys to the City’s operating cash reserve from any unencumbered funds then held in the City’s pooled investment fund. The operating cash reserve is available to cover cash flow deficits in various City funds, including the City’s General Fund. From time to time, the Treasurer has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other City funds. Any such transfers must be repaid within the same fiscal year in which the transfer was made, together with interest at the rate earned on the pooled funds at the time the funds were used. The City has not issued tax and revenue anticipation notes to finance short-term cash flow needs since fiscal year 1996-97. See “INVESTMENT OF CITY FUNDS – Investment Policy” herein.

The financial policies passed on April 13, 2010 codified the current practice of maintaining an annual General Reserve to be used for current-year fiscal pressures not anticipated during the budget process. The policy set the reserve equal to 1% of budgeted regular General Fund revenues in fiscal year 2012-13 and increasing by 0.25% each year thereafter until reaching 2% of General Fund revenues in fiscal year 2016-17. The Original Budget for fiscal years 2015-16 and 2016-17 includes starting balances of \$73 million and \$86 million for the General Reserve for fiscal years 2015-16 and 2016-17, respectively. On December 16, 2014, the Board of Supervisors adopted financial policies to further increase the City's General Reserve from 2% to 3% of General Fund revenues between fiscal year 2017-18 and fiscal year 2020-21 while reducing the required deposit to 1.5% of General Fund revenues during economic downturns. The intent of this policy change is to increase reserves available during a multi-year downturn.

In addition to the operating cash and general reserves the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the Board of Supervisors. These include the Salaries and Benefit Reserve (Original Budget for fiscal years 2015-16 and 2016-17 includes \$14 million in fiscal year 2015-16 and \$30 million in fiscal year 2016-17), and the Litigation Reserve (Original Budget for fiscal years 2015-16 and 2016-17 includes \$16 million and \$11 million, respectively). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

The City also maintains Rainy Day and Budget Stabilization reserves whose balances carry-forward annually and whose use is allowed under select circumstances described below.

Rainy Day Reserve

In November 2003, City voters approved the creation of the City's Rainy Day Reserve into which the previous Charter-mandated cash reserve was incorporated. Charter Section 9.113.5 requires that if the Controller projects total General Fund revenues for the upcoming budget year will exceed total General Fund revenues for the current year by more than five percent, then the City's budget shall allocate the anticipated General Fund revenues in excess of that five percent growth into two accounts within the Rainy Day Reserve and for other lawful governmental purposes. Effective January 1, 2015, Proposition C passed by the voters in November 2014 divides the existing Rainy Day Economic Stabilization Account into a City Rainy Day Reserve ("City Reserve") and a School Rainy Day Reserve ("School Reserve") with each reserve account receiving 50% of the existing balance. Additionally, any deposits to the reserve subsequent to January 1, 2015 will be allocated as follows:

- 37.5 percent of the excess revenues to the City Reserve;
- 12.5 percent of the excess revenues to the School Reserve;
- 25 percent of the excess revenues to the Rainy Day One-Time or Capital Expenditures account; and
- 25 percent of the excess revenues to any lawful governmental purpose.

Fiscal year 2014-15 revenue exceeded the deposit threshold by \$119 million generating a deposit of \$47 million to the City Reserve, \$18 million to the School Reserve, and \$32 million to the One-Time or Capital Expenditures account. Deposits to the Rainy Day Reserve's Economic Stabilization account are subject to a cap of 10% of actual total General Fund revenues as stated in the City's most recent independent annual audit. Amounts in excess of that cap in any year will be allocated to capital and other one-time expenditures.

Monies in the City Reserve are available to provide a budgetary cushion in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Monies in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. Withdrawals of \$12 million and \$3 million from the One-Time or Capital Expenditures account are budgeted in fiscal year 2014-15. Appropriations of \$12 million from the School Rainy Day Reserve account and \$3 million from the One-Time or Capital Expenditures account were withdrawn in fiscal year 2014-15. No withdrawals or deposits are anticipated in the fiscal year 2015-16 and 2016-17 budgets from the City or One-time reserves. A balance of \$43 million will be left at the end of fiscal year 2016-17.

If the Controller projects that per-pupil revenues for the SFUSD will be reduced in the upcoming budget year, the Board of Supervisors and Mayor may appropriate funds from the School Reserve account to the SFUSD. This

appropriation may not exceed the dollar value of the total decline in school district revenues, or 25% of the account balance, whichever is less. The fiscal year 2014-15 year-end balance of the Rainy Day School Reserve is \$42 million.

Budget Stabilization Reserve

On April 13, 2010, the Board of Supervisors unanimously approved the Controller's proposed financial policies on reserves and the use of certain volatile revenues. The policies were approved by the Mayor on April 30, 2010, and can only be suspended for a given fiscal year by a two-thirds vote of the Board. With these policies the City created two additional types of reserves: the General Reserve, described above, and the Budget Stabilization Reserve.

The Budget Stabilization Reserve augments the existing Rainy Day Reserve and is funded through the dedication of 75% of certain volatile revenues, including Real Property Transfer Tax ("RPTT") receipts in excess of the five-year annual average (controlling for the effect of any rate increases approved by voters), funds from the sale of assets, and year-end unassigned General Fund balances beyond the amount assumed as a source in the subsequent year's budget.

Fiscal year 2014-15 RPTT receipts exceeded the five-year annual average by \$79 million and ending general fund unassigned fund balance was \$42 million, triggering a \$91 million deposit. However, this deposit requirement was fully offset by the Rainy Day Reserve deposit of \$97 million, resulting in no deposit to the Budget Stabilization Reserve and leaving an ending balance to \$132 million. The fiscal years 2015-16 and 2016-17 budgets project deposits only in fiscal year 2015-16 of \$19 million as a result of projected RPTT receipts in excess of the five-year annual average, bringing the projected ending balance in fiscal year 2016-17 to \$152 million. The Controller's Office will determine final deposits in October of each year based on actual receipts during the prior fiscal year.

The maximum combined value of the Rainy Day Reserve and the Budget Stabilization Reserve is 10% of General Fund revenues, which would be approximately \$420 million for fiscal year 2015-16. No further deposits will be made once this cap is reached, and no deposits are required in years when the City is eligible to withdraw. The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve, however, there is no provision for allocations to the SFUSD. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn; in the second year, the maximum withdrawal is 50%; and, in the third year, the entire remaining balance may be drawn.

THE SUCCESSOR AGENCY

As described below, the Successor Agency was established by the Board of Supervisors of the City following dissolution of the former San Francisco Redevelopment Agency (the "Former Agency") pursuant to the Dissolution Act. Within City government, the Successor Agency is titled "The Office of Community Investment and Infrastructure as the Successor to the San Francisco Redevelopment Agency." Set forth below is a discussion of the history of the Former Agency and the Successor Agency, the governance and operations of the Successor Agency and its powers under the Redevelopment Law and the Dissolution Act, and the limitations thereon.

The Successor Agency maintains a website as part of the City's website. The information on such websites is not incorporated herein by reference.

Authority and Personnel

The powers of the Successor Agency are vested in its governing board (the "Successor Agency Commission"), referred to within the City as the "Commission on Community Investment and Infrastructure," which has five members who are appointed by the Mayor of the City with the approval of the Board of Supervisors. Members are appointed to staggered four-year terms (provided that two members have initial two-year terms). Once appointed, members serve until replaced or reappointed.

The Successor Agency currently employs approximately 46 full-time equivalent positions. The Executive Director, Tiffany Bohee, was appointed in February 2012. The other principal full-time staff positions are the Deputy Executive Director, Community and Economic Development; the Deputy Executive Director, Finance and

Administration; the Deputy Executive Director, Housing; and the Successor Agency General Counsel. Each project area in which the Successor Agency continues to implement redevelopment plans, is managed by a Project Manager. There are separate staff support divisions with real estate and housing development specialists, architects, engineers and planners, and the Successor Agency has its own fiscal, legal, administrative and property management staffs.

Effect of the Dissolution Act

AB 26 and AB 27. The Former Agency was established under the Community Redevelopment Law in 1948. The Former Agency was established under the Redevelopment Law in 1948. As a result of AB 1X 26 and the decision of the California Supreme Court in the *California Redevelopment Association* case, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Former Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies and also to satisfy “enforceable obligations” of the former redevelopment agency all under the supervision of a new oversight board, the State Department of Finance and the State Controller.

Pursuant to Resolution No. 11-12 (the “Establishing Resolution”) adopted by the Board of Supervisors of the City on January 24, 2012 and signed by the Mayor on January 26, 2012, and Sections 34171(j) and 34173 of the Dissolution Act, the Board of Supervisors of the City confirmed the City’s role as successor to the Former Agency. On June 27, 2012, the Redevelopment Law was amended by AB 1484, which clarified that successor agencies are separate political entities and that the successor agency succeeds to the organizational status of the former redevelopment agency but without any legal authority to participate in redevelopment activities except to complete the work related to an approved enforceable obligation.

Pursuant to Ordinance No. 215-12 passed by the Board of Supervisors of the City on October 2, 2012 and signed by the Mayor on October 4, 2012, the Board of Supervisors (i) officially gave the following name to the Successor Agency: the “Successor Agency to the Redevelopment Agency of the City and County of San Francisco,” (ii) created the Successor Agency Commission as the policy body of the Successor Agency, (iii) delegated to the Successor Agency Commission the authority to act in place of the Former Agency Commission to implement the surviving redevelopment projects, the replacement housing obligations and other enforceable obligations of the Former Agency and the authority to take actions that AB 26 and AB 1484 require or allow on behalf of the Successor Agency and (iv) established the composition and terms of the members of the Successor Agency Commission.

As discussed below, many actions of the Successor Agency are subject to approval by an “oversight board” and the review or approval by the California Department of Finance, including the issuance of bonds such as the Bonds.

Oversight Board

The Oversight Board was formed pursuant to Establishing Resolution adopted by the City’s Board of Supervisors and signed by the Mayor on January 26, 2012. The Oversight Board is governed by a seven-member governing board, with four members appointed by the Mayor, and one member appointed by each of the Bay Area Rapid Transit District (“BART”), the Chancellor of the California Community Colleges, and the County Superintendent of Education.

Department of Finance Finding of Completion

The Dissolution Act established a process for determining the liquid assets that redevelopment agencies should have shifted to their successor agencies when they were dissolved, and the amount that should be available for remittance by the successor agencies to their respective county auditor-controllers for distribution to affected taxing entities within the project areas of the former redevelopment agencies. This determination process was required to be completed through the final step (review by the State Department of Finance) by November 9, 2012 with respect to affordable housing funds and by April 1, 2013 with respect to non-housing funds. Within five business days of receiving notification from the State Department of Finance, a successor agency must remit to the county auditor-controller the amount of unobligated balances determined by the State Department of Finance, or it may request a meet and confer with the State Department of Finance to resolve any disputes.

On May 23, 2013, the Successor Agency promptly remitted to the City Controller the amounts of unobligated

balances relating to affording housing funds, determined by the State Department of Finance in the amount of \$10,577,932, plus \$1,916 in interest. On May 23, 2013, the Successor Agency promptly remitted to the City Controller the amount of unobligated balances relating to all other funds determined by the State Department of Finance in the amount of \$959,147. The Successor Agency has made all payments required under AB 1484 and has received its finding of completion from the State Department of Finance on May 29, 2013.

State Controller Asset Transfer Review

The Dissolution Act requires that any assets of a former redevelopment agency transferred to a city, county or other local agency after January 1, 2011, be sent back to the successor agency. The Dissolution Act further requires that the State Controller review any such transfer. The State Controller's Office issued their Asset Transfer Review in October 2014. The review found \$746,060,330 in assets transferred to the City after January 1, 2011, including unallowable transfers to the City totaling \$666,830, or less than 1% of transferred assets. The City returned \$666,830 to OCII to comply with the State Controller's Office review.

Continuing Activities

The Former Agency was organized in 1948 by the Board of Supervisors of the City pursuant to the Redevelopment Law. The Former Agency's mission was to eliminate physical and economic blight within specific geographic areas of the City designated by the Board of Supervisors. The Former Agency had redevelopment plans for nine redevelopment project areas.

Because of the existence of enforceable obligations, the Successor Agency is authorized to continue to implement, through the issuance of tax allocation bonds, four major redevelopment projects that were previously administered by the Former Agency: (i) the Mission Bay North and South Redevelopment Project Areas, (ii) the Hunters Point Shipyard Redevelopment Project Area and Zone 1 of the Bayview Redevelopment Project Area, and (iii) the Transbay Redevelopment Project Area (collectively, the "Major Approved Development Projects"). In addition, the Successor Agency continues to manage Yerba Buena Gardens and other assets within the former Yerba Buena Center Redevelopment Project Area ("YBC"). The Successor Agency exercises land use, development and design approval authority for the Major Approved Development Projects and manages the former Redevelopment Agency assets in YBC in place of the Former Agency.

PROPERTY TAXATION

Property Taxation System – General

The City receives approximately one-third of its total General Fund operating revenues from local property taxes. Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the City. The City levies property taxes for general operating purposes as well as for the payment of voter-approved bonds. As a county under State law, the City also levies property taxes on behalf of all local agencies with overlapping jurisdiction within the boundaries of the City.

Local property taxation is the responsibility of various City officers. The Assessor computes the value of locally assessed taxable property. After the assessed roll is closed on June 30th, the City Controller issues a Certificate of Assessed Valuation in August which certifies the taxable assessed value for that fiscal year. The Controller also compiles a schedule of tax rates including the 1.0% tax authorized by Article XIII A of the State Constitution (and mandated by statute), tax surcharges needed to repay voter-approved general obligation bonds, and tax surcharges imposed by overlapping jurisdictions that have been authorized to levy taxes on property located in the City. The Board of Supervisors approves the schedule of tax rates each year by ordinance adopted no later than the last working day of September. The Treasurer and Tax Collector prepare and mail tax bills to taxpayers and collect the taxes on behalf of the City and other overlapping taxing agencies that levy taxes on taxable property located in the City. The Treasurer holds and invests City tax funds, including taxes collected for payment of general obligation bonds, and is charged with payment of principal and interest on such bonds when due. The State Board of Equalization assesses certain special classes of property, as described below. See "Taxation of State-Assessed Utility Property" below.

Assessed Valuations, Tax Rates and Tax Delinquencies

Table A-5 provides a recent history of assessed valuations of taxable property within the City. The property tax rate is composed of two components: 1) the 1.0% countywide portion, and 2) all voter-approved overrides which fund debt service for general obligation bond indebtedness. The total tax rate shown in Table A-5 includes taxes assessed on behalf of the City as well as SFUSD, SFCCD, the Bay Area Air Quality Management District ("BAAQMD"), and BART, all of which are legal entities separate from the City. See also, Table A-26: "Statement of Direct and Overlapping Debt and Long-Term Obligations" below. In addition to *ad valorem* taxes, voter-approved special assessment taxes or direct charges may also appear on a property tax bill.

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor Agency (also known as the Office of Community Investment and Infrastructure or OCII). Property tax revenues attributable to the growth in assessed value of taxable property (known as "tax increment") within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations, causing a loss of tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. The Successor Agency received \$125 million of property tax increment in fiscal year 2014-15, diverting about \$71 million that would have otherwise been apportioned to the City's discretionary general fund.

The percent collected of property tax (current year levies excluding supplemental) was 98.83% for fiscal year 2014-15. This table has been modified from the corresponding table in previous disclosures in order to make the levy and collection figures consistent with statistical reports provided to the State. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder's Office, numbered 102 for fiscal year 2014-15 compared to 187 for fiscal year 2013-14, a 45% decrease. This is a drastic decline from only three years prior (fiscal year 2010-11) when there was a high of 927 foreclosures.

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property
Fiscal Years 2010-11 through 2015-16
 (000s)

Fiscal Year	Net Assessed Valuation (NAV) ¹	% Change from Prior Year	Total Tax Rate per \$100 ²	Total Tax Levy ³	Total Tax Collected ³	% Collected June 30
2010-11	\$157,865,981	5.1%	1.164	\$1,888,048	\$1,849,460	97.96%
2011-12	158,649,888	0.5%	1.172	1,918,680	1,883,666	98.18%
2012-13	165,043,120	4.0%	1.169	1,997,645	1,970,662	98.65%
2013-14	172,489,208	4.5%	1.188	2,138,245	2,113,284	98.83%
2014-15	181,809,981	5.4%	1.174	2,139,050	2,113,968	98.83%
2015-16	194,392,572	6.9%	1.183	2,298,887	Not available	Not available

¹ Based on initial assessed valuations for fiscal year 2015-16. Net Assessed Valuation (NAV) is Total Assessed Value for Secured and Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

² Annual tax rate for unsecured property is the same rate as the previous year's secured tax rate.

³ The Total Tax Levy and Total Tax Collected through fiscal year 2014-15 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported to the State of California (available on the website of the California State Controller's Office). Total Tax Levy for fiscal year 2015-16 is based on NAV times the 1.1826% tax rate.

Note: This table has been modified from the corresponding table in previous bond disclosures to make levy and collection figures consistent with statistical reports provided to the State of California.

Source: Office of the Controller, City and County of San Francisco.

At the start of fiscal year 2015-16, the total net assessed valuation of taxable property within the City is \$194.4 billion. Of this total, \$183.2 billion (94.2%) represents secured valuations and \$11.8 billion (6.1%) represents unsecured valuations. (See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.)

Proposition 13 limits to 2% per year any increase in the assessed value of property, unless it is sold or the structure is improved. The total net assessed valuation of taxable property therefore does not generally reflect the current market value of taxable property within the City and is in the aggregate substantially less than current market value. For this same reason, the total net assessed valuation of taxable property lags behind changes in market value and may continue to increase even without an increase in aggregate market values of property.

Under Article XIII A of the State Constitution added by Proposition 13 in 1978, property sold after March 1, 1975 must be reassessed to full cash value at the time of sale. Every year, some taxpayers appeal the Assessor's determination of their property's assessed value, and some of the appeals may be retroactive and for multiple years. The State prescribes the assessment valuation methodologies and the adjudication process that counties must employ in connection with counties' property assessments.

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in appeals as the economy rebounds. Historically, during severe economic downturns, partial reductions of up to approximately 30% of the assessed valuations appealed have been granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCCD, BAAQMD, and BART share proportionately in the rest of any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year. In

addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary General Fund appeal reserve fund for fiscal years 2010-11 through 2014-15 are listed in Table A-6 below.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Refunds of Prior Years' Property Taxes
General Fund Assessment Appeals Reserve
Fiscal Years 2010-11 through 2014-15
(000s)

Fiscal Year	Amount Refunded
2010-11	\$41,730
2011-12	53,288
2012-13	36,744
2013-14	25,756
2014-15	16,304

Source: Office of the Controller, City and County of San Francisco.

As of July 1, 2015, the Assessor granted 8,523 temporary reductions in property assessed values worth a total of \$221 million (equating to a reduction of about \$2.6 million in general fund taxes), compared to 10,726 temporary reductions with a value of \$640.3 million (equating to a reduction of about \$3.6 million in discretionary general fund taxes) granted in Spring 2014. The 2015 \$221 million temporary reduction total represented 0.13% of the fiscal year 2015-16 Net Assessed Valuation of \$194.4 billion shown in Table A-5. All of the temporary reductions granted are subject to review in the following year. Property owners who are not satisfied with the valuation shown on a Notice of Assessed Value may have a right to file an appeal with the Assessment Appeals Board ("AAB") within a certain period of time. For regular, annual secured property tax assessments, the time period for property owners to file an appeal typically falls between July 2nd and September 15th.

As of June 30, 2015, the total number of open appeals before the AAB was 4,126, compared to 6,279 open AAB appeals as of June 30, 2014, including 2,694 filed since July 1, 2014, with the balance pending from prior fiscal years. The difference between the current assessed value and the taxpayers' opinion of values for the open AAB appeals is \$20.9 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all of the taxpayers' requests, this represents a negative potential property tax impact of about \$245.1 million (based upon the fiscal year 2014-15 tax rate) with an impact on the General Fund of about \$118.1 million. The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction in assessed valuation that the Assessor may ultimately grant. City revenue estimates take into account projected losses from pending and future assessment appeals.

Tax Levy and Collection

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City's boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the Bay Area Air Quality Management District and BART. The total tax levy for all taxing entities in fiscal year 2015-16 is estimated to produce about \$2.3 billion, not including supplemental, escape and special assessments that may be assessed during the year. Of this amount, the City has budgeted to receive \$991.0 million into the General Fund and \$144.9 million into special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD are estimated to receive about \$134.8 million and \$25.3 million, respectively, and the local ERAF is estimated to receive \$443.6 million (before adjusting for the State's Triple Flip sales tax and vehicle license fees ("VLF") backfill shifts). The Successor Agency will receive about \$111 million. The remaining portion is allocated to various other governmental bodies, various special funds, general obligation bond debt service funds, and other taxing entities. Taxes levied to pay debt service for general obligation bonds issued by the City, SFUSD, SFCCD and BART may only be applied for that purpose.

General Fund property tax revenues in fiscal year 2014-15 were \$1.27 billion, representing an increase of \$39.7 million (3.2%) over fiscal year 2014-15 Original Budget and \$95.3 million (8.1%) over fiscal year 2013-14 actual revenue. Property tax revenue is budgeted at \$1.29 billion in fiscal year 2015-16 representing an increase of \$18.4 million (1.4%) over fiscal year 2014-15 actual receipts and \$1.31 billion in fiscal year 2016-17 representing an annual increase of \$21.0 million (1.6%) over fiscal year 2015-16 budget. Tables A-2 and A-3 set forth a history of budgeted and actual property tax revenues for fiscal years 2011-12 through 2014-15, and budgeted receipts for fiscal years 2015-16 and fiscal year 2016-17.

The City's General Fund is allocated about 48% of total property tax revenue before adjusting for the State's Triple Flip (whereby Proposition 57 dedicated 0.25% of local sales taxes, which were subsequently backfilled by a decrease to the amount of property taxes shifted to ERAF from local governments, thereby leaving the State to fund a like amount from the State's General Fund to meet Proposition 98 funding requirements for schools) and VLF backfill shifts. The State's Triple Flip is scheduled to end in fiscal year 2015-16, eliminating sales tax in-lieu revenue from property taxes and shifting it to the local sales tax revenue line.

Generally, property taxes levied by the City on real property become a lien on that property by operation of law. A tax levied on personal property does not automatically become a lien against real property without an affirmative act of the City taxing authority. Real property tax liens have priority over all other liens against the same property regardless of the time of their creation by virtue of express provision of law.

Property subject to ad valorem taxes is entered as secured or unsecured on the assessment roll maintained by the Assessor-Recorder. The secured roll is that part of the assessment roll containing State-assessed property and property (real or personal) on which liens are sufficient, in the opinion of the Assessor-Recorder, to secure payment of the taxes owed. Other property is placed on the "unsecured roll."

The method of collecting delinquent taxes is substantially different for the two classifications of property. The City has four ways of collecting unsecured personal property taxes: 1) pursuing civil action against the taxpayer; 2) filing a certificate in the Office of the Clerk of the Court specifying certain facts, including the date of mailing a copy thereof to the affected taxpayer, in order to obtain a judgment against the taxpayer; 3) filing a certificate of delinquency for recording in the Assessor-Recorder's Office in order to obtain a lien on certain property of the taxpayer; and 4) seizing and selling personal property, improvements or possessory interests belonging or assessed to the taxpayer. The exclusive means of enforcing the payment of delinquent taxes with respect to property on the secured roll is the sale of the property securing the taxes. Proceeds of the sale are used to pay the costs of sale and the amount of delinquent taxes.

A 10% penalty is added to delinquent taxes that have been levied on property on the secured roll. In addition, property on the secured roll with respect to which taxes are delinquent is declared "tax defaulted" and subject to eventual sale by the Treasurer and Tax Collector of the City. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1.5% per month, which begins to accrue on such taxes beginning July 1 following the date on which the property becomes tax-defaulted.

In October 1993, the Board of Supervisors passed a resolution that adopted the Alternative Method of Tax Apportionment (the "Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the City Controller to allocate to the City's taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan as shown on Table A-7.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO
Teeter Plan
Tax Loss Reserve Fund Balance
Fiscal Years 2010-11 through 2014-15
(000s)

Year Ended	Amount Funded
2010-11	\$17,302
2011-12	17,980
2012-13	18,341
2013-14	19,654
2014-15	20,569

Source: Office of the Controller, City and County of San Francisco.

Assessed valuations of the aggregate ten largest assessment parcels in the City for the fiscal year beginning July 1, 2015 are shown in Table A-8. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Top 10 Parcels Total Assessed Value
July 1, 2015
(000s)

Assessee	Location	Parcel Number	Type	Total Assessed	
				Value ¹	% of Basis of Levy ²
HWA 555 Owners LLC	555 California St.	0259 026	Commercial Office	\$964,169	0.49%
PPF Paramount One Market Plaza Owner LP	1 Market St.	3713 007	Commercial Office	789,865	0.40%
Union Investment Real Estate GMBH	555 Mission St.	3721 120	Commercial Office	466,638	0.24%
Emporium Mall LLC	845 Market St.	3705 056	Commercial Retail	441,260	0.23%
SPF China Basin Holdings LLC	185 Berry St.	3803 005	Commercial Office	433,661	0.22%
SHC Embarcadero LLC	4 The Embarcadero	0233 044	Commercial Office	406,983	0.21%
Wells REIT II- 333 Market St. LLC	333 Market St.	3710 020	Commercial Office	404,977	0.21%
Post-Montgomery Associates	165 Sutter St.	0292 015	Commercial Retail	396,798	0.20%
PPF OFF One Maritime Plaza LP	300 Clay St.	0204 021	Commercial Office	376,426	0.19%
S F Hilton Inc.	1 Hilton Square	0325 031	Commercial Hotel	375,963	0.19%
				2,59%	

¹ Represents the Total Assessed Valuation (TAV) as of the Basis of Levy, which excludes assessments processed during the fiscal year. TAV includes land & improvements, personal property, and fixtures.

² The Basis of Levy is total assessed value less exemptions for which the state does not reimburse counties (e.g. those that apply to nonprofit organizations).

Source: Office of the Assessor-Recorder, City and County of San Francisco.

Taxation of State-Assessed Utility Property

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property values are allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formulae generally based on the distribution of taxes in the prior year. The fiscal year 2015-16 valuation of property assessed by the State Board of Equalization is \$2.94 billion.

OTHER CITY TAX REVENUES

In addition to the property tax, the City has several other major tax revenue sources, as described below. For a discussion of State constitutional and statutory limitations on taxes that may be imposed by the City, including a discussion of Proposition 62 and Proposition 218, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" herein.

The following section contains a brief description of other major City-imposed taxes as well as taxes that are collected by the State and shared with the City.

Business Taxes

Through tax year 2013 businesses in the City were subject to payroll expense and business registration taxes. Proposition E approved by the voters in the November 6, 2012 election changed business registration tax rates and introduced a gross receipts tax which phases in over a five-year period beginning January 1, 2014, replacing the current 1.5% tax on business payrolls over the same period. Overall, the ordinance increases the number and types of businesses in the City that pay business tax and registration fees from approximately 7,500 currently to 15,000. Current payroll tax exclusions will be converted into a gross receipts tax exclusion of the same size, terms and expiration dates.

The payroll expense tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. The 1.5% payroll tax rate in 2013 was adjusted to 1.35% in tax year 2014 and annually thereafter according to gross receipts tax collections to ensure that the phase-in of the gross receipts tax neither results in a windfall nor a loss for the City. The new gross receipts tax ordinance, like the current payroll expense tax, is imposed for the privilege of "engaging in business" in San Francisco. The gross receipts tax will apply to businesses with \$1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. Proposition E also imposes a 1.4% tax on administrative office business activities measured by a company's total payroll expense within San Francisco in lieu of the Gross Receipts Tax, and increases annual business registration fees to as much as \$35,000 for businesses with over \$200 million in gross receipts. Prior to Proposition E, business registration taxes varied from \$25 to \$500 per year per subject business based on the prior year computed payroll tax liability. Proposition E increased the business registration tax rates to between \$75 and \$35,000 annually.

Business tax revenue in fiscal year 2014-15 was \$612 million, representing an increase of \$49 million (8.6%) from fiscal year 2013-14 revenue. Business tax revenue is budgeted at \$636 million in fiscal year 2015-16 representing an increase of \$24 million (4%) over fiscal year 2014-15 revenue.

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Business Tax Revenues
Fiscal Years 2010-11 through 2015-16
All Funds
(000s)

Fiscal Year	Revenue	Change	
2010-11	\$391,779	\$37,759	10.7%
2011-12	437,677	45,898	11.7%
2012-13	480,131	42,454	9.7%
2013-14	563,406	83,276	17.3%
2014-15	611,932	48,525	8.6%
2015-16 budgeted	636,360	24,428	4.0%
2016-17 budgeted	666,260	29,900	4.7%

Includes Payroll Tax, portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and beginning in fiscal year 2013-14, Gross Receipts Tax revenues. Figures for fiscal years 2010-11 through 2014-15 are audited actuals. Figures for fiscal year 2015-16 are Original Budget amounts.

Source: Office of the Controller, City and County of San Francisco.

Transient Occupancy Tax (Hotel Tax)

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. Hotel tax revenue growth is a function of changes in occupancy, average daily room rates ("ADR") and room supply. Revenue per available room (RevPAR), the combined effect of occupancy and ADR, has increased by more than 10% annually for each of the last 5 years driving an 85% increase in hotel tax revenue between fiscal year 2010-11 and fiscal year 2014-15. Increases in RevPAR are budgeted to continue at a slower pace through fiscal year 2016-17. Fiscal year 2014-15 transient occupancy tax was \$394 million, representing an \$86 million increase from fiscal year 2013-14 revenue. Fiscal year 2015-16 is budgeted to be \$389 million, a decrease of \$10 million (3%) from fiscal year 2014-15 due to the loss of a one-time prior year payment received during fiscal year 2014-15. Fiscal year 2016-17 is budgeted to be \$411 million, an increase of \$22 million (5%) from fiscal year 2015-16 budget.

San Francisco and a number of other jurisdictions in California and the U.S. are currently involved in litigation with online travel companies regarding the companies' duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. On February 6, 2013, the Los Angeles Superior Court issued a summary judgment concluding that the online travel companies had no obligation to remit hotel tax to San Francisco. The City has received approximately \$88 million in disputed hotel taxes paid by the companies. Under State law, the City is required to accrue interest on such amounts. The portion of these remittances that will be retained or returned (including legal fees and interest) will depend on the ultimate outcome of these lawsuits. San Francisco has appealed the judgment against it. That appeal has been stayed pending the California Supreme Court's decision in a similar case between the online travel companies and the City of San Diego.

TABLE A -10

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Revenues
Fiscal Years 2010-11 through 2016-17
(000s)

Fiscal Year	Tax Rate	Revenue	Change	
2010-11	14.00%	\$215,512	\$23,430	12.2%
2011-12	14.00	242,843	27,331	12.7%
2012-13 ¹	14.00	241,871	(972)	-0.4%
2013-14	14.00	313,138	71,267	29.5%
2014-15 ¹	14.00	399,364	86,226	27.5%
2015-16 budgeted	14.00	389,114	(10,250)	-2.6%
2016-17 budgeted	14.00	408,355	19,241	4.9%

Figures for fiscal year 2010-11 through fiscal year 2014-15 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds. Figures for fiscal year 2015-16 and 2016-17 are Original Budget amounts.

¹ Amounts in fiscal year 2012-13 and FY 2014-15 are substantially adjusted due to multi-year audit and litigation resolutions.

Source: Office of the Controller, City and County of San Francisco.

Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources. Current rates are \$5.00 per \$1,000 of the sale price of the property being transferred for properties valued at \$250,000 or less; \$6.80 per \$1,000 for properties valued more than \$250,000 and less than \$999,999; \$7.50 per \$1,000 for properties valued at \$1.0 million to \$5.0 million; \$20.00 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; and \$25 per \$1,000 for properties valued at more than \$10.0 million.

Real property transfer tax ("RPTT") revenue in fiscal year 2014-15 was \$315 million, a \$53 million (20%) increase from fiscal year 2013-14 revenue. Fiscal year 2015-16 RPTT revenue is budgeted to be \$275 million, approximately \$39 million (13%) less than the revenue received in fiscal year 2014-15 primarily due to the assumption that fiscal year 2014-15 represents the peak in high value property transactions during the current economic cycle. This slowing is budgeted to continue into fiscal year 2016-17 with RPTT revenue budgeted at \$240 million, a reduction of \$35 million (13%).

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Real Property Transfer Tax Receipts
Fiscal Years 2010-11 through 2016-17
(000s)

Fiscal Year	Revenue	Change	
2010-11	\$135,184	\$51,489	61.5%
2011-12	233,591	98,407	72.8%
2012-13	232,730	(861)	-0.4%
2013-14	261,925	29,195	12.5%
2014-15	314,603	52,678	20.1%
2015-16 budgeted	275,280	(39,323)	-12.5%
2016-17 budgeted	240,000	(35,280)	-12.8%

Figures for fiscal year 2010-11 through 2014-15 are audited actuals. Figures for fiscal year 2015-16 and 2016-17 are Original Budget amounts.

Source: Office of the Controller, City and County of San Francisco.

Sales and Use Tax

The State collects the City's local sales tax on retail transactions along with State and special district sales taxes, and then remits the local sales tax collections to the City. The rate of tax is one percent; however, the State takes one-quarter of this, and replaces the lost revenue with a shift of local property taxes to the City from local school district funding. The local sales tax revenue is deposited in the City's General Fund.

Local sales tax collections in fiscal year 2014-15 were \$140 million, an increase of \$6 million (5%) from fiscal year 2013-14 sales tax revenue. Revenue growth is budgeted to continue during fiscal year 2015-16 with \$173 million budgeted, an increase of \$33 million (23%) from fiscal year 2014-15 receipts. Fiscal year 2016-17 revenue is budgeted to be \$206 million, an increase of \$5 million (3%) from fiscal year 2015-16 budget with an assumption that the strong local economy will generate increased taxable sales across nearly all categories. The growth in the fiscal year 2015-16 budget also includes \$23 million increase in sales tax due to the conclusion of the Triple Flip. As described in the Property Tax section, the Triple Flip is a funding shift beginning in fiscal year 2004-05 through December 31, 2015 under which the State withheld 0.25% of the local 1% portion of sales tax to pay debt service on the \$15 billion bonds authorized under the California Economic Recovery Bond Act (Proposition 57).

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and population. This revenue is significantly affected by changes in the economy. In recent years online retailers such as Amazon have contributed significantly to sales tax receipts. The budget assumes no changes from State laws affecting sales tax reporting for these online retailers. Sustained growth in sales tax revenue will depend on changes to state and federal law and order fulfillment strategies for online retailers.

Table A-12 reflects the City's actual sales and use tax receipts for fiscal years 2012-13 through 2014-15, and budgeted receipt for fiscal year 2015-16 and 2016-17, as well as the imputed impact of the property tax shift made in compensation for the one-quarter of the sales tax revenue taken by the State through the fiscal year 2015-16.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Revenues
Fiscal Years 2010-11 through 2016-17
(000s)

Fiscal Year	Tax Rate	City Share	Revenue	Change	
2010-11 ²	9.50%	0.75%	\$106,302	\$9,698	10.0%
2010-11 adj. ¹	9.50%	1.00%	140,924	12,639	9.9%
2011-12	8.50%	0.75%	117,071	10,769	10.1%
2011-12 adj. ¹	8.50%	1.00%	155,466	14,541	10.3%
2012-13	8.50%	0.75%	122,271	5,200	4.4%
2012-13 adj. ¹	8.50%	1.00%	162,825	7,359	4.7%
2013-14	8.75%	0.75%	133,705	11,434	9.4%
2013-14 adj. ¹	8.75%	1.00%	177,299	14,474	8.9%
2014-15	8.75%	0.75%	140,146	6,441	4.8%
2014-15 adj. ¹	8.75%	1.00%	186,891	9,592	5.4%
2015-16 <i>budgeted</i> ²	8.75%	0.75%	172,937	32,791	23.4%
2015-16 adj. ¹ <i>budgeted</i>	8.75%	1.00%	200,937	14,046	7.5%
2016-17 <i>budgeted</i> ²	8.75%	1.00%	205,733	4,796	2.8%

Figures for fiscal year 2010-11 through fiscal year 2014-15 are audited actuals. Figures for fiscal year 2015-16 and 2016-17 are Original Budget amounts.

¹Adjusted figures represent the value of the entire 1.00% local sales tax, which was reduced by 0.25% beginning in fiscal year 2004-05 through December 31, 2015 in order to repay the State's Economic Recovery Bonds as authorized under Proposition 57 in March 2004. This 0.25% reduction is backfilled by the State. Fiscal year 2015-16 budget represents only a half of this 0.25% reduction.

²In November 2012 voters approved Proposition 30, which temporarily increases the state sales tax rate by 0.25% effective January 1, 2013 through December 31, 2016. The City share did not change.

Source: Office of the Controller, City and County of San Francisco.

Utility Users Tax

The City imposes a 7.5% tax on non-residential users of gas, electricity, water, steam and telephone services. The Telephone Users Tax ("TUT") applies to charges for all telephone communications services in the City to the extent permitted by Federal and State law, including intrastate, interstate, and international telephone services, cellular telephone services, and voice over internet protocol ("VOIP"). Telephone communications services do not include Internet access, which is exempt from taxation under the Internet Tax Freedom Act.

Fiscal year 2014-15 Utility User Tax revenues were \$99 million, representing an increase of \$12 million (14%) from fiscal year 2013-14 revenue. Fiscal year 2015-16 revenue is budgeted to be \$94 million, representing expected decline of \$5 million (5%) from fiscal year 2014-15. Fiscal year 2016-17 Utility User Tax revenues are budgeted at \$95 million, a \$1 million increase from fiscal year 2015-16 budget.

Emergency Response Fee; Access Line Tax

The City imposes an Access Line Tax ("ALT") on every person who subscribes to telephone communications services in the City. The ALT replaced the Emergency Response Fee ("ERF") in 2009. It applies to each telephone line in the City and is collected from telephone communications service subscribers by the telephone service supplier. Access Line Tax revenue for fiscal year 2014-15 was \$49 million, a \$5 million (11%) increase over the previous fiscal year due to a large one-time payment related to a prior year audit finding. In fiscal year 2015-16, the Access Line Tax revenue is budgeted at \$46 million, a \$3 million (6%) decrease from fiscal year 2014-15 revenue. Fiscal year 2016-17 revenue is budgeted at \$47 million a \$1 million (2%) increase from fiscal year 2015-16 budget.

Budgeted amounts in fiscal year 2015-16 and fiscal year 2016-17 assume annual inflationary increases to the access line tax rate as required under Business and Tax Regulation Code Section 784.

Parking Tax

A 25% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code. The tax is paid by the occupants of the spaces, and then remitted monthly to the City by the operators of the parking facilities. Parking Tax revenue is positively correlated with business activity and employment, both of which are projected to increase over the next two years as reflected in increases in business and sales tax revenue projections.

Fiscal year 2014-15 Parking Tax revenue was \$87 million, \$4 million (5%) above fiscal year 2013-14 revenue. Parking tax revenue is budgeted at \$90 million in fiscal year 2015-16, an increase of \$3 million (3%) over the fiscal year 2014-15. In fiscal year 2016-17, Parking Tax revenue is budgeted at \$92 million, \$2 million (2%) over the fiscal year 2015-16 budgeted amount. Parking tax growth estimates are commensurate with expected changes to the CPI over the same period.

Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the MTA for public transit as mandated by Charter Section 16.110.

INTERGOVERNMENTAL REVENUES

State – Realignment

San Francisco receives allocations of State sales tax and Vehicle License Fee (VLF) revenue for 1991 Health and Welfare Realignment and 2011 Public Safety Realignment.

1991 Health & Welfare Realignment. In fiscal year 2015-16, the General Fund share of 1991 realignment revenue is budgeted at \$169 million, or \$7 million (4%) more than the fiscal year 2014-15 budget and \$6 million (3%). This growth is attributed to a \$5 million (4%) increase in sales tax distribution and a \$2 million (6%) increase in the VLF distribution due to the base allocation increase and projected fiscal year 2014-15 growth payments. The fiscal year 2016-17 General Fund share of revenue is budgeted at \$174 million, a net annual increase of \$5 million (3%) in sales tax and VLF distributions based on the projected growth payments.

Increases in both years are net of state allocation reductions due to implementation of the Affordable Care Act (ACA) equal to assumed savings for counties as a result of treating fewer uninsured patients. The State's fiscal year 2014-15 Budget included assumed statewide county savings of \$724 million in fiscal year and the fiscal year 2015-16 included assumed savings of \$698 as a result of ACA implementation, and redirects these savings from realignment allocations to cover CalWORKs expenditures previously paid for by the State's General Fund. Reductions to the City's allocation are assumed equal to \$16.7 million in both years, which is the same level of reduction assumed in the fiscal year 2013-14 and fiscal year 2014-15 budgets. Future budget adjustments could be necessary depending on final state determinations of ACA savings amounts, which are expected in January 2016 and January 2017 for fiscal year 2013-14 and fiscal year 2014-15, respectively.

Public Safety Realignment. Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. Based on the State's budget, this revenue is budgeted at \$36 million in fiscal year 2015-16, a \$5 million (14%) increase over the fiscal year 2014-15. This increase reflects increased State funding to support implementation of AB109. The fiscal year 2016-17 budget assumes a \$2 million (6%) increase from fiscal year 2015-16 budget. Within Public Safety Realignment, distributions to the District Attorney and Public Defender in particular are projected to increase from \$0.3 million in fiscal year 2014-15 to \$0.5 million in fiscal year 2015-16, a 60% increase in funding as the State projects an increased workload for public defenders and district attorneys due to continuing transfer of responsibility for prosecuting and defending lower-level offenders and parolees to counties.

Public Safety Sales Tax

State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. This revenue is a function of the City's proportionate share of Statewide sales activity. Revenue from this source for fiscal year 2014-15 was \$94 million, an increase of \$6 million (7%) from fiscal year 2013-14 revenues. This revenue is budgeted at \$98 million in fiscal year 2015-16 and \$103 million in fiscal year 2016-17, representing annual growth of \$4 million (4%) and \$5 million (5%) respectively. These revenues are allocated to counties by the State separately from the local one-percent sales tax discussed above, and are used to fund police and fire services. Disbursements are made to counties based on the county ratio, which is the county's percent share of total statewide sales taxes in the most recent calendar year. The county ratio for San Francisco in fiscal year 2014-15 is 3% and is expected to remain at that level in fiscal year 2015-16 and fiscal year 2016-17.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, \$476 million is budgeted in fiscal year 2014-15 from grants and subventions from State and federal governments to fund public health, social services and other programs in the General Fund. This represents a \$53 million (12%) increase from fiscal year 2013-14. The fiscal year 2015-16 budget is \$481 million, an increase of \$4 million (1%) from the fiscal year 2014-15 Original Budget.

Charges for Services

Revenue from charges for services in the General Fund in fiscal year 2014-15 was \$216 million and is projected to be largely unchanged in the fiscal year 2015-16 and 2016-17 budget at \$215 million and \$217 million, respectively.

CITY GENERAL FUND PROGRAMS AND EXPENDITURES

Unique among California cities, San Francisco as a charter city and county must provide the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including port and airport; construction and maintenance of all public buildings and facilities; water, sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for approximately 50% of all City expenditures. In addition, the Charter imposes certain baselines, mandates, and property tax set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including MTA, children's services and public education, and libraries. Budgeted baseline and mandated funding is \$910 million in fiscal year 2015-16 and \$942 million in fiscal year 2016-17.

General Fund Expenditures by Major Service Area

San Francisco is a consolidated city and county, and budgets General Fund expenditures for both city and county functions in seven major service areas described in table A-13:

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO
Expenditures by Major Service Area
Fiscal Years 2010-11 through 2015-16
(000s)

Major Service Areas	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
	Original Budget	Original Budget	Original Budget	Original Budget	Original Budget	Original Budget
Public Protection	\$947,327	\$998,237	\$1,058,689	\$1,130,932	\$1,173,977	\$1,223,981
Human Welfare & Neighborhood Development	655,026	672,834	670,375	700,254	799,355	857,055
Community Health	519,319	575,446	609,892	701,978	736,916	787,554
General Administration & Finance	169,526	199,011	197,994	244,591	293,107	286,871
Culture & Recreation	97,510	100,740	111,066	119,579	126,932	137,062
General City Responsibilities	103,128	110,725	145,560	137,025	158,180	186,068
Public Works, Transportation & Commerce	26,989	51,588	67,529	80,797	127,973	161,545
Total*	\$2,518,824	\$2,708,581	\$2,861,106	\$3,115,155	\$3,416,440	\$3,640,137

*Total may not add due to rounding.

Source: Office of the Controller, City and County of San Francisco.

Public Protection primarily includes the Police Department, the Fire Department and the Sheriff's Office. These departments are budgeted to receive \$423 million, \$233 million and \$157 million of General Fund support respectively in fiscal year 2015-16 and \$439 million, \$235 million, and \$164 million respectively in fiscal year 2016-17. Within Human Welfare & Neighborhood Development, the Department of Human Services, which includes aid assistance and aid payments and City grant programs, is budgeted to receive \$289 million of General Fund support in the fiscal year 2015-16 and \$294 million in fiscal year 2016-17.

The Public Health Department is budgeted to receive \$637 million in General Fund support for public health programs and the operation of San Francisco General Hospital and Laguna Honda Hospital in fiscal year 2015-16 and \$670 million in fiscal year 2016-17.

For budgetary purposes, enterprise funds are characterized as either self-supported funds or General Fund-supported funds. General Fund-supported funds include the Convention Facility Fund, the Cultural and Recreation Film Fund the Gas Tax Fund, the Golf Fund, the Grants Fund, the General Hospital Fund, and the Laguna Honda Hospital Fund. The MTA is classified as a self-supported fund, although it receives an annual general fund transfer equal to 80% of general fund parking tax receipts pursuant to the Charter. This transfer is budgeted to be \$72 million in fiscal year 2015-16 and \$74 million in the fiscal year 2016-17.

Baselines

The Charter requires funding for baselines and other mandated funding requirements. The chart below identifies the required and budgeted levels of appropriation funding for key baselines and mandated funding requirements. Revenue-driven baselines are based on the projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO

Baselines & Set-Asides

Fiscal Year 2015-16

(in Millions)

Baselines & Set-Asides	FY 2015-16 Required Baseline	FY 2015-16 Original Budget
Municipal Transportation Agency (MTA)	\$197.8	\$197.8
MTA Baseline - Population Adjustment	\$27.7	\$27.7
Parking and Traffic Commission	\$74.2	\$74.2
Children's Services	\$142.9	\$145.9
Transitional Aged Youth	\$17.1	\$18.7
Library Preservation	\$67.6	\$67.6
Public Education Baseline Services	\$8.6	\$8.6
Public Education Enrichment Funding		
Unified School District	\$60.3	\$60.3
First Five Commission	\$30.1	\$30.1
City Services Auditor	\$15.3	\$15.3
Human Services Homeless Care Fund	\$15.1	\$15.1
 <u>Property Tax Related Set-Asides</u>		
Municipal Symphony	\$2.4	\$2.4
Children's Fund Set-Aside	\$59.9	\$59.9
Library Preservation Set-Aside	\$46.1	\$46.1
Open Space Set-Aside	\$46.1	\$46.1
 <u>Staffing and Service-Driven</u>		
Police Minimum Staffing	Requirement likely not met	
Fire Neighborhood Firehouse Funding	Requirement met	
Treatment on Demand	Requirement met	
Total Baseline Spending	\$811.2	\$815.7

Source: Office of the Controller, City and County of San Francisco.

With respect to Police Department staffing, the Charter mandates a police staffing baseline of not less than 1,971 full-duty officers. The Charter-mandated baseline staffing level may be reduced in cases where civilian hires result in the return of a full-duty officer to active police work. The Charter also provides that the Mayor and Board of Supervisors may convert a position from a sworn officer to a civilian through the budget process. With respect to the Fire Department, the Charter mandates baseline 24-hour staffing of 42 firehouses, the Arson and Fire Investigation Unit, no fewer than four ambulances and four Rescue Captains (medical supervisors).

EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

The cost of salaries and benefits for City employees represents approximately 50% of the City's expenditures, totaling \$4.5 billion in the fiscal year 2015-16 Original Budget (all-funds), and \$4.6 billion in the fiscal year 2016-17 Original Budget. Looking only at the General Fund, the combined salary and benefits budget was \$2.1 billion in the fiscal year 2015-16 Original Budget and \$2.2 billion in the fiscal year 2016-17 Original Budget. This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-retirement health and medical benefits. Employees of SFUSD, SFCCD and the San Francisco Superior Court are not City employees.

Labor Relations

The City's budget for fiscal years 2015-16 and 2016-17 includes 29,553 and 30,017 budgeted City positions, respectively. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021 ("SEIU"); the International Federation of Professional and Technical Engineers, Local 21("IPTE"); and the unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (the Meyers-Milias-Brown Act, California Government Code Sections 3500-3511) and the Charter. Except for nurses and a few hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through final and binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final and binding unless legally challenged. Wages, hours and working conditions of nurses are not subject to interest arbitration, but are subject to Charter-mandated economic limits. Strikes by City employees are prohibited by the Charter. Since 1976, no City employees have participated in a union-authorized strike.

The City's employee selection procedures are established and maintained through a civil service system. In general, selection procedures and other merit system issues, with the exception of discipline, are not subject to arbitration. Disciplinary actions are generally subject to grievance arbitration, with the exception of police, fire and sheriff's employees.

In May 2014, the City negotiated three-year agreements (for fiscal years 2014-15 through 2016-17) with most of its labor unions. In general, the parties agreed to: (1) annual wage increase schedules of 3% (October 11, 2014), 3.25% (October 10, 2015), and between 2.25% and 3.25% depending on inflation (July 1, 2016); and (2) some structural reforms of the City's healthcare benefit and cost-sharing structures to rebalance required premiums between the two main health plans offered by the City. These changes to health contributions build reforms agreed to by most unions during earlier negotiations.

In June 2013, the City negotiated a contract extension with the Police Officers' Association ("POA"), through June 30, 2018, that includes wage increases of 1% on July 1, 2015; 2% on July 1, 2016; and 2% on July 1, 2017. In addition, the union agreed to lower entry rates of pay for new hires in entry Police Officer classifications. In May 2014, the City negotiated a contract extension with the Firefighters Association through June 30, 2018, which mirrored the terms of POA agreement.

Pursuant to Charter Section 8A.104, the MTA is responsible for negotiating contracts for the transit operators and employees in service-critical bargaining units. These contracts are subject to approval by the MTA Board. In May 2014, the MTA and the union representing the transit operators (TWU, Local 250-A) agreed to a three-year contract that runs through June 30, 2017. Provisions in the contract include 14.25% in wage increases in exchange for elimination of the 7.5% employer retirement pick-up.

Table A-15 shows the membership of each operating employee bargaining unit and the date the current labor contract expires.

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO (All Funds)
Employee Organizations as of July 1, 2015

<u>Organization</u>	<u>Budgeted Positions</u>	<u>Expiration Date of MOU</u>
Automotive Machinists, Local 1414	429	30-Jun-2017
Bricklayers, Local 3/Hod Carriers, Local 36	10	30-Jun-2017
Building Inspectors Association	95	30-Jun-2017
Carpenters, Local 22	110	30-Jun-2017
Carpet, Linoleum & Soft Tile	3	30-Jun-2017
CIR (Interns & Residents)	2	30-Jun-2017
Cement Masons, Local 580	33	30-Jun-2017
Deputy Sheriffs Association	780	30-Jun-2017
District Attorney Investigators Association	41	30-Jun-2017
Electrical Workers, Local 6	887	30-Jun-2017
Glaziers, Local 718	10	30-Jun-2017
International Alliance of Theatrical Stage Employees, Local 16	23	30-Jun-2017
Ironworkers, Local 377	14	30-Jun-2017
Laborers International Union, Local 261	1,027	30-Jun-2017
Municipal Attorneys' Association	435	30-Jun-2017
Municipal Executives Association	1,172	30-Jun-2017
MEA - Police Management	6	30-Jun-2018
MEA - Fire Management	9	30-Jun-2018
Operating Engineers, Local 3	59	30-Jun-2017
City Workers United	127	30-Jun-2017
Pile Drivers, Local 34	24	30-Jun-2017
Plumbers, Local 38	341	30-Jun-2017
Probation Officers Association	157	30-Jun-2017
Professional & Technical Engineers, Local 21	4,795	30-Jun-2017
Roofers, Local 40	11	30-Jun-2017
S.F. Institutional Police Officers Association	2	30-Jun-2017
S.F. Firefighters, Local 798	1,737	30-Jun-2018
S.F. Police Officers Association	2,502	30-Jun-2018
SEIU, Local 1021	11,643	30-Jun-2017
SEIU, Local 1021 Staff & Per Diem Nurses	1,616	30-Jun-2016
SEIU, Local 1021 H-1 Rescue Paramedics	12	30-Jun-2018
Sheet Metal Workers, Local 104	45	30-Jun-2017
Sheriff's Managers and Supervisors Association	98	30-Jun-2017
Stationary Engineers, Local 39	661	30-Jun-2017
Supervising Probation Officers, Operating Engineers, Local 3	24	30-Jun-2017
Teamsters, Local 853	162	30-Jun-2017
Teamsters, Local 856 (Multi-Unit)	107	30-Jun-2017
Teamsters, Local 856 (Supervising Nurses)	122	30-Jun-2016
TWU, Local 200 (SEAM multi-unit & claims)	341	30-Jun-2017
TWU, Local 250-A Auto Service Workers	117	30-Jun-2017
TWU, Local 250-A Transit Fare Inspectors	74	30-Jun-2017
TWU-250-A Miscellaneous	97	30-Jun-2017
TWU-250-A Transit Operators	2,216	30-Jun-2017
Union of American Physicians & Dentists	199	30-Jun-2018
Unrepresented Employees	168	30-Jun-2016
	32,543 ^[1]	

^[1] Budgeted positions do not include SFUSD, SFCCD, or Superior Court Personnel.

Source: Department of Human Resources - Employee Relations Division, City and County of San Francisco.

San Francisco City and County Employees' Retirement System ("SFERS" or "Retirement System")

History and Administration

SFERS is charged with administering a defined-benefit pension plan that covers substantially all City employees and certain other employees. The Retirement System was initially established by approval of City voters on November 2, 1920 and the State Legislature on January 12, 1921 and is currently codified in the City Charter. The Charter provisions governing the Retirement System may be revised only by a Charter amendment, which requires an affirmative public vote at a duly called election.

The Retirement System is administered by the Retirement Board consisting of seven members, three appointed by the Mayor, three elected from among the members of the Retirement System, at least two of whom must be actively employed, and a member of the Board of Supervisors appointed by the President of the Board of Supervisors.

The Retirement Board appoints an Executive Director and an Actuary to aid in the administration of the Retirement System. The Executive Director serves as chief executive officer, with responsibility extending to all divisions of the Retirement System. The Actuary's responsibilities include advising the Retirement Board on actuarial matters and monitoring of actuarial service providers. The Retirement Board retains an independent consulting actuarial firm to prepare the annual valuation reports and other analyses. The independent consulting actuarial firm is currently Cheiron, Inc., a nationally recognized firm selected by the Retirement Board pursuant to a competitive process.

In 2014, the Retirement System filed an application with the Internal Revenue Service ("IRS") for a Determination Letter. In July 2014, the IRS issued a favorable Determination Letter for SFERS. Issuance of a Determination Letter constitutes a finding by the IRS that operation of the defined benefit plan in accordance with the plan provisions and documents disclosed in the application qualifies the plan for federal tax exempt status. A tax qualified plan also provides tax advantages to the City and to members of the Retirement System. The favorable Determination Letter included IRS review of all SFERS provisions, including the provisions of Proposition C approved by the City voters in November 2011.

Membership

Retirement System members include eligible employees of the City and County of San Francisco, the SFUSD, the SFCCD, and the San Francisco Trial Courts.

The Retirement System estimates that the total active membership as of July 1, 2015 (the date of most recent valuation report) was 37,821, compared to 35,957 members a year earlier. Active membership includes 5,960 terminated vested members and 1,024 reciprocal members. Terminated vested members are former employees who have vested rights in future benefits from SFERS. Reciprocal members are individuals who have established membership in a reciprocal pension plan such as CalPERS and may be eligible to receive a reciprocal pension from the Retirement System in the future. Retirement allowances are paid to approximately 27,500 retired members and beneficiaries monthly. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Beginning July 1, 2008, the Retirement System had a Deferred Retirement Option Program ("DROP") program for Police Plan members who were eligible and elected participation. The program "sunset" on June 30, 2011. A total of 354 eligible Police Plan members elected to participate in DROP during the three-year enrollment window. As of early 2016, all but one police officer have retired and exited DROP.

Table A-16 displays total Retirement System participation (City and County of San Francisco, SFUSD, SFCCD, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates.

TABLE A-16

SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System
Fiscal Years 2010 -11 through 2014 -15

As of 1-Jul	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
2011	27,955	4,499	1,021	33,475	24,292	1.151
2012	28,097	4,543	1,015	33,655	25,190	1.115
2013	28,717	4,933	1,040	34,690	26,034	1.103
2014	29,516	5,409	1,032	35,957	26,852	1.099
2015	30,837	5,960	1,024	37,821	27,485	1.122

Sources: SFERS' Actuarial Valuation reports as of July 1, 2014, July 1, 2013, July 1, 2012, July 1, 2011 and July 1, 2010.

Notes: Member counts exclude DROP participants.
 Member counts are for the entire Retirement System and include non-City employees.

Funding Practices

Employer and employee (member) contributions are mandated by the Charter. Sponsoring employers are required to contribute 100% of the actuarially determined contribution approved by the Retirement Board. The Charter specifies that employer contributions consist of the normal cost (the present value of the benefits that SFERS expects to become payable in the future attributable to a current year's employment) plus an amortization of the unfunded liability over a period not to exceed 20 years. The Retirement Board sets the funding policy subject to the Charter requirements.

The Retirement Board adopts the economic and demographic assumptions used in the annual valuations. Demographic assumptions such as retirement, termination and disability rates are based upon periodic demographic studies performed by the consulting actuarial firm approximately every five years. Economic assumptions are reviewed each year by the Retirement Board after receiving an economic experience analysis from the consulting actuarial firm.

At the November 2015 Retirement Board meeting, the Board voted to make no changes in economic assumptions for the July 1, 2015 actuarial valuation following the recommendation of the consulting actuarial firm. Key economic assumptions are the long-term investment earnings assumption of 7.50%, the long-term wage inflation assumption of 3.75%, and the long-term consumer price index assumption of 3.25%. The Board also voted to update demographic assumptions, including mortality, after review of a new demographic assumptions study by the consulting actuarial firm.

While employee contribution rates are mandated by the Charter, sources of payment of employee contributions (i.e. City or employee) may be the subject of collective bargaining agreements with each union or bargaining unit. Since July 1, 2011, substantially all employee groups have agreed through collective bargaining for employees to contribute all employee contributions through pre-tax payroll deductions.

Prospective purchasers of the City's bonds should carefully review and assess the assumptions regarding the performance of the Retirement System. Audited financials and actuarial reports may be found on the Retirement System's website, mysfers.org, under Publications. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the City's bonds are cautioned that the information and assumptions speak only as of the respective dates contained in the underlying source documents, and are therefore subject to change.

Employer Contribution History and Annual Valuations

Fiscal year 2013-14 total City employer contributions to the Retirement System were \$499.8 million which included \$218.2 million from the General Fund. Fiscal year 2014-15 total City employer contributions were \$556.5 million which included \$243.6 million from the General Fund. For fiscal year 2015-16, total City employer contributions to the Retirement System are budgeted at \$490.2 million which includes \$226.3 million from the General Fund. These budgeted amounts are based upon the fiscal year 2015-16 employer contribution rate of 22.80% (estimated to be 19.2% after taking into account the 2011 Proposition C cost-sharing provisions). The fiscal year 2016-17 employer contribution rate is 21.4% per the July 1, 2015 actuarial valuation report. The modest decline in employer contribution rate from 22.80% to 21.40% results from the actuarial value of assets increasing more than expected offset by the change in demographic assumptions recognized at July 1, 2015. As discussed under "City Budget – Five Year Financial Plan" further reductions in retirement costs after fiscal year 2015-16 had been projected in the City's March 2015 Five Year Financial Plan. However, recent changes have led to increases in the projected employer contribution rates for the City's retirement system beginning in fiscal year 2016-17.

Table A-17 shows total Retirement System liabilities, assets, and percent funded for the last five actuarial valuations as well as contributions for the fiscal years 2010-11 through 2014-15. Information is shown for all employers in the Retirement System (City and County of San Francisco, SFUSD, SFCCD, and San Francisco Trial Courts). "Actuarial Liability" reflects the actuarial accrued liability of the Retirement System measured for purposes of determining the funding contribution. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" are the plan assets with investment returns different than expected smoothed over five years to provide a more stable contribution rate. The "Market Percent Funded" column is determined by dividing the market value of assets by the actuarial accrued liability. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the actuarial accrued liability. "Employee and Employer Contributions" reflects the total of mandated employee contributions and employer contributions received by the Retirement System in the fiscal year ended June 30th prior to the July 1st valuation date.

TABLE A-17

SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System
Fiscal Years 2010-11 through 2014-15
(000s)

As of 1-Jul	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Market Percent Funded	Actuarial Percent Funded	Employee & Employer Contribution	Employer Contribution Rates ¹⁾
2011	\$15,598,839	\$16,313,100	\$18,598,700	83.9%	87.7%	490,578	13.56%
2012	15,293,700	16,027,700	19,393,900	78.9%	82.6%	608,957	18.09%
2013	17,011,500	16,303,400	20,224,800	84.1%	80.6%	701,596	20.71%
2014	19,920,600	18,012,100	21,122,600	94.3%	85.3%	821,902	24.82%
2015	20,428,069	19,653,339	22,970,892	88.9%	85.6%	894,325	26.76%

¹⁾ Employer contribution rates for fiscal years 2015-16 and 2016-17 are 22.80% and 21.40%, respectively.

Sources: SFERS' audited financial statements and supplemental schedules June 30, 2015, 2014, 2013, 2012, and 2011.

SFERS' actuarial valuation report as of July 1, 2014, 2013, July 1, 2012, July 1, 2011, and July 1, 2010.

Note: Table A-17 reflects entire Retirement System, not just the City and County of San Francisco.

Please note in the table above, that the Market Percent Funded ratio has exceeded the Actuarial Percent Funded ratio for the last three years. The Actuarial Percent Funded ratio does not yet fully reflect all asset gains from the last five fiscal years.

The actuarial accrued liability is measured by the independent consulting actuary in accordance with Actuarial Standards of Practice. In addition, an actuarial audit is conducted every five years in accordance with Retirement Board policy.

GASB Disclosures

The Retirement System discloses accounting and financial reporting information under GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement was first implemented by the Retirement System in fiscal year 2013-14. The City discloses accounting and financial information about the Retirement System under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This accounting statement was first effective in fiscal year 2014-15. These accounting statements separated financial reporting from funding and required additional disclosures in the notes to the financial statements and required supplemental information. In general, the City's funding of its pension obligations are not affected by the GASB 68 changes to the reporting of the City's pension liability. Funding requirements are specified in the City Charter and are described in "Funding Practices" above.

Total Pension Liability reported under GASB Statements No. 67 and 68 differs from the Pension Benefit Obligation calculated for funding purposes in several ways, including the following differences. First, Total Pension Liability measured at fiscal year-end is a roll-forward of liabilities calculated at the beginning of the year and is based upon a beginning of year census. Second, Total Pension Liability is based upon a discount rate determined by a blend of the assumed investment return to the extent the fiduciary net position is available to make payments and at a municipal bond rate to the extent that the fiduciary net position is unavailable to make payments. Differences between the discount rate and assumed investment return have ranged from zero to six basis points at the last three fiscal year-ends. The third distinct difference is that Total Pension Liability includes a provision for Supplemental COLAS that may be granted in the future, while Pension Benefit Obligation for funding purposes includes only Supplemental COLAS that have been already been granted.

See Note 2(s) of the City's CAFR attached to this Official Statement as Appendix B for more information about the effects of GASB 68 and certain other new accounting standards on the City's financial statements.

Table A-17A below shows the collective Total Pension Liability, Plan Fiduciary Net Position (market value of assets), and Net Pension Liability for all employers who sponsor the Retirement System. The City's audited financial statements disclose only its own proportionate share of the Net Pension Liability and other required GASB 68 disclosures.

Table A-17A

SAN FRANCISCO CITY AND COUNTY						
Employees' Retirement System (in \$000s)						
GASB 67/68 Disclosures						
	Collective			Plan Net	Collective Net	City and County's
As of	Total Pension	Discount	Plan Fiduciary	Position	Pension	Proportionate
30-Jun	Liability (TPL)	Rate	Net Position	as % of TPL	Liability (NPL)	Share of NPL
2013	\$20,785,417	7.52%	\$17,011,545	81.8%	\$3,773,872	\$3,552,075
2014	21,691,042	7.58%	19,920,607	91.8%	1,770,435	1,660,365
2015	22,724,102	7.46%	20,428,069	89.9%	2,296,033	2,156,049
Sources:	SFERS fiscal year-end GASB 67/68 Reports as of June 30, 2014, and 2015.					
Notes:	Collective amounts include all employees (City and County, SFUSD, SFCCD, Superior Courts)					

Asset Management

The assets of the Retirement System, (the "Fund") are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. See page 71 of the CAFR, attached as Appendix B to this Official Statement, for a breakdown of the asset allocation as of June 30, 2015. Although, the Fund did not hold hedge funds as of June 30, 2015, the Board approved a 5% allocation to absolute return/hedge funds at its February 2015 meeting. This new allocation will be implemented over the next two years.

The investments, their allocation, transactions and proxy votes are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System's investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System are available upon request from the Retirement System by writing to the San Francisco Retirement System, 1145 Market Street, 5th Floor, San Francisco, California 94103, or by calling (415) 487-7020. Certain documents are available at the Retirement System website at www.mysfers.org. These documents are not incorporated herein by reference.

Recent Voter Approved Changes to the Retirement Plan

The levels of SFERS plan benefits are established under the Charter and approved directly by the voters, rather than through the collective bargaining process. Changes to retirement benefits require a voter-approved Charter amendment. As detailed below, the most recent changes to SFERS plan benefits have been intended to reduce pension costs associated with future City employees.

Voters passed Proposition D in June 2010 which enacted new SFERS retirement plans for Miscellaneous and Safety employees commencing on or after July 1, 2010. Under these new plans, average final compensation used in the benefit formula changed from highest one-year average compensation to highest two-year average compensation and the employee contribution rate increased for City safety and CalPERS members hired on or after July 1, 2010 from 7.5% of covered pay to 9.0%. Proposition D also provides that, in years when the City's required contribution to SFERS is less than the employer normal cost, the amount saved would be deposited into the Retiree Health Care Trust Fund.

Voters of San Francisco approved Proposition C in November 2011 which provided the following:

New SFERS benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raise the minimum service retirement age for Miscellaneous members from 50 to 53; limit covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculate final compensation using highest three-year average compensation; and decrease vesting allowances for Miscellaneous members by lowering the City's funding for a portion of the vesting allowance from 100% to 50%;

Employees commencing employment on or after January 7, 2012 otherwise eligible for membership in CalPERS may become members of SFERS;

Cost-sharing provisions which increase or decrease employee contributions to SFERS on and after July 1, 2012 for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. For example, Miscellaneous employees who earn between \$50,000 and \$100,000 per year pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate, while Miscellaneous employees who earn \$100,000 or more per year pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are also required from Safety employees; and

Effective July 1, 2012, no Supplemental COLA will be paid unless SFERS is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits - in any year when a Supplemental COLA is not paid, all

previously paid Supplemental COLAs will expire. A retiree organization has brought a legal action against the requirement to be fully funded in order to pay the Supplemental COLA. In that case, *Protect our Benefits (POB) v. City of San Francisco* (1st DCA Case No. A140095), the Court of Appeals held that changes to the Supplemental COLA adopted by the voters in November 2011 under Proposition C could not be applied to current City and County employees and those who retired after November 1996 when the Supplemental COLA provisions were originally adopted, but could be applied to SFERS members who retired before November 1996. This decision is now final and it is estimated that the actuarial liabilities of the Plan will increase approximately \$388 million or 1.8% for Supplemental COLAs granted retroactive to July 1, 2013 and July 1, 2014.

In August 2012, Governor Brown signed the Public Employee Pension Reform Act of 2012 (“PEPRA”). Current plan provisions of SFERS are not subject to PEPRA although future amendments may be subject to these reforms.

Recent Changes in the Economic Environment and the Impact on the Retirement System

As of June 30, 2015, the audited market value of Retirement System assets was \$20.4 billion. As of February 29, 2016, the unaudited market value was \$19.2 billion. These values represent, as of the date specified, the estimated value of the Retirement System’s portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are audited at each fiscal year end as part of the annual audit of the Retirement System’s financial statements.

The Retirement System investment portfolio is structured for long-term performance. The Retirement System continually reviews investment and asset allocation policies as part of its regular operations and continues to rely on an investment policy which is consistent with the principles of diversification and the search for long-term value. Market fluctuations are an expected investment risk for any long-term strategy. Significant market fluctuations are expected to have significant impact on the value of the Retirement System investment portfolio.

A decline in the value of SFERS Trust assets over time, without a commensurate decline in the pension liabilities, will result in an increase in the contribution rate for the City. No assurance can be provided by the City that contribution rates will not increase in the future, and that the impact of such increases will not have a material impact on City finances.

Other Employee Retirement Benefits

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members, at rates determined by the CalPERS board. Such payment from the General Fund equaled \$19.2 million in fiscal year 2012-13 and \$20.0 million in fiscal year 2013-14. For fiscal year 2014-15, the City prepaid its annual CalPERS obligation at a level of \$25.2 million. Further discussion of the City’s CalPERS plan obligations are summarized in Note 9 to the City’s CAFR, as of June 30, 2015, attached to this Official Statement as Appendix B. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under “Medical Benefits – *Post-Employment Health Care Benefits and GASB 45.*”

Medical Benefits

Administration through Health Service System; Audited System Financial Statements

Medical benefits for eligible active City employees and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the “City Beneficiaries”) are administered by the City’s Health Service System (the “Health Service System” or “HSS”) pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the Health Service System also administers medical benefits to active and retired employees of SFUSC, SFCCD, and the San Francisco

Superior Court (collectively the "System's Other Beneficiaries"). However, the City is not required to fund medical benefits for the System's Other Beneficiaries and therefore this section focuses on the funding by the City of medical and dental benefits for City Beneficiaries. The Health Service System is overseen by the City's Health Service Board (the "Health Service Board"). The seven member Health Service Board is composed of members including a seated member of the City's Board of Supervisors, appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; a member nominated by the Controller and approved by the Health Service Board, and three members of the Health Service System, active or retired, elected from among their members. The plans (the "HSS Medical Plans") for providing medical care to the City Beneficiaries and the System's Other Beneficiaries (collectively, the "HSS Beneficiaries") are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

The Health Service System oversees a trust fund (the "Health Service Trust Fund") established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the HSS Beneficiaries are funded. The Health Service System issues annually a publicly available, independently audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained on the HSS website, or by writing to the San Francisco Health Service System, 1145 Market Street, Third Floor, San Francisco, California 94103, or by calling (415) 554-1727. Audited annual financial statements for several years are also posted on the HSS website. The information available on such website is not incorporated in this Official Statement by reference.

As presently structured under the City Charter, the Health Service Trust Fund is not a fund through which assets are accumulated to finance post-employment healthcare benefits (an "OPEB trust fund"). Thus, the Health Service Trust Fund is not currently affected by Governmental Accounting Standards Board ("GASB") Statement Number 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* ("GASB 45"), which applies to OPEB trust funds.

Determination of Employer and Employee Contributions for Medical Benefits

According to the City Charter Section A8.428, the City's contribution towards HSS Medical Plans is determined by the results of a survey annually of the amount of premium contributions provided by the 10 most populous counties in California (other than the City). The survey is commonly called the 10-County Average Survey (Average) and used to determine "the average contribution made by each such County toward the providing of health care plans, exclusive of dental or optical care, for each employee of such County." Under City Charter Section A8.428, the City is required to contribute to the Health Service Trust Fund an amount equal to such "average contribution" for each City Beneficiary.

In the June 2014 collective bargaining the Average was eliminated in the calculation of premiums for Active employees represented by most unions, in exchanged for a percentage based employee premium contribution. The long term impact of the premium contribution model is anticipated to be a reduction in the relative proportion of the projected increases in the City's contributions for Healthcare, stabilization of the medical plan membership and maintenance of competition among plans. The contribution amounts are paid by the City into the Health Service Trust Fund. The Average is still used as a basis for calculating all retiree premiums. To the extent annual medical premiums exceed the contributions made by the City as required by the Charter and union agreements, such excess must be paid by HSS Beneficiaries or, if elected by the Health Service Board, from net assets also held in the Health Service Trust Fund. Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g., surviving spouses and surviving domestic partners of City retirees) ("Nonemployee City Beneficiaries") are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under "*Post-Employment Health Care Benefits and GASB 45.*"

Contributions relating to Nonemployee City Beneficiaries are also based on the negotiated methodologies found in the most of the union agreements and, when applicable, the City contribution of the "average contribution" corresponding to such Nonemployee City Beneficiaries as described in Charter Section A8.423 along with the following:

Monthly contributions from Nonemployee City Beneficiaries in amounts equal to the monthly contributions required from active employees excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining. However, such monthly contributions from Nonemployee City Beneficiaries covered under Medicare are reduced by an amount equal to the amount contributed monthly by such persons to Medicare.

In addition to the average contribution the City contributes additional amounts in respect of the Nonemployee City Beneficiaries sufficient to defray the difference in cost to the Health Service System in providing the same health coverage to Nonemployee City Beneficiaries as is provided for active employee City Beneficiaries, excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining.

After application of the calculations described above, the City contributes 50% of monthly contributions required for the first dependent.

Health Care Reform

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (Public Law 111-114), and on March 30, 2010 signed the Health Care and Education Reconciliation of 2010 (collectively, the "Health Care Reform Law"). The Health Care Reform Law is intended to extend health insurance to over 32 million uninsured Americans by 2019, and includes other significant changes with respect to the obligation to carry health insurance by individuals and the provision of health care by private and public employers, such as the City. Due to the complexity of the Health Care Reform Law it is likely that additional legislation will be considered and enacted in future years.

The Health Care Reform Law is designed to be implemented in phases from 2010 to 2018. The provisions of the Health Care Reform Law include, the expansion of Medicaid, subsidies for health insurance for certain individuals, mandates that require most Americans obtain health insurance, and incentives for employers with over 50 employees to provide health insurance for their employees or pay a fine. Many aspects of the law have yet to be clarified and will require substantial regulation or subsequent legislative action. On June 28, 2012 the U.S. Supreme Court ruled to uphold the employer mandate, the individual mandate and the state Medicaid expansion requirements.

Provisions of Health Care Reform already implemented by HSS include discontinued eligibility for non-prescription drugs reimbursement through flexible spending accounts ("FSAs") in 2011, eliminated copayments for wellness visits, eliminated life-time caps on coverage, and expanded eligibility to cover member dependent children up to age 26 in 2011, eliminated copayments for women's preventative health including contraception in 2012, W-2 reporting on total healthcare premium costs, implementation of a medical loss ratio rebate on self-insured plans, issuance of a separate summary of benefits to every member and provided to every new member and providing information on State Exchanges to both employees currently on COBRA and future COBRA recipients. As of 2014 and 2015, and beyond, healthcare FSAs are limited to \$2,500 annually.

The change to the definition of a full time employee was implemented in 2015. The City modified health benefit eligibility to employees who are employed, on average, at least 30 hours of service per week or 130 hours in a calendar month.

The Automatic Enrollment requirement in the Health Care Reform was deferred until 2016. This requires that employers automatically enroll new full-time employees in one of the employer's health benefit plans (subject to any waiting period authorized by law). Further it is required than employees be given adequate notice and the opportunity to opt out of any coverage in which they were automatically enrolled. It is uncertain when final guidance will be issued by the Department of Labor.

As a result of the federal Health Care Reform Law there are two direct fees and one tax that have been factored into the calculation of medical premium rates and premium equivalents for the 2015 plan year. The three fees are the Federal Health Insurer Tax ("HIT"), Patient Centered Outcomes Research Institute ("PCORI") fee, and the Transitional Reinsurance Fee. The total impact on the City in 2015 is \$15.06 million.

The Federal HIT tax is a fixed-dollar amount distributed across health insurance providers for fully insured plans. The 2015 plan year premiums for Kaiser Permanente and Blue Shield of California included the impact of the HIT tax. The impact on the City only in 2015 is \$11.91 million.

Beginning in 2013, the Patient Center Outcomes Research Institute ("PCORI") Fee was assessed at the rate of \$2.00 per enrollee per year was assessed per year to all participants in the Self-Insured medical-only plan (approximately 8,600). The fee is charged directly to the Health Service System. In 2014 the rate was \$2.10 and is approximately \$2.22 in 2015. The 2015 impact of PCORI is \$0.20 million, HSS pays this fee directly to the Internal Revenue Service (IRS) and the fee will increase with health care inflation until it sunsets in 2019.

The Transitional Reinsurance Fee decreases from \$63/year fee on each Health Service System beneficiary for plan year 2014. The Transitional Reinsurance Fee will be \$44.00 in 2015 and the impact on the City is \$2.95 million.

Local Elections:

Proposition B (2008) Changing Qualification for Retiree Health and Pension Benefits and Establishing a Retiree Health Care Trust Fund

On June 3, 2008, the San Francisco voters approved Proposition B, a charter amendment that changed the way the City and current and future employees share in funding SFERS pension and health benefits. With regard to health benefits, elected officials and employees hired on or before January 9, 2009, contribute up to 2% of pre-tax compensation toward their retiree health care and the City contributes up to 1%. The impact of Proposition B on standard retirements occurred in 2014.

Proposition C (2011) City Pension and Health Care Benefit

On November 8, 2011, the San Francisco voters approved Proposition C, a charter amendment that made additional changes to the way the City and current and future employees share in funding SFERS pension and health benefits. The Proposition limits the 50% coverage for dependents to employees who left the workforces (without retiring) prior to 2001. The Health Service System is in the process of programming eligibility changes to comply with Proposition C.

Employer Contributions for Health Service System Benefits

For fiscal year 2014-15, based on the most recent audited financial statements, the Health Service System received approximately \$656.4 million from participating employers for Health Service System benefit costs. Of this total, the City contributed approximately \$529.4 million; approximately \$159.3 million of this \$529.4 million amount was for health care benefits for approximately 26,454 retired City employees and their eligible dependents and approximately \$383.2 million was for benefits for approximately 63,611 active City employees and their eligible dependents.

The 2015 aggregate plan costs for the City decreased by 2.78%. This flattening of the healthcare cost curve is due to a number of factors including lower use of healthcare during recessions, aggressive contracting by HSS that maintains competition among our vendors, implementing Accountable Care Organizations (ACO's) that reduced utilization and increased use of generic prescription rates and changing our Blue Shield plan from a fully-funded to a flex-funded product. Flex-funding allows lower premiums to be set by our actuarial consultant, AON-Hewitt, without the typical margins added by Blue Shield; however, more risk is assumed by the City and reserves are required to protect against this risk. The Health Service Board also approved the use of \$8.8 million in Health Service Trust Fund assets to decrease both the employee and employer premium costs for the Blue Shield of California (Flex-Funded), The flatten trend is anticipated to continue.

Post-Employment Health Care Benefits and GASB 45

Eligibility of former City employees for retiree health care benefits is governed by the Charter. In general, employees hired before January 10, 2009 and a spouse or dependent are potentially eligible for health benefits following retirement at age 50 and completion of five years of City service. Proposition B, passed by San Francisco voters on June 3, 2008, tightened post-retirement health benefit eligibility rules for employees hired on or after January 10, 2009, and generally requires payments by the City and these employees equal to 3% of salary into a new retiree health trust fund.

Proposition A, passed by San Francisco voters on November 5, 2013 restricted the City's ability to withdraw funds from the retiree health trust fund. The restrictions allow payments from the fund only when two of the three following conditions are met:

The City's account balance in any fiscal year is fully funded. The account is fully funded when it is large enough to pay then-projected retiree health care costs as they come due; and,

The City's retiree health care costs exceed 10% of the City's total payroll costs in a fiscal year. The Controller, Mayor, Trust Board, and a majority of the Board of Supervisors must agree to allow payments from the Fund for that year. These payments can only cover retiree health care costs that exceed 10% of the City's total payroll cost. The payments are limited to no more than 10% of the City's account; or,

The Controller, Mayor, Trust Board, and two-thirds of the Board of Supervisors approve changes to these limits.

GASB 45 Reporting Requirements. The City was required to begin reporting the liability and related information for unfunded OPEBs in the City's financial statements for the fiscal year ending June 30, 2008. This reporting requirement is defined under GASB 45. GASB 45 does not require that the affected government agencies, including the City, actually fund any portion of this post-retirement health benefit liability – rather, GASB 45 requires government agencies to determine on an actuarial basis the amount of its total OPEB liability and the annual contributions estimated to fund such liability over 30 years. Any underfunding in a year is recognized as a liability on the government agency's balance sheet.

City's Estimated Liability. The City is required by GASB 45 to prepare a new actuarial study of its post-retirement benefits obligation every two years. In its February 24, 2015 report, Cheiron, Inc. estimated that the City's unfunded liability was approximately \$4.00 billion as of July 1, 2012. This estimate assumed a 4.45% return on investments and had an ARC for fiscal year 2014-15 of approximately \$350.4 million. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excesses) amortized over thirty years. The ARC was determined based on the July 1, 2012 actuarial valuation. The covered payroll (annual payroll of active employees covered by the plan) was \$2.5 billion and the ratio of the UAAL to the covered payroll was 162.0%.

The difference between the estimated ARC and the amount expended on post-retirement medical benefits in any year is the amount by which the City's overall liability for such benefits increases in that year. The City's most recent CAFR estimated that the 2014-15 annual OPEB cost was \$363.6 million, of which the City funded \$167.2 million which caused, among other factors, the City's long-term liability to increase by \$196.4 million (as shown on the City's balance sheet and below). The annual OPEB cost consists of the ARC, one year of interest on the net OPEB obligation, and recognition of one year of amortization of the net OPEB obligation. While GASB 45 does not require funding of the annual OPEB cost, any differences between the amount funded in a year and the annual OPEB cost are recorded as increases or decreases in the net OPEB obligation. See Note 9(b) to the City's CAFR, as of June 30, 2015, included as Appendix B to this Official Statement. Five-year trend information is displayed in Table A-18 (dollars in thousands):

TABLE A-18

CITY AND COUNTY OF SAN FRANCISCO
Five-year Trend
Fiscal Years 2010-11 to 2014-15
(000s)

Fiscal Year Ended	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
6/30/2011	\$392,151	37.2%	\$1,099,177
6/30/2012	405,850	38.5%	1,348,883
6/30/2013	418,539	38.3%	1,607,130
6/30/2014	353,251	47.2%	1,793,753
6/30/2015	363,643	46.0%	1,990,155

The September 2014 draft Cheiron Report estimates that the total long-term actuarial liability will reach \$5.7 billion by 2030. The calculations in the Cheiron Report are sensitive to a number of critical assumptions, including, but not limited to, the projected rate of increase in health plan costs.

Actuarial projections of the City's OPEB liability will be affected by Proposition B as well as by changes in the other factors affecting that calculation. For example, the City's actuarial analysis shows that by 2031, Proposition B's three-percent of salary funding requirement will be sufficient to cover the cost of retiree health benefits for employees hired after January 10, 2009. See "Retirement System – *Recent Voter Approved Changes to the Retirement Plan*" above. As of June 30, 2015, the fund balance in the Retiree Health Care Trust Fund established by Proposition B was \$73.0 million. Future projections of the City's GASB 45 liability will be lowered by the HSS implementation of the Employer Group Waiver Plan (EGWP) prescription benefit program for City Plan retirees. See "– Local Elections: Proposition C (2011)."

Total City Employee Benefits Costs

The City budgets to pay its ARC for pension and has established a Retiree Health Care Trust Fund into which both the City and employees are required to contribute funds as retiree health care benefits are earned. Currently, these Trust deposits are only required on behalf of employees hired after 2009, and are therefore limited, but will grow as the workforce retires and this requirement is extended to all employees in 2016. Proposition A, passed by San Francisco voters on November 5, 2013 restricted the City's ability to make withdrawals from the Retiree Health Care Trust Fund.

The balance in the Retiree Health Care Trust Fund as of June 30, 2015 is approximately \$73 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Table A-19 provides a five-year history for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. For all fiscal years shown, a "pay-as-you-go" approach was used by the City for health care benefits.

Table A-19 below provides a summary of the City's employee benefit actual and budgeted costs from fiscal years 2010-11 to fiscal year 2015-16.

TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO
Employee Benefit Costs, All Funds
Fiscal Years 2010-11 through 2015-16
(000s)

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
	Actual	Actual	Actual	Actual	Actual	Budget
SFERS and PERS Retirement Contributions	\$368,184	\$428,263	\$452,325	\$535,309	\$593,619	\$526,927
Social Security & Medicare	140,828	147,682	156,322	160,288	171,877	184,824
Health - Medical + Dental, active employees ¹	327,850	363,344	370,346	369,428	383,218	412,095
Health - Retiree Medical ¹	145,756	151,301	155,885	161,859	146,164	158,286
Other Benefits ²	23,173	21,766	16,665	16,106	18,439	24,416
Total Benefit Costs	\$1,005,791	\$1,112,355	\$1,151,543	\$1,242,990	\$1,313,318	\$1,306,548

Fiscal year 2010-11 through fiscal year 2014-15 figures are audited actuals. Fiscal year 2015-16 figures are original budget.

¹ Does not include Health Service System administrative costs. Does include flexible benefits that may be used for health insurance.

² "Other Benefits" includes unemployment insurance premiums, life insurance, and other miscellaneous employee benefits.

Source: Office of the Controller, City and County of San Francisco.

INVESTMENT OF CITY FUNDS

Investment Pool

The Treasurer of the City and County of San Francisco (the "Treasurer") is authorized by Charter Section 6.106 to invest funds available under California Government Code Title 5, Division 2, Part 1, Chapter 4. In addition to the funds of the City, the funds of various City departments and local agencies located within the boundaries of the City, including the school and community college districts, airport and public hospitals, are deposited into the City and County's Pooled Investment Fund (the "Pool"). The funds are commingled for investment purposes.

Investment Policy

The management of the Pool is governed by the Investment Policy administered by the Office of the Treasurer and Tax Collector in accordance with California Government Code Sections 27000, 53601, 53635, et. al. In order of priority, the objectives of this Investment Policy are safety, liquidity, and return on investments. Safety of principal is the foremost objective of the investment program. The investment portfolio maintains sufficient liquidity to meet all expected expenditures for at least the next six months. The Office of the Treasurer and Tax Collector also attempts to generate a market rate of return, without undue compromise of the first two objectives.

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. See "APPENDIX G – City and County of San Francisco Office of the Treasurer – Investment Policy" for a complete copy of the Treasurer's Investment Policy, dated May 2016. The Investment Policy is also posted at the Treasurer's website. The information available on such website is not incorporated herein by reference.

Investment Portfolio

As of April 30, 2016, the City's surplus investment fund consisted of the investments classified in Table A-20, and had the investment maturity distribution presented in Table A-21.

TABLE A-20

**City and County of San Francisco
Investment Portfolio
Pooled Funds
As of April 30, 2016**

<u>Type of Investment</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasuries	\$ 525,000,000	\$ 523,235,343	\$ 525,969,250
Federal Agencies	4,372,299,000	4,386,353,856	4,375,447,405
State and Local Obligations	152,925,000	155,044,748	154,868,249
Public Time Deposits	1,440,000	1,440,000	1,440,000
Negotiable Certificates of Deposit	1,175,000,000	1,175,058,537	1,176,256,557
Banker's Acceptances			
Commercial Paper	529,200,000	528,066,592	528,803,783
Medium Term Notes	722,363,000	725,633,212	723,590,509
Money Market Funds	255,310,562	255,310,562	255,310,562
Supranationals	210,000,000	209,816,119	209,917,795
Total	<u>\$ 7,943,537,562</u>	<u>\$ 7,959,958,969</u>	<u>\$ 7,951,604,111</u>

April 2016 Earned Income Yield: 0.722%

Sources: Office of the Treasurer and Tax Collector, City and County of San Francisco
From Citibank-Custodial Safekeeping, SunGard Systems-Inventory Control Program.

TABLE A-21

**City and County of San Francisco
Investment Maturity Distribution
Pooled Funds
As of April 30, 2016**

<u>Maturity in Months</u>	<u>Par Value</u>	<u>Percentage</u>
0 to 1	\$496,337,562	6.25%
1 to 2	1,022,901,000	12.88%
2 to 3	890,601,000	11.21%
3 to 4	170,064,000	2.14%
4 to 5	469,730,000	5.91%
5 to 6	430,950,000	5.43%
6 to 12	1,749,819,000	22.03%
12 to 24	1,605,795,000	20.22%
24 to 36	865,185,000	10.89%
36 to 48	44,005,000	0.55%
48 to 60	198,150,000	2.49%
	<u>\$7,943,537,562</u>	<u>100.00%</u>

Weighted Average Maturity: 354 Days

Sources: Office of the Treasurer and Tax Collector, City and County of San Francisco
From Citibank-Custodial Safekeeping, SunGard Systems-Inventory Control Program.

Further Information

A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board of Supervisors monthly. The monthly reports and annual reports are available on the Treasurer's web page: www.sftreasurer.org. The monthly reports and annual reports are not incorporated by reference herein.

Additional information on the City's investments, investment policies, and risk exposure as of June 30, 2014 are described in Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2015," Notes 2(d) and 5.

CAPITAL FINANCING AND BONDS

Capital Plan

In October 2005, the Board of Supervisors adopted, and the Mayor approved, Ordinance No. 216-05, which established a new capital planning process for the City. The legislation requires that the City develop and adopt a ten-year capital expenditure plan for City-owned facilities and infrastructure. It also created the Capital Planning Committee ("CPC") and the Capital Planning Program ("CPP"). The CPC, composed of other City finance and capital project officials, makes recommendations to the Mayor and Board of Supervisors on all of the City's capital expenditures. To help inform CPC recommendations, the CPP staff, under the direction of the City Administrator, review and prioritize funding needs; project and coordinate funding sources and uses; and provide policy analysis and reports on interagency capital planning.

The City Administrator, in conjunction with the CPC, is directed to develop and submit a ten-year capital plan every other fiscal year for approval by the Board of Supervisors. The Capital Plan is a fiscally constrained long-term finance strategy that prioritizes projects based on a set of funding principles. It provides an assessment of the City's infrastructure needs over ten years, highlights investments required to meet these needs and recommends a plan of finance to fund these investments. Although the Capital Plan provides cost estimates and proposes methods to finance such costs, the document does not reflect any commitment by the Board of Supervisors to expend such amounts or to adopt any specific financing method. The Capital Plan is required to be updated and adopted biennially, along with the City's Five Year Financial Plan and the Five-Year Information & Communication Technology Plan. The CPC is also charged with reviewing the annual capital budget submission and all long-term financing proposals, and providing recommendations to the Board of Supervisors relating to the compliance of any such proposal or submission with the adopted Capital Plan.

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year. The fiscal year 2016-2025 Capital Plan was approved by the CPC on March 2, 2015 and was adopted by the Board of Supervisors in April 2015. The Capital Plan contains \$32 billion in capital investments over the coming decade for all City departments, including \$5.1 billion in projects for General Fund-supported departments. The Capital Plan proposes \$1.66 billion for General Fund pay-as-you-go capital projects over the next ten years. The amount for General Fund pay-as-you-go capital projects is assumed to grow to over \$200 million per year by fiscal year 2025-26. Major capital projects for General Fund-supported departments included in the Capital Plan consist of upgrades to public health, police, fire and park facilities; street and right-of-way improvements; the removal of barriers to accessibility; park improvements; the replacement of the Hall of Justice; and seismic upgrades to the Veteran's Memorial Building, among other capital projects. Approximately \$1.8 billion of the capital projects of General Fund supported departments are expected to be financed with general obligation bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, the General Fund, and other sources.

In addition to the City General Fund-supported capital spending, the Capital Plan recommends \$18.2 billion in enterprise fund department projects to continue major transit, economic development and public utility projects such as the Central Subway project, runway and terminal upgrades at San Francisco International Airport, Pier 70 infrastructure investments, and the Sewer System Improvement Program, among others. Approximately \$12.2 billion of enterprise fund department capital projects is financed with voter-approved revenue bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, user/operator fees, General Fund and other sources.

While significant investments are proposed in the City's adopted Capital Plan, identified resources remain below those necessary to maintain and enhance the City's physical infrastructure. As a result, over \$8.5 billion in capital needs are deferred from the plan's horizon. Over two-thirds of these unfunded needs are for the City's transportation and waterfront infrastructure, where core maintenance investments have lagged for decades. Mayor Edwin Lee has convened a taskforce to recommend funding mechanisms to bridge a portion of the gaps in the City's transportation needs, but it is likely that significant funding gaps will remain even assuming the identification of significant new funding sources for these needs.

Failure to make the capital improvements and repairs recommended in the Capital Plan may have the following impacts: (i) failing to meet federal, State or local legal mandates; (ii) failing to provide for the imminent life, health, safety and security of occupants and the public; (iii) failing to prevent the loss of use of the asset; (iv) impairing the value of the City's assets; (v) increasing future repair and replacement costs; and (vi) harming the local economy.

Tax-Supported Debt Service

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds") can only be authorized with a two-thirds approval of the voters. As of April 30, 2016, the City had approximately \$2.20 billion aggregate principal amount of general obligation bonds outstanding.

Table A-22 shows the annual amount of debt service payable on the City's outstanding general obligation bonds.

TABLE A-22

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds Debt Service
As of April 30, 2016 ^{1 2}

Fiscal Year	Principal	Interest	Annual Debt Service
2016	\$191,928,046	\$47,467,295	\$239,395,341
2017	120,004,110	89,905,140	209,909,250
2018	117,298,225	83,985,938	201,284,163
2019	117,395,545	78,352,968	195,748,513
2020	116,436,232	72,597,781	189,034,013
2021	114,695,457	66,934,256	181,629,713
2022	120,393,401	61,651,993	182,045,394
2023	123,760,251	56,034,675	179,794,926
2024	126,041,206	50,073,800	176,115,006
2025	126,551,476	43,974,850	170,526,326
2026	121,461,279	38,014,639	159,475,918
2027	126,345,840	32,594,604	158,940,444
2028	130,924,035	26,973,090	157,897,125
2029	131,011,751	21,541,949	152,553,700
2030	126,895,095	16,093,123	142,988,218
2031	88,566,950	10,780,908	99,347,858
2032	91,600,000	7,439,281	99,039,281
2033	56,745,000	4,048,069	60,793,069
2034	31,990,000	1,917,069	33,907,069
2035	22,940,000	778,475	23,718,475
TOTAL ³	\$2,202,983,899	\$811,159,903	\$3,014,143,802

¹ This table does not reflect any debt other than City direct tax-supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

² Totals reflect rounding to nearest dollar.

³ Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all real and personal assessment district indebtedness or any redevelopment agency indebtedness.

Source: Office of Public Finance, City and County of San Francisco.

General Obligation Bonds

Certain general obligation bonds authorized by the City's voters as discussed below have not yet been issued. Such bonds may be issued at any time by action of the Board of Supervisors, without further approval by the voters.

In November 1992, voters approved Proposition A, which authorized the issuance of up to \$350.0 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program (the "Loan Program"). The purpose of the Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued \$35.0 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed all outstanding bonds remaining from such issuance. In February 2007, the Board of Supervisors approved the issuance of additional indebtedness under this authorization in an amount not to exceed \$35.0 million. Such issuance would be achieved pursuant to the terms of a Credit Agreement with Bank of America, N.A. (the "Credit Bank"), under which the Credit Bank agreed to fund one or more loans to the City from time to time as evidenced by the City's issuance to the Credit Bank of the Taxable General Obligation Bond (Seismic Safety Loan Program), Series 2007A. The funding by the Credit Bank of the loans at the City's request and the terms of repayment of such loans are governed by the terms of the Credit Agreement. Loan funds received by the City from the Credit Bank are in turn used to finance loans to Seismic Safety Loan Program borrowers. In March 2007, the City initiated an initial borrowing of \$2.0 million, and in October 2007, the City borrowed approximately \$3.8 million from the Credit Bank. In January 2008, the City borrowed approximately \$3.9 million and in November 2008, the City borrowed \$1.3 million from the Credit Bank. Further borrowings under the Credit Agreement with the Credit Bank (up to the \$35.0 million not-to-exceed amount) are expected as additional loans to Seismic Safety Loan Program borrowers are approved.

In February 2008, voters approved Proposition A, which authorized the issuance of up to \$185.0 million in general obligation bonds for the construction, reconstruction, purchase, and/or improvement of park and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition A in the amount of approximately \$42.5 million in August 2008. The City issued the second series in the amount of approximately \$60.4 million in March 2010 and the third series in the amount of approximately \$73.4 million in March 2012.

In June 2010, voters approved Proposition B, which authorized the issuance of up to \$412.3 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement and retrofitting of neighborhood fire and police stations, the auxiliary water supply system, a public safety building, and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds under Proposition B in the amount of \$79.5 million in December 2010 and the second series of bonds in the amount of \$183.3 million in March 2012. The City issued the third series in the amount of approximately \$38.3 million in August 2012 and the fourth series of bonds in the amount of \$31.0 million in June 2013, and the fifth series in the amount of \$54.9 million was issued in October 2014.

In November 2011, voters approved Proposition B, which authorized the issuance of up to \$248.0 million in general obligation bonds to provide funds to repair and repave City streets and remove potholes; strengthen and seismically upgrade street structures; redesign street corridors by adding or improving pedestrian signals, lighting, sidewalk extensions, bicycle lanes, trees and landscaping; construct and renovate curb ramps and sidewalks to increase accessibility and safety for everyone, including persons with disabilities; and add and upgrade traffic signals to improve MUNI service and traffic flow. The City issued the first series of bonds under Proposition B in the amount of approximately \$74.3 million in March 2012 and the second series of bonds in the amount of \$129.6 million in June 2013.

In November 2012, voters approved Proposition B, which authorized the issuance of up to \$195.0 million in general obligation bonds to provide funds for the construction, reconstruction, renovation, demolition, environmental remediation and/or improvement of park, open space, and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition B in the amount of approximately \$71.9 million in June 2013.

In June 2014, voters approved Proposition A, which authorized the issuance of up to \$400.0 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement and retrofitting of neighborhood fire and police stations, emergency firefighting water system, medical examiner facility, traffic

company & forensic services division and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds in the amount of \$100.6 million in October 2014.

In November 2014, voters approved Proposition A, which authorized the issuance of up to \$500 million in general obligation bonds to provide funds to finance the construction, acquisition and improvement of certain transportation and transit related improvements and other related costs. The City issued the first series of bonds under Proposition A in the amount of approximately \$67 million in June 2015.

In November 2015, voters approved Proposition A which authorized the issuance of up to \$310 million in general obligation bonds to provide funds to finance the construction, development, acquisition, and preservation of housing affordable to low- and middle-income households and to assist in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; to repair and reconstruct dilapidated public housing; to fund a middle-income rental program; and to provide for homeownership down payment assistance opportunities for educators and middle-income households.

Refunding General Obligation Bonds

The Board of Supervisors adopted Resolution No. 272-04 on May 11, 2004 (the "2004 Resolution"). The Mayor approved the 2004 Resolution on May 13, 2004. The 2004 Resolution authorized the issuance of not to exceed \$800.0 million aggregate principal amount of its General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding all or a portion of the City's then outstanding General Obligation Bonds. On November 1, 2011, the Board of Supervisors adopted, and the Mayor approved, Resolution No. 448-11 (the "2011 Resolution," and together with the 2004 Resolution, the "Refunding Resolutions"). The 2011 Resolution authorized the issuance of not to exceed \$1.356 billion aggregate principal amount of the City's General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding certain outstanding General Obligation Bonds of the City. The City has issued eight series of refunding bonds under the Refunding Resolutions, as shown on Table A-23.

TABLE A-23

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Refunding Bonds
As of April 30, 2016

Series Name	Date Issued	Principal Amount Issued	
		(000s)	Amount Outstanding
2008-R1	May 2008	\$232,075,000	\$22,015,000
2008-R2	July 2008	39,320,000	16,275,000
2008-R3	July 2008	118,130,000	-
2011-R1	November 2011	339,475,000	250,470,000 ¹
2015-R1	February 2015	293,910,000	292,765,000 ²

¹ Series 2004-R1 Bonds were refunded by the 2011-R1 Bonds in November 2011

² Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015.
 Series 2008-R3 Bonds were partially refunded.

Table A-24 below lists for each of the City's voter-authorized general obligation bond programs the amount originally authorized, the amount issued and outstanding, and the amount of remaining authorization for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of April 30, 2016, the City had authorized and unissued general obligation bond authority of approximately \$1.27 billion.

TABLE A-24

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds
As of April 30, 2016

<u>Description of Issue (Date of Authorization)</u>	<u>Series</u>	<u>Issued</u>	<u>Outstanding</u> ¹	<u>Authorized & Unissued</u>
Seismic Safety Loan Program (11/3/92)	2007A	\$30,315,450	\$24,008,899	
	2015A	24,000,000	24,000,000	260,684,550
Clean & Safe Neighborhood Parks (2/5/08)	2010B	24,785,000	9,790,000	
	2010D	35,645,000	35,645,000	
	2012B	73,355,000	55,660,000	
	2016A	8,695,000	8,695,000	
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	20,620,000	
	2010A	120,890,000	47,755,000	
	2010C	173,805,000	173,805,000	
	2012D	251,100,000	177,755,000	
	2014A	209,955,000	182,680,000	
Earthquake Safety and Emergency Response Bond (6/8/10)	2010E	79,520,000	47,565,000	
	2012A	183,330,000	139,695,000	
	2012E	38,265,000	34,140,000	
	2013B	31,020,000	19,770,000	
	2014C	54,950,000	51,320,000	
	2016C	25,215,000	25,215,000	
Road Repaving & Street Safety (11/8/11)	2012C	74,295,000	56,980,000	
	2013C	129,560,000	82,525,000	
	2016E	44,145,000	44,145,000	
Clean & Safe Neighborhood Parks (11/6/12)	2013A	71,970,000	45,855,000	
	2016B	43,220,000	43,220,000	79,810,000
Earthquake Safety and Emergency Response Bond (6/3/14)	2014D	100,670,000	94,015,000	
	2016D	109,595,000	109,595,000	189,735,000
Transportation and Road Improvement (11/4/15)	2015B	67,005,000	67,005,000	432,995,000
Affordable Housing Bond (11/4/15)		-	-	310,000,000
SUB TOTALS		\$2,136,955,450	\$1,621,458,899	\$1,273,224,550
General Obligation Refunding Bonds:				
Series 2008-R1 issued 5/29/08		232,075,000	22,015,000	
Series 2008-R2 issued 5/29/08		39,320,000	16,275,000	
Series 2011-R1 issued 11/9/12		339,475,000	250,470,000	
Series 2015-R1 issued 2/25/15		293,910,000	292,765,000	
SUB TOTALS		904,780,000	581,525,000	
TOTALS		\$3,041,735,450	\$2,202,983,899	\$1,273,224,550

¹ Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all taxable real and personal property, located within the City and County.

Source: Office of Public Finance, City and County of San Francisco.

Lease Payments and Other Long-Term Obligations

The Charter requires that any lease-financing agreements with a nonprofit corporation or another public agency must be approved by a majority vote of the City's electorate, except (i) leases approved prior to April 1, 1977, (ii) refunding lease financing expected to result in net savings, and (iii) certain lease financing for capital equipment. The Charter does not require voter approval of lease financing agreements with for-profit corporations or entities.

Table A-25 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of April 30, 2016. Note that the annual payment obligations reflected in Table A-25 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

TABLE A-25

CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Bonds and Certificates of Participation
As of April 30, 2016

Fiscal Year	Principal	Interest	Annual Payment Obligation
2016	\$2,940,000	\$2,855,340	\$5,795,340
2017	61,495,000	50,140,653	111,635,653
2018	61,255,000	47,335,103	108,590,103
2019	53,330,000	44,582,310	97,912,310
2020	38,675,000	42,484,001	81,159,001
2021	46,890,000	40,723,633	87,613,633
2022	46,775,000	38,668,724	85,443,724
2023	48,825,000	36,616,420	85,441,420
2024	50,465,000	34,368,584	84,833,584
2025	50,195,000	32,100,496	82,295,496
2026	50,050,000	29,815,709	79,865,709
2027	52,405,000	27,455,266	79,860,266
2028	53,065,000	24,990,749	78,055,749
2029	55,515,000	22,457,202	77,972,202
2030	55,260,000	19,825,501	75,085,501
2031	46,795,000	17,220,931	64,015,931
2032	36,240,000	14,853,981	51,093,981
2033	35,455,000	13,113,843	48,568,843
2034	37,060,000	11,353,856	48,413,856
2035	24,895,000	9,741,125	34,636,125
2036	23,315,000	8,515,394	31,830,394
2037	21,505,000	7,364,158	28,869,158
2038	22,400,000	6,281,175	28,681,175
2039	23,325,000	5,152,823	28,477,823
2040	24,305,000	3,973,519	28,278,519
2041	25,310,000	2,744,513	28,054,513
2042	18,140,000	1,629,071	19,769,071
2043	8,815,000	958,600	9,773,600
2044	7,195,000	587,000	7,782,000
2045	7,480,000	299,203	7,779,203
TOTAL ¹	1,089,375,000	\$598,208,883 ²	\$1,687,583,883

¹ Totals reflect rounding to nearest dollar.

² For purposes of this table, the interest rate on the Lease Revenue Bonds Series 2008-1, and 2008-2 (Moscone Center Expansion Project) is assumed to be 3.25%. These bonds are in variable rate mode.

Source: Office of Public Finance, City and County of San Francisco.

The City electorate has approved several lease revenue bond propositions, some of which have authorized but unissued bonds. The following lease programs have remaining authorization:

In 1987, voters approved Proposition B, which authorizes the City to lease finance (without limitation as to maximum aggregate par amount) the construction of new parking facilities, including garages and surface lots, in eight of the City's neighborhoods. In July 2000, the City issued \$8.2 million in lease revenue bonds to finance the construction of the North Beach Parking Garage, which was opened in February 2002. There is no current plan to issue any more bonds under Proposition B.

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of April 30, 2016 the total authorized amount for such financings was \$64.5 million. The total principal amount outstanding as of April 30, 2016 was \$6.50 million.

In 1994, voters approved Proposition B, which authorized the issuance of up to \$60.0 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued \$22.6 million and \$23.3 million of Proposition B lease revenue bonds, respectively, leaving \$14.0 million in remaining authorization. There is no current plan to issue additional series of bonds under Proposition B.

In June 1997, voters approved Proposition D, which authorized the issuance of up to \$100.0 million in lease revenue bonds for the construction of a new football stadium at Candlestick Park, the previous home of the San Francisco 49ers football team. If issued, the \$100.0 million of lease revenue bonds would be the City's contribution toward the total cost of the stadium project and the 49ers would be responsible for paying the remaining cost of the stadium construction project. There is no current plan to issue the Proposition D bonds.

On March 7, 2000, voters approved Proposition C, which extended a two and one half cent per \$100.0 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the "Open Space Fund"). Proposition C also authorizes the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. The City issued approximately \$27.0 million and \$42.4 million of such Open Space Fund lease revenue bonds in October 2006 and October 2007, respectively.

In November 2007, voters approved Proposition D, which amended the Charter and renewed the Library Preservation Fund. Proposition D continues the two and one half cent per \$100.0 in assessed valuation property tax set-aside and establishes a minimum level of City appropriations, moneys that are maintained in the Library Preservation Fund. Proposition D also authorizes the issuance of revenue bonds or other evidences of indebtedness. The City issued the first series of lease revenue bonds in the amount of approximately \$34.3 million in March 2009.

Commercial Paper Program

The Board authorized on March 17, 2009 and the Mayor approved on March 24, 2009 the establishment of a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "CP Program"). Commercial Paper Notes (the "CP Notes") are issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles in anticipation of long-term or other take-out financing to be issued when market conditions are favorable. Projects are eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project. In June 2010, the City obtained letters of credit securing the CP Notes issued by J.P. Morgan Chase Bank, N.A. with a maximum principal amount of \$50 million and by U.S. Bank, N.A. with a maximum principal amount of \$50 million. The letters of credit expire June 2016, and replacement credit facilities are scheduled for approval by the Board in May 2016.

The Board authorized on July 16, 2013 and the Mayor approved on July 25, 2013 an additional \$100.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 3 and 3-T and Series 4 and 4-T that

increases the total authorization of the CP Program to \$250.0 million. The Series 3 and 3-T and 4 and 4-T are secured by a letter of credit issued by State Street Bank and Trust Company expiring February 2019.

As of April 30, 2016, the outstanding principal amount of CP Notes is \$106.5 million. The weighted average interest rate for CP Notes is approximately 0.18%.

Board Authorized and Unissued Long-Term Obligations

The Board of Supervisors authorized on October 26, 2010 and the Mayor approved on November 5, 2010 the issuance of not to exceed \$38 million in City and County of San Francisco certificates of participation to partially finance the rebuilding of severely distressed public housing sites, while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (the HOPE SF Project). The City anticipates issuing the certificates in the Summer of 2016.

The Board of Supervisors authorized on February 12, 2013 and the Mayor approved on February 15, 2013 the issuance of not to exceed \$507.9 million of City and County of San Francisco Certificates of Participation (Moscone Expansion Project) payable from Moscone Expansion District assessments to finance the costs of additions and improvements to the George R. Moscone Convention Center. The City anticipates issuing the certificates in 2017.

The Board of Supervisors authorized October 8, 2013 and the Mayor approved October 11, 2013 the issuance of not to exceed \$13.5 million of City and County of San Francisco Certificates of Participation (Treasure Island Improvement Project) to finance the cost of additions and improvements to the utility infrastructure at Treasure Island.

Overlapping Debt

Table A-26 shows bonded debt and long-term obligations as of April 30, 2016 sold in the public capital markets by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

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TABLE A-26

CITY AND COUNTY OF SAN FRANCISCO
Statement of Direct and Overlapping Debt and Long-Term Obligations

<u>2015-2016 Assessed Valuation</u> (net of non-reimbursable & homeowner exemptions):		\$194,392,571,976
		Outstanding
		4/30/2016
<u>DIRECT GENERAL OBLIGATION BOND DEBT</u>		\$2,202,983,899
General City Purposes Carried on the Tax Roll		<u>\$2,202,983,899</u>
GROSS DIRECT DEBT		\$2,202,983,899
<u>DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS</u>		
San Francisco COPs, Series 2001A (30 Van Ness Ave. Property)		\$25,870,000
San Francisco Finance Corporation, Equipment LRBs Series 2010A, 2011A, 2012A, and 2013A		6,500,000
San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1		11,950,000
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2		99,620,000
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007		49,940,000
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A		28,045,000
San Francisco COPs, Series 2007A (City Office Buildings - Multiple Properties)		2,350,000
San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital)		131,710,000
San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project)		32,250,000
San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt		26,480,000
San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs		129,550,000
San Francisco Refunding Certificates of Participation, Series 2010A		110,000,000
San Francisco COPs, Refunding Series 2011AB (Moscone)		54,455,000
San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project)		38,135,000
San Francisco COPs, Series 2013A Moscone Center Improvement		15,120,000
San Francisco COPs, Series 2013BC Port Facilities		33,335,000
San Francisco COPs, Series 2014-R1 (Courthouse Project), 2014-R2 (Juvenile Hall Project)		40,185,000
San Francisco COPs, Series 2015AB War Memorial Veterans Building Seismic Upgrade and Improvements		130,280,000
San Francisco Refunding COPs, Series 2015-R1 (City Office Buildings-Multiple Properties Project)		<u>123,600,000</u>
LONG-TERM OBLIGATIONS		\$1,089,375,000
GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS		\$3,292,358,899
<u>OVERLAPPING DEBT & LONG-TERM OBLIGATIONS</u>		
Bayshore Hester Assessment District		\$590,000
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds		82,106,667
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B		103,985,300
San Francisco Community College District General Obligation Bonds - Election of 2001, 2005		265,750,000
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 2011		37,470,000
San Francisco Redevelopment Agency Obligations (Property Tax Increment)		793,249,000
San Francisco Redevelopment Agency Obligations (Special Tax Bonds)		155,426,015
Association of Bay Area Governments Obligations (Special Tax Bonds)		18,745,000
San Francisco Unified School District General Obligation Bonds, Series Election of 2003, 2006, and 2011		<u>982,100,000</u>
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS		\$2,439,421,982
GROSS COMBINED TOTAL OBLIGATIONS		\$5,731,780,881
<u>Ratios to Assessed Valuation:</u>	Actual Ratio	Charter Req.
Gross Direct Debt (General Obligation Bonds)	1.13%	< 3.00%
Gross Direct Debt & Long-Term Obligations	1.69%	n/a
Gross Combined Total Obligations	2.95%	n/a

¹ Excludes revenue and mortgage revenue bonds and non-bonded third party financing lease obligations. Also excludes tax allocation bonds sold in August, 2009.

² Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all taxable real and personal property, located within the City and County.

Source: Office of Public Finance, City and County of San Francisco.

On November 4, 2003, voters approved Proposition A. Proposition A of 2003 authorized the SFUSD to issue up to \$295.0 million of general obligation bonds to repair and rehabilitate school facilities, and various other improvements. The SFUSD issued \$58.0 million of such authorization in October 2004, \$130.0 million in October 2005, and \$92.0 million in October 2006, leaving \$15.0 million authorized but unissued. In March 2012, the SFUSD issued \$116.1 million in refunding general obligation bonds that refunded \$137.4 million in general obligation bonds authorized under Proposition A of 2003.

On November 2, 2004, voters approved Proposition AA. Proposition AA authorized the San Francisco BART to issue general obligation bonds in one or more series over time in an aggregate principal amount not to exceed \$980.0 million to strengthen tunnels, bridges, overhead tracks and the underwater Transbay Tube for BART facilities in Alameda and Contra Costa counties and the City. Of the \$980.0 million, the portion payable from the levy of *ad valorem* taxes on property within the City is approximately 29.0% or \$282.0 million. Of such authorization, BART issued \$100.0 million in May 2005 and \$400.0 million in July 2007, of which the allocable City portion is approximately \$29.0 million and \$116.0 million, respectively.

On November 7, 2006, voters approved Proposition A. Proposition A of 2006 authorized the SFUSD to issue an aggregate principal amount not to exceed \$450.0 million of general obligation bonds to modernize and repair up to 64 additional school facilities and various other improvements. The SFUSD issued the first series in the aggregate principal amount of \$100 million under the Proposition A authorization in February 2007. The SFUSD issued the second series in the aggregate principal amount of \$150.0 million under the Proposition A authorization in January 2009. The SFUSD issued the third series in the aggregate principal amount of \$185.0 million under the Proposition A authorization in May 2010.

On November 8, 2011, voters approved Proposition A. Proposition A of 2011 authorized the SFUSD to issue an aggregate principal amount not to exceed \$531.0 million of general obligation bonds to repair and rehabilitate school facilities to current accessibility, health, safety, and instructional standards, and where applicable, replace worn-out plumbing, electrical and other major building systems, replace aging heating, ventilation and air handling systems, renovate outdated classrooms and training facilities, construct facilities to replace aging modular classrooms. The SFUSD issued the first series in the aggregate principal amount of \$115.0 million under the Proposition A of 2011 authorization in March 2012.

MAJOR ECONOMIC DEVELOPMENT PROJECTS

Numerous development and construction projects are in progress throughout the City at any given time. This section describes several of the most significant privately owned and managed real estate developments currently under way in the City in which there is City participation, generally in the form of a public/private partnership. The information in this section has been prepared by the City based on City-approved plans as well as unofficial plans and representations of the developer in each case, and includes forward-looking statements. These forward-looking statements consist of expressions of opinion, estimates, predictions, projections, plans and the like; such forward-looking statements in this section are those of the developers and not of the City. The City makes no prediction, representation or assurance that the plans and projects described will actually be accomplished, or the time frame in which the developments will be completed, or as to the financial impact on City real estate taxes, developer fees, other tax and fee income, employment, retail or real estate activity, or other consequences that might be expected or projected to result from the successful completion of each development project. Completion of development in each case may depend on the local economy, the real estate market, the financial health of the developer and others involved in the project, specific features of each development and its attractiveness to buyers, tenants and others, as well as the financial health of such buyers, tenants, and others. Completion and success of each development will also likely depend on other factors unknown to the City.

Hunters Point Shipyard (Phase 1 and 2) and Candlestick Point

The Hunters Point Shipyard Phase 1 and 2 and Candlestick Point project area will deliver approximately 12,100 new homes, approximately 32 percent of which will be below market rate and will include the rebuilding of the Alice Griffith public housing development consistent with the City's HOPE SF program, up to 3 million square feet of research and development space, and more than 350 acres of new parks in the southeast portion of San Francisco (the "Project"). In total, the Project will generate over \$6 billion of new economic activity to the City, more than 12,000 permanent jobs, hundreds of new construction jobs each year, new community facilities, new transit

infrastructure, and provide approximately \$90 million in community benefits. The Project's full build out will occur over 20 to 30 years. In the next five years over 1,000 units of housing and 26 acres of parks will be completed in the first phase of the Shipyard.

The first phase of development has begun at the Hunters Point Shipyard site with over 300 units currently under construction, and an additional 150 units will begin construction in 2015-2016. In late 2014 construction of horizontal infrastructure began for the first 184 affordable units in the Candlestick Point area. Also, in 2015, the design process will begin for a 635,000 square foot mixed-use retail center, 150,000 square foot hotel at the former Candlestick Stadium site and an additional 1200 residential units, including 230 stand-alone affordable units and up to 100 inclusionary units. Two hillside open space areas at the base of Bayview Hill will be improved and a new wedge park plaza will also be constructed, adding a total of 7.5 acres of open space adjacent to the new retail and residential development.

Treasure Island

Former Naval Station Treasure Island is located in the San Francisco Bay and connected to the City by the San Francisco-Oakland Bay Bridge. The former base, which ceased operations in 1997, consists of approximately 405 acres on Treasure Island and 90 acres on adjoining Yerba Buena Island. Development plans for the islands include up to 8,000 new homes, 25% of which will be offered at below-market rates; up to 500 hotel rooms; a 400 slip marina; restaurants; retail and entertainment venues; and a world-class 300-acre parks and open space system. The compact mixed-use transit-oriented development is centered around a new ferry terminal connecting the island to downtown San Francisco and is designed to prioritize walking, biking and public transit. The development plans include green building standards and best practices in low-impact development.

The first major land transfer from the Navy to the Treasure Island Development Authority ("TIDA") will occur in early 2015 and will include the northern half of Yerba Buena Island and more than half of the area of Treasure Island. The developer, Treasure Island Community Development ("TICD"), is performing the preliminary engineering and pursuing the permits required to begin construction before the end of 2015. The first phase of development will include extensive horizontal infrastructure improvements (utilities, roadway improvements, site preparation, etc.) as well as the initial vertical developments. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

Mission Bay Blocks 29-32—Warriors Multipurpose Recreation and Entertainment Venue

The Golden State Warriors, a National Basketball Association (NBA) team, is proposing to develop a multipurpose recreation and entertainment venue and associated development the former Salesforce site in Mission Bay. The site is bordered by Third Street to the West, Terry Francois Boulevard to the East, 16th Street to the South and South Street to the North. The Warriors propose constructing a state-of-the-art multi-purpose recreation and entertainment venue for Warriors' home games, concerts and family shows. The site will also have two live performance theatres, restaurants retail, office space, bike valet, public plazas and a limited amount of parking. The project will trigger the Mission Bay master developer's construction of a new 3.5 acre Bay Front Park between the new arena and the Bay. Environmental review is currently underway with the goal of opening in time for the 2018-2019 basketball season.

Transbay

The Transbay Project Redevelopment Project Area was adopted in 2005 with the purpose of redeveloping 10 acres of property owned by the State in order to generate funding for the new Transbay Transit Center. In 2012 the Transit Center District Plan, the guiding document for the area surrounding the Transit Center, was approved by the Planning Commission and by the Board of Supervisors. The Transit Center District Plan includes additional funding sources for the Transbay Transit Center. The Transbay Transit Center Project will replace the outdated Transbay Terminal at First and Mission Streets with a modern transit hub and extend the Caltrain commuter rail line underground 1.3 miles into the Financial District. The Transbay Transit Center broke ground on August 11, 2010, and is scheduled to open by the end of 2017. Demolition of existing structures on the site was completed in August 2011.

The area surrounding the Transbay Transit Center is being redeveloped with plans for 4,500 new homes, 1,200 to be affordable below-market rate homes, 6 million square feet of new office space, over 11 acres of new parks and open

space, and a new retail boulevard on Folsom Street. Much of this new development will occur on the publicly-owned parcels within the district. Recently completed in the neighborhood is Rene Cazenave Apartments which is 120 units of permanent affordable housing for formerly homeless individuals. There are over 470 units currently under construction on Folsom and Beale Streets, with three new construction projects along Folsom Street totaling over 1,800 units expected to break ground within the next two years. There is also over 2 million square feet of commercial space currently under construction, with several new projects expected to break ground in the coming years.

The Pelli Clarke Pelli Architects-designed Transit Center will serve more than 100,000 people per day through nine transportation systems, including future California High Speed Rail, which will be designed to connect San Francisco to Los Angeles in less than 2-1/2 hours. The Center is designed to embrace the goals of green architecture and sustainability. The heart of the Transbay Transit Center, "City Park," a 5.4-acre public park that will sit atop the facility, and there will be a living green roof for the transit facility. The Center will have a LEED rating of Silver. The project is estimated to create more than 48,000 jobs in its first phase of construction, which will last seven years. The \$4.5 billion Transbay Transit Center Project is funded by various public and private funding partners, including the federal government, the State, the Metropolitan Transportation Commission, the San Francisco County and San Mateo County Transportation Authorities, and AC Transit, among others.

Mission Bay

The development plans for Mission Bay include a new University of California-San Francisco ("UCSF") research campus containing 3.15 million square feet of building space on 46 acres of land, of which 43 acres were donated by the Mission Bay Master Developer and the City; UCSF's 550-bed hospital; 3.4 million square feet of biotech, 'cleantech' and health care office space; 6,400 housing units, with 1,850 (29%) affordable to moderate-, low-, and very low-income households; 425,000 square feet of retail space; a 250-room hotel with up to 25,000 square feet of retail entertainment uses; 49 acres of public open space, including parks along Mission Creek and San Francisco Bay and eight acres of open space within the UCSF campus; a new 500-student public school; and a new fire and police station and police headquarters. Mission Bay is approximately 50% complete.

Over 4,067 units have been completed with an additional 900 units under construction, along with several new parks. Another 550 housing units, a 250-room hotel and several new commercial buildings will break ground in 2015. As discussed above, the design development process has also begun for that Golden State Warriors project.

Seawall Lot (SWL) 337 and Pier 48 (Mission Rock)

Mission Rock is a proposed mixed-use development at Seawall Lot 337 and Pier 48, Port-owned property comprising approximately 25 acres. The Port, OEWD in its capacity as lead negotiator, and Mission Rock's competitively-selected master developer, Seawall Lot 337 Associates, LLC, have agreed on a development concept and corresponding financial terms for Mission Rock, which are reflected in a non-binding Term Sheet that the Port Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following environmental review.

The proposed development plan for Mission Rock set forth in the term sheet includes: approximately 8 acres of public parks and open spaces, including a 5-acre regional waterfront park; 650 to 1,500 new housing units, 15 percent of which will be affordable to low-income households; 1.3 to 1.7 million square feet of commercial space; 150,000 to 250,000 square feet of retail space, approximately 3,000 parking spaces within mixed-use buildings and a dedicated parking structure, which will serve San Francisco Giants baseball team patrons as well as Mission Rock occupants and visitors; and the rehabilitation and reuse of historic Pier 48 as a new brewery/distillery for Anchor Steam Brewing Company.

In the wake of the passage of Proposition B on the June 2013 ballot, the developer, Port and OEWD staff have continued to engage relevant agencies and stakeholders to further refine the project plan. The environmental review process was initiated in January 2014 and is expected to last until early to mid-2016. That process will be accompanied by negotiation of transaction agreements and approval of any needed height limit and zoning changes which will likely determine the final approval schedule (currently expected on or after early 2017).

Pier 70

Plans for Pier 70 call for substantial development, including major parks and historic building rehabilitation, on this 69-acre site to achieve a number of goals, including preservation and adaptive reuse of historic structures; retention of the ship repair operations; provision of new open space; reactivation and economic development on the site; and needed infrastructure and site remediation. The Port, which controls Pier 70, and OEWD, in its capacity as lead negotiator, have initiated preliminary negotiations with Forest City, the developer selected to build a new mixed-use neighborhood on a 25-acre portion of Pier 70 known as the Waterfront Site. The parties have agreed on a development concept and corresponding financial terms for the Waterfront Site, which are reflected in a non-binding Term Sheet that the Port Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following community and environmental review. In November 2014, Proposition F was approved by the voters, authorizing an increase of height limits on Pier 70 from 40 feet to 90 feet.

Current development plans for the Pier 70 Waterfront Site call for 7 acres of parks and up to 3.25 million square feet of above-grade construction (not including parking) which may include up to 1.7 million square feet of office space; up to 400,000 square feet of retail, small-scale production, arts space intended to establish the new district as destination with unique character; and between 935 and 1825 housing units, with as many as 30% percent of them made available to low- and middle- income households. This built area includes three historic industrial buildings that will be rehabilitated as part of the Waterfront Site development.

Cruise Terminal

On September 25, 2014 the Port opened the new James R. Herman cruise ship terminal at Pier 27. Formerly the base for the America's Cup races in the summer of 2013, the Cruise Terminal includes 91,000 square feet in a two-story building with views to the Bay Bridge and back to the City skyline and Telegraph Hill. Sized for 2,600 passengers and able to handle ships with up to 4,000 passengers, the Cruise Terminal is designed for the evolving trends in the passenger cruise industry. It includes the latest passenger and perimeter security features while also transitioning to an event center for the City on non-cruise days. The site also includes a 2.5 acre Cruise Terminal Plaza along the Embarcadero, creating a new open space amenity and strengthening connection between the Bay and the base of Telegraph Hill.

The James R. Herman Cruise Terminal has been designed to meet modern ship and operational requirements of the cruise industry and expects to receive a LEED Silver designation for its environmental design.

The Cruise Terminal contributes to San Francisco's economy by attracting 40-80 cruise calls a year, bringing visitors and tax revenue to the City's General Fund. It is estimated that the cruise industry in San Francisco supports \$31.2 million annually in economic activity and generates 300 jobs within San Francisco. The facility will continue to be used for maritime events, such as Fleet Week, foreign naval diplomatic calls, Tall Ship festivals and visits by oceanic research vessels. When there are no cruise calls, the cruise terminal will provide approximately 60,000 square feet of designated space for shared uses, including meetings and special events.

San Francisco Public Works, along with the Port were responsible for construction management of the new cruise terminal. Contractor for the construction project was Turner Construction and Designers/Architects were KMD Kaplan McLaughlin Diaz, Pfau Long Architecture, JV Bermello Ajamil & Partners and cruise terminal design consultants.

Moscone Convention Center

The Moscone Center Expansion Project will add approximately 300,000 square feet and repurpose an additional 120,000 square feet to the portion of the existing Moscone Center located on Howard Street between 3rd and 4th Streets in the Yerba Buena Gardens neighborhood of San Francisco. Nearly 140,000 square feet of this additional space would be created by excavating and expanding the existing below-grade exhibition halls that connect the Moscone North and South buildings under Howard Street, with the remaining consisting of new and repurposed lobby area, new multi-purpose/meeting room area, and new and repurposed building support area.

In addition to adding new rentable square footage, the project architects propose an iconic sense of arrival that enhances Moscone's civic presence on Howard Street and reconnects it to the surrounding neighborhood through the creation of reintroduced lost mid-block passageways. As such, the project proposes a new mid-block pedestrian

entrance from Third St and a replacement pedestrian bridge connecting Yerba Buena Gardens with the cultural facilities and children's playground to the south. An additional enclosed pedestrian bridge would provide enhanced circulation for Moscone convention attendees and reduce on-street congestion.

A May 2012 analysis by Jones Lang Lasalle Hotels estimated that the City would lose up to \$2 billion in foregone revenue over the next decade if Moscone was not expanded. The project allows the City to recover approximately \$734 million of this future revenue and create 3,480 local jobs through a phased construction schedule that keeps Moscone in continuous revenue generating operation.

The proposed project is a joint partnership between the City and the hotel industry, acting through the Tourist Improvement District Management Corporation, with the City paying approximately one-third of all expansion costs and the hotel community paying approximately two-thirds. The Board of Supervisors unanimously approved the creation of the Moscone Expansion District and the issuance of \$507 million in Certificates of Participation on February 5, 2013 and the Planning Commission unanimously approved the project on August 15, 2014. Project development began in December 2012, with major construction starting in November 2014. The project is expected to reach completion by the end of 2018.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limit the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. However, *ad valorem* property taxes required to be levied to pay debt service on general obligation bonds was authorized and approved in accordance with all applicable constitutional limitations. A summary of the currently effective limitations is set forth below.

Article XIII A of the California Constitution

Article XIII A of the California Constitution, known as "Proposition 13," was approved by the California voters in June of 1978. It limits the amount of *ad valorem* tax on real property to 1% of "full cash value," as determined by the county assessor. 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 has occurred" (as such terms are used in Article XIII A) after the 1975 assessment. Furthermore, all real property valuation may be increased or decreased to reflect the inflation rate, as shown by the CPI or comparable data, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on 1) indebtedness approved by the voters prior to July 1, 1978, 2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or 3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district voting on the proposition, but only if certain accountability measures are included in the proposition.

The California Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher or lower than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate persons with disabilities and

for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII B of the California Constitution

Article XIII B was enacted by California voters as an initiative constitutional amendment in November 1979. Article XIII B limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population, and services rendered by the governmental entity. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the next two years.

Articles XIII C and XIII D of the California Constitution

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes for voter-approved debt. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes require a two-thirds vote. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval have been either reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Pursuant to Article XIII C, the voters of the City could, by initiative, repeal, reduce or limit any existing or future local tax, assessment, fee or charge, subject to certain limitations imposed by the courts and additional limitations with respect to taxes levied to repay bonds. The City raises a substantial portion of its revenues from various local taxes which are not levied to repay bonded indebtedness and which could be reduced by initiative under Article XIII C. No assurance can be given that the voters of the City will disapprove initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges. See "OTHER CITY TAX REVENUES" herein, for a discussion of other City taxes that could be affected by Proposition 218.

With respect to the City's general obligation bonds (City bonds secured by *ad valorem* property taxes), the State Constitution and the laws of the State impose a duty on the Board of Supervisors to levy a property tax sufficient to pay debt service coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the City's general obligation bonds or to otherwise interfere with performance of the duty of the City with respect to such taxes which are pledged as security for payment of those bonds.

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIII D) for local services and programs. The City has created a number of special assessment districts both for neighborhood business improvement purposes and community benefit purposes, and has caused limited obligation bonds to be issued in 1996 to finance construction of a new public right of way. The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

Statutory Limitations

On November 4, 1986, California voters adopted Proposition 62, an initiative statute that, among other things, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the local

governmental entity's legislative body and by a majority vote of the voters, and (ii) that any new or increased special purpose tax be approved by a two-thirds vote of the voters.

In *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara* decision"), the California Supreme Court upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a "special tax" as required by Proposition 62. The *Santa Clara* decision did not address the question of whether it should be applied retroactively. In *McBrearty v. City of Brawley*, 59 Cal. App. 4th 1441 (1997), the Court of Appeal, Fourth District, concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

The *Santa Clara* decision also did not decide, and the California Supreme Court has not otherwise decided, whether Proposition 62 applies to charter cities. The City is a charter city. Cases decided by the California Courts of Appeal have held that the voter approval requirements of Proposition 62 do not apply to certain taxes imposed by charter cities. See *Fielder v. City of Los Angeles*, 14 Cal. App. 4th 137 (1993) and *Fisher v. County of Alameda*, 20 Cal. App. 4th 120 (1993).

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since it is a statute, it is subordinate to the authority of charter cities to impose taxes derived from the State Constitution. Proposition 218 (discussed above); however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution.

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure under Proposition 62 may not be significant. The effective date of Proposition 62 was November 1986. Proposition 62 contains provisions that apply to taxes imposed on or after August 1, 1985. Since August 1, 1985, the City has collected taxes on businesses, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rentals. See "OTHER CITY TAX REVENUES" herein. Only the hotel and stadium admissions taxes have been increased since that date. The increases in these taxes were ratified by the voters on November 3, 1998 pursuant to the requirements of Proposition 218. With the exception of the vehicle rental tax, the City continues to collect all of the taxes listed above. Since these remaining taxes were adopted prior to August 1, 1985, and have not been increased, these taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city.

Proposition 1A

Proposition 1A, a constitutional amendment proposed by the State Legislature 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. As set forth under the laws in effect as of November 3, 2004, Proposition 1A generally prohibits the State from shifting any share of property tax revenues allocated to local governments for any fiscal year to schools or community colleges. 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 Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, 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 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.

Proposition 1A also provides that if the State reduces the annual vehicle license fee rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in

decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing aid to cities and spending on other State programs, or other actions, some of which could be adverse to the City.

Proposition 22

Proposition 22 ("Proposition 22") which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase a school and community college district's share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. Proposition 22 prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies (but see "San Francisco Redevelopment Agency Dissolution" above). While Proposition 22 will not change overall State and local government costs or revenues by the express terms thereof, it will cause the State to adopt alternative actions to address its fiscal and policy objectives.

Due to the prohibition with respect to the State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However, borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

Proposition 26

On November 2, 2010, the voters approved Proposition 26 ("Proposition 26"), revising certain provisions of Articles XIII A and XIII C of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes, requires local governments to obtain two-thirds voter approval for taxes levied by local governments, and requires the State to obtain the approval of two-thirds of both houses of the State Legislature to approve State laws that increase taxes. Furthermore, pursuant to Proposition 26, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require a two-thirds vote. In addition, for State-imposed charges, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a "tax" means a levy, charge or exaction of any kind imposed by a local government, except (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, including late payment fees, fees imposed under administrative citation ordinances, parking violations, etc.; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218. Fees, charges and payments that are made pursuant to a voluntary contract that are not "imposed by a local government" are not considered taxes and are not covered by Proposition 26.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of property owners.

Future Initiatives and Changes in Law

The laws and Constitutional provisions described above were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

On April 25, 2013, the California Supreme Court in *McWilliams v. City of Long Beach* (April 25, 2013, No. S202037), held that the claims provisions of the Government Claims Act (Government Code Section 900 *et. seq.*) govern local tax and fee refund actions (absent another State statute governing the issue), and that local ordinances were without effect. The effect of the *McWilliams* case is that local governments could face class actions over disputes involving taxes and fees. Such cases could expose local governments to significant refund claims in the future. The City cannot predict whether any such class claims will be filed against it in the future, the outcome of any such claim or its impact on the City.

LITIGATION AND RISK MANAGEMENT

Pending Litigation

There are a number of lawsuits and claims routinely pending against the City, including those summarized in Note 16 to the City's CAFR as of June 30, 2015, attached as Appendix B to this Official Statement. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not impair the ability of the City to make debt service payments or otherwise meet its General Fund lease or debt obligations, nor materially impair the City's ability to fund current operations.

Risk Retention Program

Citywide risk management is coordinated by the Office of Risk Management Division within the City's General Services Agency, which is under the supervision of the City Administrator. With certain exceptions, it is the general policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed but rather to first evaluate self-insurance for such risks. The City's policy in this regard is based on its analysis 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 covenants and for other limited purposes. The City actuarially determines liability and workers' compensation risk exposures as permitted under State law. The City does not maintain commercial earthquake coverage, with certain minor exceptions.

The City's property risk management approach varies depending on various factors including whether the facility is currently under construction or if the property is owned by a self-supporting enterprise fund department. For new construction projects, the City has utilized traditional insurance, owner-controlled insurance programs or contractor-controlled insurance programs. Under the latter two approaches, the insurance program provides coverage for the entire construction project. When a traditional insurance program is used, the City requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory levels to limit the City's risk exposure. The majority of the City's commercial insurance coverage is purchased for enterprise fund departments and other similar revenue-generating departments (the Airport, MTA, the SF Public Utilities

Commission, the Port and Convention Facilities, etc.). The remainder of the commercial insurance coverage is for General Fund departments that are required to provide coverage for bond-financed facilities; coverage for collections at City-owned museums and to meet statutory requirements for bonding of various public officials; and other limited purposes where required by contract or other agreement.

Through coordination with the City Controller and the City Attorney's Office, the City's general liability risk exposure is actuarially determined and is addressed through appropriations in the City's budget and also reflected in the CAFR. The appropriations are sized based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The City actuarially estimates future workers' compensation costs to the City according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the department's payroll. The administration of workers' compensation claims and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. The Workers' Compensation Division determines and allocates workers' compensation costs to departments based upon actual payments and costs associated with a department's injured workers' claims. Statewide workers' compensation reforms have resulted in City budgetary savings in recent years. The City continues to develop and implement programs to lower or mitigate workers' compensation costs. These programs focus on accident prevention, transitional return to work for injured workers, improved efficiencies in claims handling and maximum utilization of medical cost containment strategies.

The City's estimated liability and workers' compensation risk exposures are summarized in Note 16 to the City's CAFR, attached to this Official Statement as Appendix B.



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER


Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Director of Public Finance 

SUBJECT: City and County of San Francisco Taxable General Obligation Bonds, (Affordable Housing), Series 2016F

DATE: July 22, 2016

I respectfully request that the Board of Supervisors consider for review and adoption the resolution authorizing the sale and issuance of general obligation bonds financing the Affordable Housing program.

In connection with this request, legislation approving the issuance and sale of the bonds, a supplemental appropriation ordinance to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, July 26, 2016, and we respectfully request that the items be heard at the scheduled September 7, 2016 meeting of the Budget and Finance Committee.

Background:

On November 3, 2015, a two-thirds majority of voters of the City approved Proposition A, the San Francisco Affordable Housing General Obligation Bond. Proposition A authorizes the City and County of San Francisco to issue \$310,000,000 in General Obligation Bonds to fund capital projects to prioritize affordable housing projects for vulnerable populations including working families, veterans, seniors, and disabled persons (the "2015 Proposition A"). The projects to be funded through the proposed bond sale include: the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; the repair and reconstruction of dilapidated public housing; funding of a middle-income rental program; and the provision of homeownership down payment assistance opportunities for educators and middle-income households (the "Project").

The proposed resolutions authorize the issuance of not-to-exceed \$310,000,000 aggregate principal amount of City and County of San Francisco General Obligation Bonds, as well as the sale of not-to-exceed \$77,000,000 of City and County of San Francisco General Obligation Bonds (Affordable

Housing Bonds, 2015), Series 2016F (the "Bonds"). The Bonds will be the first series of bonds to be issued under the 2015 Proposition A.

Proceeds from the Bonds will partially finance the following:

- Public Housing Projects – Bond funding would accelerate the reconstruction and rehabilitation of distressed public housing facilities, including infrastructure replacement, as well as the creation of net new units within reconstruction programs.
- Low-Income Housing Projects - The proceeds will allow the Mayor's Office of Housing and Community Development to fund the acquisition and rehabilitation of existing rent-controlled buildings to protect against the loss of affordable units, as well as purchase properties for the development of new affordable housing, and accelerate the production of new affordable housing, in particular through the Mission Area Plan program.
- Middle-Income Housing - The bond proceeds will increase the cap on Down Payment Assistance loans and the range of eligible households, expand the Teacher Next Door program to provide housing assistance to San Francisco schoolteachers, and allow for the development or preservation of middle-income rental opportunities.

The remaining authorization under the 2015 Proposition A will be issued subject to review by the Capital Planning Committee, the consideration and adoption by the Board of Supervisors, and approval by the Mayor of subsequent authorizing resolutions.

Financing Parameters:

The proposed resolution authorizes the sale of not-to-exceed par amount of \$77,000,000. Based on current project cost estimates and schedules, the Office of Public Finance expects to issue \$76,025,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected issuance amount allows for fluctuations in market conditions from the date of authorization by the Board to the time of the sale of the Bonds.

The Bonds are anticipated to contribute approximately \$74,500,000 to affordable housing projects. Table 1 outlines anticipated sources and uses for the Bonds.

Table 1: Anticipated Sources and Uses for the Bonds.

Sources	
Par Amount	\$76,025,000
Reserve Proceeds	\$975,000
Total Not-To-Exceed Amount	\$77,000,000
Uses	
<u>Projects</u>	
Affordable Housing Project Funds	74,500,000
Controller's Audit Fund	149,000
Projects Subtotal	74,649,000
<u>Other Costs of Issuance</u>	
Costs of Issuance	539,725
Underwriter's Discount	760,250
Citizens' General Obligation Bond Oversight Committee	76,025
Costs of Issuance Subtotal	1,376,000
Total Uses	\$76,025,000
Reserve Pending Bond Sale ¹	975,000
Total Uses with Reserve	\$77,000,000

Based upon a conservative estimate of 4.03% interest rate, OPF estimates that average fiscal year debt service on the Bonds is approximately \$6,000,000. The anticipated total par value of \$76,025,000 is estimated to result in approximately \$34,325,000 in interest payments over the life of the Bonds. The total principal and interest payment over the approximate 20-year life of the Bonds is approximately \$110,350,000. Based on market conditions expected to exist at the time of the sale, the Bonds may be structured with a 30-year life. The City intends to sell the Bonds through a competitive sale process, but in the case of a dramatic change in market conditions, reserves the option to seek a negotiated sale with underwriter(s) selected competitively.

In addition, a portion of the Bonds will pay certain expenses incurred in connection with their issuance and delivery and the periodic oversight and review of the Project by the Citizens' General Obligation Bond Oversight Committee ("CGOBOC"). Detailed descriptions of the Project financed with proceeds of the Bonds are included in the Bond Report prepared by the Mayor's Office of Housing and Community Development.

Debt Limit:

The City Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3.00% of the assessed value of property in the City. For purposes of this provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's gross general obligation debt limit for fiscal year 2015-16 is approximately \$5.83 billion, based on a net assessed

¹ The Reserve Pending Sale accounts for variations in interest rates prior to the sale of the proposed Bonds.

valuation of approximately \$194.4 billion. As of June 30, 2016, the City had outstanding approximately \$2.01 billion in aggregate principal amount of general obligation bonds, which equals approximately 1.13% of the net assessed valuation for fiscal year 2015-16. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by 0.04% to 1.17%— within the 3.00% legal debt limit. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.96% of the net assessed value of property in the City.

Property Tax Impact

For Series 2016F, repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which, according to the Controller's Office, would be \$0.00289 per \$100 or \$2.89 per \$100,000 of assessed valuation over the anticipated 20-year term of the bonds based on current valuations. The owner of a residence with an assessed value of \$600,000, assuming a homeowner's exemption of \$7,000, would pay average annual additional Property Taxes to the City of \$17.15 per year if the anticipated \$76,025,000 Bonds are sold.

Capital Plan:

The Capital Planning Committee approved a financial constraint regarding the City's planned use of general obligation bonds such that debt service on approved and issued general obligation bonds would not increase property owners' long-term property tax rates above fiscal year 2006 levels. The fiscal year 2006 property tax rate for the general obligation bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the Bonds, the property tax rate for general obligation bonds for fiscal year 2016-17 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

Additional Information:

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, July 26, 2016. The related financing documents—including the Notice of Intention to Sell, Official Notice of Sale, Official Statement, Appendix A and Continuing Disclosure Certificate and related documents—will also be submitted.

Official Notice of Sale: The Official Notice of Sale for the Bonds announces the date and time of the competitive bond sale, including the terms relating to the Bonds; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents. Pending market conditions, the Bonds may be bid separately by series or bids may be received for all of the Bonds.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Bonds. Pursuant to the Resolutions, the Controller is authorized to award the Bonds to the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

Notice of Intention to Sell: The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the 2016F Bonds. Such Notice of Intention to Sell will be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

Official Statement: The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of the Bonds. The Official Statement describes the Bonds, including sources and uses of funds; security for the Bonds; risk factors; and tax and other legal matters, among other information. The Official Statement also includes the City's Appendix A, the most recent Comprehensive Annual Financial Report of the City, the City's Investment Policy, and other forms of legal documents for the benefit of investors, holders and owners of the Bonds.

A *Preliminary Official Statement* is distributed to prospective bidders prior to the sale of the Bonds and within seven days of the public offering, the *Final Official Statement* (adding certain sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) is distributed to the initial purchasers of the Bonds.

The Board of Supervisors and the Mayor, in adopting and approving the Resolutions, approve and authorize the use and distribution of the Official Statement with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller certifies, on behalf of the City, that the Preliminary and Final Official Statements are final as of their dates.

Appendix A: The City prepares the Appendix A: "City and County of San Francisco—Organization and Finances" (the "Appendix A") for inclusion in the Official Statement. The Appendix A describes the City's government and organization, the budget, property taxation, other City tax revenues and other revenue sources, general fund programs and expenditures, employment costs and post-retirement obligations, investment of City funds, capital financing and bonds, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the Resolution, City staff will revise the Official Statement, including the Appendix A.

Continuing Disclosure Certificate: The City covenants to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made in order to assist initial purchasers of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Purchase Contract: The City intends to pursue a competitive sale of the Bonds; however, if it is determined by the Controller that a negotiated sale would be in the best financial interests of the City, the Purchase Contract details the terms and conditions for the sale of the Bonds through selected underwriter(s).

Financing Timeline:

The Bonds are expected to be issued and delivered in October 2016. Schedule milestones in connection with the financing may be summarized as follows:

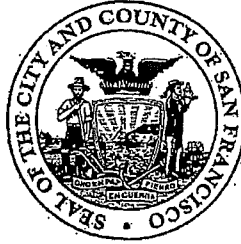
Milestone	Date*
Introduction of authorizing legislation and supporting materials to the Board	July 26, 2016
Consideration by the Capital Planning Committee	August 29, 2016
Issuance and delivery of the Bonds	October 2016

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact me at 554-5956 if you have any questions. Thank you.

CC: Angela Calvillo, Clerk of the Board
(via email) Harvey Rose, Budget Analyst
Ben Rosenfield, Controller
Nicole Elliott, Mayor's Office
Kate Howard, Mayor's Budget Office
Chris Simi, Mayor's Budget Office
Ken Roux, Deputy City Attorney
Benjamin McCloskey, Mayor's Office of Housing and Community Development
Sophie Howard, Mayor's Office of Housing and Community Development
Rally Catapang, Mayor's Office of Housing and Community Development

BOARD of SUPERVISORS



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August 9, 2016

File No. 160867

Sarah Jones
Environmental Review Officer
Planning Department
1650 Mission Street, 4th Floor
San Francisco, CA 94103

Dear Ms. Jones:

On July 26, 2016, Mayor Lee introduced the following legislation:

File No. 160867

Resolution providing for the issuance of not to exceed \$310,000,000 aggregate principal amount of City and County of San Francisco Taxable and Tax-Exempt General Obligation Bonds (Affordable Housing, 2015); authorizing the issuance and sale of said bonds; providing for the levy of a tax to pay the principal and interest thereof; providing for the appointment of depositories and other agents for said bonds; providing for the establishment of accounts related thereto; adopting findings under the California Environmental Quality Act ("CEQA"), the CEQA Guidelines and Administrative Code, Chapter 31; finding that the proposed project is in conformity with the priority policies of Planning Code, Section 101.1(8), and with the General Plan consistency requirement of Charter, Section 4.105, and Administrative Code, Section 2A.53; ratifying certain actions previously taken, as defined herein; and granting general authority to city officials to take necessary actions in connection with the issuance and sale of said bonds, as defined herein.

This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

A handwritten signature in black ink, appearing to read "Linda Wong".

By: Linda Wong, Assistant Clerk

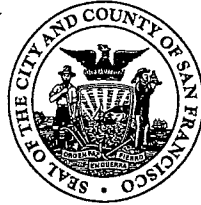
Not defined as a project under CEQA Guidelines Sections 15378 and 15060(c)(2) because it is a funding mechanism involving no commitment to any specific projects at any specific location.

Attachment

c: Joy Navarrete, Environmental Planning
Jeanie Poling, Environmental Planning

Joy Navarrete 9/8/2016

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: *for* Mayor Edwin M. Lee *NE*
RE: Issuance of Taxable and Tax-Exempt General Obligation Bonds (Affordable Housing, 2015) - Not to Exceed \$310,000,000
DATE: July 26, 2016

Attached for introduction to the Board of Supervisors is a resolution providing for the issuance of not to exceed \$310,000,000 aggregate principal amount of City and County of San Francisco Taxable and Tax-Exempt General Obligation Bonds (Affordable Housing, 2015); authorizing the issuance and sale of said bonds; providing for the levy of a tax to pay the principal and interest thereof; providing for the appointment of depositories and other agents for said bonds; providing for the establishment of accounts related thereto; adopting findings under the California Environmental Quality Act ("CEQA"), the CEQA Guidelines and San Francisco Administrative Code Chapter 31; finding that the proposed project is in conformity with the priority policies of Planning Code Section 101.1(8) and with the general plan consistency requirement of Charter Section 4.105 and Administrative Code Section 2A.53; ratifying certain actions previously taken; and granting general authority to city officials to take necessary actions in connection with the issuance and sale of said bonds.

I respectfully request that this item be calendared in Budget & Finance Committee on September 7, 2016.

Should you have any questions, please contact Nicole Elliott (415) 554-7940.

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2016 JUL 26 PM 4:55
BY _____

File Nos. 1608607, 1608608, 1608609



**San Francisco 2015 Affordable Housing
General Obligation Bond**

Budget & Finance Committee: First Issuance

September 14, 2016

CITY AND COUNTY OF
SAN FRANCISCO
MAYOR EDWIN M. LEE

AFFORDABLE HOUSING GO BOND: Today's Request

- Authorizing the issuance of 2015 Affordable Housing General Obligation Bonds in an amount not to exceed \$310 million
- Approval of the sale and appropriation of the first series of the bond in an amount not to exceed \$77 million

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AFFORDABLE HOUSING GO BOND: Today's Request

Proposed Sources and Uses of Funds

Sources	
Bond Proceeds	\$76,025,000
Reserve Proceeds	<u>975,000</u>
Total Not-to-Exceed Sources	\$77,000,000
Uses	
Affordable Housing Project Funds	74,500,000
Controller's Audit Fund	149,000
Projects Subtotal	74,649,000
Costs of Issuance	539,725
Underwriter's Discount	760,250
Citizens' GO Bond Oversight Com	76,025
Costs of Issuance Subtotal	1,376,000
Total Uses	\$76,025,000
Reserve Pending Bond Sale	975,000
Total Uses with Reserve	\$77,000,000



AFFORDABLE HOUSING GO BOND: 3 Investment Categories

The voter-approved, \$310 Million Housing Bond proposed 3 categories of investments, each supporting a range of incomes:

Program Categories	GO Bond
Public Housing	\$80 Million
Low-Income Housing (up to 80% AMI)	\$100 Million
<i>set aside for Mission Area Plan Investments</i>	\$50 Million
Middle-Income Housing (121%-175% AMI)	\$80 Million
TOTAL	\$310 Million



PRIORITY POPULATIONS

Among all housing categories, the stated goal of the Housing Bond is to serve the City's vulnerable residents and households at risk of displacement:

- Low-income working families
- Veterans
- Seniors
- Disabled individuals



LOW-INCOME HOUSING USES

- Accelerate new affordable housing production through quick release of funds.
- Provide acquisition and rehabilitation funding for existing rent-controlled buildings.
- Purchase properties in highly-impacted neighborhoods, e.g., the Mission, for affordable housing development.
- Stabilize buildings at risk of losing affordable units.



PUBLIC HOUSING USES

- Accelerate the reconstruction and rehabilitation of distressed public housing, including infrastructure replacement.
- Prioritize most urgent capital needs and strive for creation of net new units within reconstruction programs.



MIDDLE-INCOME HOUSING USES

- Provide new or preserved middle-income rental opportunities.
- Increase the cap on Down Payment Assistance loans and the range of eligible households.
- Expand the Teacher Next Door program to help keep our teachers in SF neighborhoods.



HOW THIS BOND IS DIFFERENT THAN MOST GO BONDS

- With most General Obligation bonds, the City hires contractors to complete infrastructure improvements.
- For affordable housing, the City does not engage contractors directly or own the improvements directly. Rather, we give loans to developers who then hire contractors and own the improvements through LLCs.
- This approach leverages Federal tax credits.



SPECIFIC HOUSING BOND USES, BY ISSUANCE

	First Issuance	Second Issuance	Third Issuance	Total	Units
Public Housing: \$80MM					
Potrero Acceleration	19,900,000	18,800,000		38,700,000	166
Sunnydale Acceleration	20,700,000	18,020,000		38,720,000	226
<i>Share of cost of issuance & incidentals</i>	1,362,416	1,217,584		2,580,000	
<i>Subtotal</i>	41,962,416	38,037,584	-	80,000,000	392
Low-Income Housing: \$100MM					
Predev - Three projects	9,000,000			9,000,000	
Small Sites Program	15,000,000	9,235,000		24,235,000	81
Acquisition & Vertical - Three projects			63,540,000	63,540,000	290
<i>Share of cost of issuance & incidentals</i>	805,369	290,356	2,129,275	3,225,000	
<i>Subtotal</i>	24,805,369	9,525,356	65,669,275	100,000,000	371
Mission Neighborhood Housing: \$50MM					
Predevelopment Costs	6,000,000			6,000,000	
Acquisition & Vertical Development		20,000,000	22,385,000	42,385,000	110
<i>Share of cost of issuance & incidentals</i>	201,342	706,829	706,829	1,615,000	
<i>Subtotal</i>	6,201,342	20,706,829	23,091,829	50,000,000	110
Middle-Income Housing: \$80MM					
DALP Loan Expansion	2,900,000	2,900,000	8,700,000	14,500,000	49
Teacher Next Door	1,000,000	1,000,000	3,000,000	5,000,000	250
Middle-Income Teacher Housing		2,000,000	5,000,000	7,000,000	30
Middle-Income Buy-in and Production		31,000,000	19,920,000	50,920,000	166
<i>Share of cost of issuance & incidentals</i>	130,872	1,224,564	1,224,564	2,580,000	
<i>Subtotal</i>	4,030,872	38,124,564	37,844,564	80,000,000	495
GRAND TOTAL	77,000,000	106,394,332	126,605,668	310,000,000	1,258

PROGRESS TO DATE: LOW-INCOME HOUSING

- Notice of Funding Availability issued April 2016 for Low-Income Housing Developments
 - Submissions received July 11, 2016. Currently under review.
 - Proposals located in the Mission, Forest Hills, Western⁴⁷³ Addition, Marina, Tenderloin, and the Excelsior neighborhoods.
 - Proposals included homeless housing, senior housing, family housing, childcare centers, PDR use, and extensive community-serving spaces.



PROGRESS TO DATE: PUBLIC HOUSING

- The Sunnydale team acquired a vacant parcel for construction of new relocation housing. Bond funds will pay for master planning, predevelopment, acquisition and construction @ approximately \$21 million.
 - Construction to commence in Q4 2017
- The Potrero team acquired a vacant parcel for construction of new relocation housing. Bond funds will pay for predevelopment and construction @ approximately \$20 million.
 - Construction to commence Q4 2016



PROGRESS TO DATE: MIDDLE-INCOME HOUSING

- Downpayment Assistance Loans (DALP) available now. Implementation of the new down payment assistance loan program rules began July 1, 2016. More households are eligible (those earning up to 175% AMI), and loan amounts are larger (up to \$375,000 per household).
- Teacher Next Door forgivable loans available now. These loans may be used in addition to the above DALP loans.
- 15% of Seawall Lot 3221 devoted to middle-income units
 - Developer selection process complete and architectural work underway.
 - Construction loan closing estimated for FY 17-18, including \$7MM for middle-income units.
- MOHCD and SFUSD pursuing Teacher Rental Housing on SFUSD site. Predevelopment funding issuance anticipated 2017.



FIRST BOND ISSUANCE: 2016 SCHEDULE

- May 24: Kick-off
- July 28: General Obligation Bond Oversight Com.
- August 29: Capital Planning Committee Approval
- September 14: Budget & Finance Committee
- September 20: First reading, Board of Supervisors
- October 18: Bond sale
- November 1: Close bonds

MOHCD will use non-bond funds to get programs started and be reimbursed upon bond sale. Schedule is tentative and subject to change.



METRICS & ACCOUNTABILITY

- Extensive neighborhood outreach to community groups for every project.
- City-wide Loan Committee approval of all MOHCD-issued multifamily loans.
- BOS approval of all housing revenue bond issuances for individual projects.
- Regular reporting to Citizens' General Obligation Bond Oversight Committee (GOBOC).

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Unlike a traditional GO Bond, the City has minimal control over the timing of construction of units and their occupancy, but that is our primary metric of completion.



Housing GO Bond Spending Proposal - First Issuance

	Amount	Est. First	Est. Last	Notes
Public Housing		Encumbrance	Disbursement	
Potrero Parcel X Predev	2,251,586	July 2016	Nov 2016	Predevelopment costs associated with architecture and engineering for Block X, 72 units of affordable housing that will serve 53 households from the first demolition phase of Potrero HOPE SF.
Potrero Parcel X Vertical Gap	14,148,414	Nov 2016	July 2017	Construction gap costs including unit construction costs, required infrastructure and offsite work, loan fees and interest, title and recording, legal costs, insurance, permits, furnishings, marketing, reserves, and developer fee.
Potrero Infrastructure Predev	1,200,000	Oct 2016	Oct 2017	Predevelopment costs associated with the first horizontal infrastructure phase, largely engineering, surveying and permitting costs. Infrastructure includes new streets, utilities, and grading of pads for vertical development.
Potrero Block B Predev	2,300,000	Mar 2017	Mar 2018	Predevelopment costs associated with architecture and engineering for Block B, approximately 94 units of affordable housing that will serve 75% households from the Potrero HOPE SF site and 25% new affordable units.
Sunnydale Master Planning	2,800,000	July 2016	Jun 2017	Final planning necessary to complete the entitlement process for Sunnydale, including Develop Agreement, Master Developer Agreement, Special Use District legislation, Relocation Planning, Infrastructure Master Plan.
Sunnydale 6A & 6B Predev	5,000,000	Dec 2016	Jul 2018	Initial legal cost for acquisition, architecture and engineering fees, survey, geotechnical reports, Phase I environmental reports, appraisal, property taxes, application fees for other funding sources, and developer fee.
Sunnydale Parcel Q Predev	2,000,000	Sept 2016	Nov 2017	Initial legal cost for acquisition, architecture and engineering fees, survey, geotechnical reports, Phase I environmental reports, appraisal, property taxes, application fees for other funding sources, and developer fee.
Sunnydale Parcel Q Vertical	10,900,000	Nov 2017	Sep 2019	Construction gap costs including unit construction costs, additional engineering fees, construction loan fees and interest, title and recording, additional legal costs, insurance, permits and entitlements, furnishings, marketing, reserves, and developer fee.
Subtotal	40,600,000			
Low-Income Housing				
Project #1 - Predevelopment	3,000,000	Dec 2016	Dec 2017	In April 2016, MOHCD issued a Notice of Funding Availability (NOFA), with submissions due July 11, 2016. Respondents were required to propose a specific new affordable housing development on a specific parcel. These proposals are currently under review, and included proposals in the Mission, Forest Hills, Western Addition, Tenderloin, and the Excelsior. Proposals for type of housing included homeless, senior, and family housing. Successful respondents will be award predevelopment loans to move the design process forward, with additional gap financing coming from future issuances of the bond.
Project #2 - Predevelopment	3,000,000	Dec 2016	Dec 2017	
Project #3 - Predevelopment	3,000,000	Dec 2016	Dec 2017	
Small Sites Program	15,000,000	Nov 2016	Nov 2017	MOHCD's existing Small Sites Program provides funding for the acquisition and rehabilitation of existing multi-family rental buildings of 5-25 units. This program helps stabilize buildings that are occupied by low to moderate income tenants throughout San Francisco that are particularly susceptible to market pressure resulting in property sales, increased evictions and rising tenant rents. This funding will augment the existing funding sources and our rolling NOFA responses.
Subtotal	24,000,000			
Low-Income Housing: Mission Neighborhood				
Predevelopment Costs	6,000,000	Dec 2016	Dec 2017	See above. Subset of April 2016 NOFA, with funds set aside specifically for projects in the Mission.
Subtotal	6,000,000			
Middle-Income Housing				
DALP Loan Expansion	2,900,000	Oct 2016	Oct 2017	The Downpayment Assistance Loan Program assists income-qualified households in purchasing their first home in San Francisco through the a "silent second" downpayment loan, which is recoverable with a share of appreciation upon sale. These funds will expanded the existing DALP program by allowing loans of up to \$375K per loan and increase the household Area Median Income (AMI) served up to 175%.
Teacher Next Door	1,000,000	Oct 2016	Jun 2019	The Teacher Next Door Program assists educators employed with the San Francisco Unified School District with the purchase of their first home in San Francisco. This program supplements and may be combined with other downpayment assistance programs.
Subtotal	3,900,000			
Total Project Funds	74,500,000			
Controller's Audit Fund	149,000			
Costs of Issuance	539,725			
Underwriter's Discount	760,250			
Citizens' GO Bond Oversight	76,025			
Reserve Pending Bond Sale	975,000			
TOTAL USES	77,000,000			