

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES

This Appendix A to the Official Statement of the City provides general information about the City's governance structure, budget processes, property taxation system and tax and other revenue sources, City expenditures, labor relations, employment benefits and retirement costs, 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 and should not be considered in making a decision to buy the Bonds.

Information concerning the City's finances that does not materially impact the availability of moneys deposited in the General Fund including San Francisco International Airport ("SFO" or the "Airport"), Public Utilities Commission ("PUC"), and other enterprise funds, or the expenditure of moneys from the General Fund, is generally not included or, if included, is not described in detail in this Appendix A.

The information presented in this Appendix A contains, among other information, City budgetary forecasts, projections, estimates and other statements that are based on current expectations as of its date. The words "expects," "forecasts," "projects," "budgets," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify such information as "forward-looking statements." Such budgetary forecasts, projections and estimates are not intended as representations of fact or intended as guarantees of results. Any such forward-looking statements are inherently subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected.

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CITY FINANCIAL CHALLENGES

The Original Budget for fiscal years 2022-23 and 2023-24 was approved by the Board of Supervisors on July 26, 2022 and by the Mayor on July 27, 2022. The 2022-23 and 2023-24 Original Budget assumed \$82.3 million of COVID-19 response costs, nearly 80% below the prior approved budget, as pandemic response efforts and costs decline. See “CITY BUDGET – Budget Process” for additional detail.

The COVID-19 pandemic resulted in general negative effects on the City’s economy which materially adversely impacted the City’s tax revenues and increased expenses due to public health responses. These decreases occurred in nearly every category of revenue except intergovernmental revenue and property taxes; most significantly, the City experienced the greatest decline in its “other local taxes,” which includes hotel and sales taxes. See “PROPERTY TAXATION – Tax Levy and Collection” for additional detail.

The Original Budget for fiscal years 2022-23 and 2023-24 reflects stabilization of City operations and the significant recovery of certain revenues as many of the negative effects of the pandemic have subsided. However, like other municipal governments throughout the State and nation, the City faces significant financial challenges. In addition, a resurgence of the pandemic may affect the City’s ability to sustain regular operations at current levels and may materially adversely impact the financial condition of the General Fund.

As described in “CITY BUDGET – Other Budget Updates: Fiscal Year 2022-23 and 2023-24 Revenue Letter” the Original Budget for fiscal years 2022-23 and 2023-24 was based in large part on revenue assumptions contained in the Nine-Month Report (issued in May 2022), which assumed continuing economic recovery in fiscal years 2022-23 and 2023-24. Following the issuance of the May 2022 Nine-Month Report and the June 2022 Controller Letter, the local, state and national economies have faced significant headwinds, including multiple interest rate increases by the Federal Reserve, continuing price inflation, volatile investment markets, and economic disruption resulting from the war in Ukraine and other factors. In addition, on November 1, 2022, the Controller issued its most recent report on the status of the re-opening of the City economy. The Controller’s Report noted a 6.2% decline in single family home values in the City from May to September 2022 and that housing prices are falling faster in San Francisco than Statewide. The Controller’s report also indicated that the City continues to lag the State average with respect to in-office attendance by workers in City businesses (a continuation of the remote work practices which became more prevalent during the pandemic). These factors may negatively impact the City’s revenues, including, but not limited to, transfer tax, business tax and property tax revenues. See “BUDGETARY RISKS – Office Vacancy in San Francisco” for a discussion of the impact of remote working on commercial property in the City, including a recent report by the Controller’s Office projecting significant declines in property taxes. In addition, there can be no assurances that potential adverse impacts of the current economic challenges on the financial condition of the State will not result in decreases in State funding to the City.

As described herein in “CITY BUDGET,” the City regularly prepares reports on its current and projected financial condition, including a Six-Month Report, a Nine-Month Report and Five Year Financial Plan. The next report to be issued, the Five Year Plan for fiscal year 2023-24 through fiscal year 2027-28, will likely be issued in January 2023. The City is currently working on developing the next Five Year Plan and based on its preliminary analysis expects the next Five Year Plan to show materially higher cumulative deficits in latter years than projected by the most recent Five Year Plan from January 2022. See “Five Year Financial Plan and March Update” herein. The Five Year Plan will reflect then-available

economic data available, and there can no assurances that the Five Year Plan, when issued, will not reflect projected declines in City revenues below the levels assumed in the Original Budget for fiscal years 2022-23 and 2023-24.

CITY GOVERNMENT

City Charter

San Francisco is constituted 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, voters approved the current charter, which went into effect in most respects on July 1, 1996 (“Charter”).

The City is governed by a Board of Supervisors consisting of eleven members elected from supervisorial districts (“Board of Supervisors”), and a Mayor elected at large who serves as chief executive officer (“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 TK-12) (“SFUSD”) and the San Francisco Community College District (post-secondary) (“SFCCD”). Each is a separate legal entity with a separately elected governing board.

Unique among California cities, San Francisco as a charter city and county provides 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 a 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 slightly less than 50% of all City expenditures. In addition, voters have approved Charter amendments that impose certain spending mandates and tax revenue set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including transportation services, children’s services and public education, and libraries.

Under its original charter, the City committed 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 Mills 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. 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. SFO, the Port, the PUC (which 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 enterprise fund departments, including San Francisco General Hospital, Laguna Honda Hospital, and the MTA, annually receive significant General Fund transfers.

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. 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

Mayor London Breed is the 45th Mayor of San Francisco and the first African-American woman to serve in such capacity in the City’s history. In November 2019, Mayor Breed was elected to serve her first full term. Prior to her election, Mayor Breed served as Acting Mayor, leading the City following the sudden passing of Mayor Lee. Mayor Breed previously served as a member of the Board of Supervisors for six years, including the last three years as President of the Board.

Board of Supervisors

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.

At the election on November 8, 2022, voters voted on Supervisor seats from even-numbered Districts with terms expiring in 2023. It appears incumbent supervisors for Districts 2, 6, 8, and 10 were re-elected, and Joel Engardio will replace Gordon Mar as the District 4 Board Supervisor.

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TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO
Board of Supervisors

Name	First Elected or Appointed	Current Term Expires
Connie Chan, <i>District 1</i>	2021	2025
Catherine Stefani, <i>District 2</i>	2018	2023
Aaron Peskin, <i>District 3</i>	2015	2025
Gordon Mar, <i>District 4</i>	2019	2023
Dean Preston, <i>District 5</i>	2019	2025
Matt Dorsey, <i>District 6</i>	2022	2023
Myrna Melgar, <i>District 7</i>	2021	2025
Rafael Mandelman, <i>District 8</i>	2018	2023
Hillary Ronen, <i>District 9</i>	2017	2025
Shamann Walton, Board President, <i>District 10</i>	2019	2023
Ahsha Safai, <i>District 11</i>	2017	2025

Other Elected and Appointed City Officers

The City Attorney, an elected position, represents the City in all legal proceedings in which the City has an interest. On September 29, 2021, Mayor London N. Breed appointed Assemblymember David Chiu to serve as the San Francisco City Attorney. Mr. Chiu replaced the prior City Attorney, Dennis Herrera, who became the General Manager of the San Francisco Public Utilities Commission on November 1, 2021. Mr. Chiu ran and was elected by voters in an election on June 7, 2022 to his current term as City Attorney..

The Assessor-Recorder administers the property tax assessment system of the City. On February 8, 2021, Joaquín Torres, formerly the Director of the Office of Economic and Workforce Development, was sworn in as the new Assessor-Recorder. The position of Assessor-Recorder is a citywide elected position. Mr. Torres ran and was elected by voters in a special election on February 15, 2022 to his current term as Assessor-Recorder.

The Treasurer is responsible for the deposit and investment of all City moneys, and also acts as Tax Collector for the City. José Cisneros was re-elected to a four-year term as Treasurer of the City in November 2019. Mr. Cisneros has served as Treasurer since September 2004, following his appointment by then-Mayor Newsom.

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. 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. Mr. Rosenfield was reappointed by then-Mayor Mark Farrell to a new ten-year term as Controller in Spring 2018, and his nomination was confirmed by the Board of Supervisors on May 1, 2018.

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. The City

Administrator oversees the General Services Agency consisting of 25 departments, divisions, and programs that include the Public Works Department, Department of Technology, Office of Contract Administration/Purchasing, Real Estate, County Clerk, Fleet Management, Convention Facilities, Animal Care and Control, Medical Examiner, and Treasure Island. F Carmen Chu was sworn in as the City Administrator on February 2, 2021.

CITY BUDGET

Overview

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, and funds such departments and enterprises through its annual budget process. Each year the Mayor prepares budget legislation for the City departments, which must be approved by the Board of Supervisors. General Fund revenues consist largely of local property tax, business tax, sales tax, other local taxes and charges for services. A significant portion of the City's revenue also comes in the form of intergovernmental transfers from the State and federal governments. Thus, the City's fiscal position 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 these factors are almost wholly outside the control of the Mayor, the Board of Supervisors and other City officials. In addition, the State Constitution limits the City's ability to raise taxes and property-based fees without a vote of City residents. 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.

The fiscal year 2022-23 and 2023-24 Original Budget was approved by the Board of Supervisors on July 26, 2022 and signed by Mayor Breed on July 27, 2022. The Original Budget for fiscal year 2022-23 appropriated annual revenues, fund balance, transfers and reserves of \$14.0 billion, of which the City's General Fund accounts for \$6.8 billion. The Original Budget for fiscal year 2023-24 appropriates revenues, fund balance, transfers and reserves of \$13.9 billion, of which \$6.9 billion represents the General Fund budget. See "CITY BUDGET – Budget for Fiscal Years 2022-23 and 2023-24" for further details on the budget. Table A-2 shows Final Original Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2018-19 through 2020-21, and Original Budgets for fiscal years 2021-22 through 2023-24. See "GENERAL FUND REVENUES - PROPERTY TAXATION –Tax Levy and Collection, "GENERAL FUND REVENUES - OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

Economic and tax revenue losses associated with the COVID-19 pandemic were stark and immediate. The latter were mitigated by historical levels of federal stimulus . See "CITY BUDGET – Original Budget for Fiscal Years 2022-23 and 2023-24" and "– Other Budget Updates: Fiscal Year 2021-22 Nine Month Budget Status Report" and "GENERAL FUND REVENUES" for a discussion of current projections of the magnitude of the financial impact of the COVID-19 pandemic on the City. See "CITY FINANCIAL CHALLENGES" and "BUDGETARY RISKS" for a discussion of factors that may affect the revenue and expenditure levels assumed in the budget for fiscal years 2022-23 and 2023-24.

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TABLE A-2

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 2018-19 through 2023-24
(000s)

	2018-19 Final Revised Budget	2019-20 Final Revised Budget ⁷	2020-21 Final Revised Budget ⁷	2021-22 Original Budget ⁸	2022-23 Original Budget ⁹	2023-24 Original Budget ⁹
Prior-Year Budgetary Fund Balance & Reserves	\$2,342,082	\$2,817,270	\$2,816,902	\$778,545	\$395,409	\$239,873
<u>Budgeted Revenues</u>						
Property Taxes ¹	\$2,142,727	\$1,956,008	\$2,161,945	\$2,115,600	\$2,379,530	\$2,494,850
Business Taxes	879,414	1,050,392	798,057	957,140	902,300	960,200
Other Local Taxes ²	1,053,390	1,144,376	657,990	777,750	1,050,820	1,183,490
Licenses, Permits and Franchises	30,794	30,361	22,977	27,944	26,818	27,735
Fines, Forfeitures and Penalties	3,131	3,131	2,389	4,035	3,088	3,088
Interest and Investment Earnings	20,323	69,579	20,732	36,247	44,467	59,947
Rents and Concessions	14,896	15,270	11,166	11,728	13,131	13,296
Grants and Subventions	1,072,205	1,234,987	1,591,756	1,216,765	1,511,286	1,440,457
Charges for Services	263,340	246,003	254,990	255,111	236,924	238,933
Other	29,712	31,712	59,773	24,238	19,420	18,652
Total Budgeted Revenues	\$5,509,932	\$5,781,819	\$5,581,775	\$5,426,557	\$6,187,784	\$6,440,648
Bond Proceeds & Repayment of Loans ³	\$87	-	-	-	-	-
<u>Expenditure Appropriations</u>						
Public Protection	\$1,390,266	\$1,493,240	\$1,505,780	\$1,507,122	\$1,675,801	\$1,678,498
Public Works, Transportation & Commerce	214,928	216,824	218,986	236,525	262,733	229,775
Human Welfare & Neighborhood Development	1,120,892	1,270,530	1,605,573	1,418,406	1,576,410	1,551,143
Community Health	967,113	1,065,051	1,158,599	1,056,459	1,162,956	1,168,262
Culture and Recreation	154,056	161,274	147,334	220,866	197,596	204,661
General Administration & Finance	290,274	332,296	332,997	497,915	338,055	365,922
General City Responsibilities ⁴	172,028	137,851	126,993	243,733	226,931	256,020
Total Expenditure Appropriations	\$4,309,557	\$4,677,066	\$5,096,262	\$5,181,026	\$5,440,482	\$5,454,281
Budgetary reserves and designations, net	-	\$34,721	\$42,454	6,129	\$65,741	\$24,581
Transfers In	\$239,056	\$190,642	\$417,009	\$158,329	\$203,001	\$216,582
Transfers Out ⁵	(1,468,068)	(1,157,312)	(1,164,927)	(1,176,277)	(1,279,971)	(1,418,241)
Net Transfers In/Out	(\$1,229,012)	(\$966,670)	(\$747,918)	(\$1,017,948)	(\$1,076,970)	(\$1,201,659)
<u>Budgeted Excess (Deficiency) of Sources</u>						
Over (Under) Uses	\$2,313,531	2,920,632	2,512,044	-	-	-
Variance of Actual vs. Budget	503,738	(139,127)	291,491	-	-	-
Total Actual Budgetary Fund Balance⁶	\$2,817,269	\$2,781,505	2,803,535	-	-	-

¹ The City's final budget for FY 2018-19 property tax included \$414.7 million of "Excess Educational Revenue Augmentation Fund (ERAF)" revenue, representing 2 years of Excess ERAF. In FY 2019-20, the City budgeted \$185.0 million of "Excess Educational Revenue Augmentation Fund" (ERAF) revenue. The Budget appropriates Excess ERAF property tax funds in fiscal years 2020-21, 2021-22, and 2022-23 for ongoing purposes. Please see "Property Tax" sections for more information about Excess ERAF.

² Other Local Taxes includes sales, hotel, utility users, parking, sugar sweetened beverage, stadium admissions, access line, cannabis, and executive compensation taxes.

³ Represents interest that debt service has earned while held by fiscal agent and is returned to the City.

⁴ 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.

⁵ Other Transfers Out is primarily related to transfers to support Charter-mandated spending requirements and hospitals.

⁶ Fiscal year 2018-19 through fiscal year 2020-21 Final Revised Budget reflects prior year *actual* budgetary fund balance.

⁷ FY 2019-20 and FY 2020-21 Final Revised Budgets are based on FY 2019-20 and FY 2020-21 ACFR, respectively. Does not reflect material adverse impacts of the COVID-19 pandemic on the General Fund. See reserve discussion under "CITY BUDGET" section.

⁸ FY 2021-22 amounts represent the Original Budget, adopted July 29, 2021.

⁹ FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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

Budget Process

The following paragraphs contain a description of the City's customary budget process. The City's fiscal year commences on July 1 and ends on June 30. 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 a proposed 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 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 Revenue Letter and other information from the Controller's website are not incorporated herein by reference. The City's Capital Planning Committee (composed of other City officials) 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, each year, 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 approves the budget by adoption of the Budget and Appropriation Ordinance (also referred to herein as the "Original Budget") typically by no later than August 1 of each fiscal year.

The Budget and Appropriation Ordinance becomes effective with or without the Mayor's signature after 10 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 Budget and Appropriation 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 Budget and 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 Budget and 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 upon release of the City's Annual Comprehensive Financial Report ("ACFR") to reflect the year-end revenue and expenditure appropriations for that fiscal year.

Multi-Year Budgeting and Planning

The City's budget involves multi-year budgeting and financial planning, including:

1. Fixed two-year budgets are approved by the Board of Supervisors. For fiscal year 2022-23, departments with previously fixed two-year budgets in the prior two-year planning cycle (MTA, PUC, SFO, and the Port), were open again for amendments. All other departments prepared balanced, rolling two-year budgets for Board approval.
2. Five-year financial plan and update, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. A 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, the Budget Analyst for the Board of Supervisors and Controller's Office on January 15, 2021, for fiscal year 2021-22 through fiscal year 2025-26. The Five-Year Financial Plan was updated on March 31, 2021, January 12, 2022, and March 31, 2022. The next Five Year Plan, for fiscal year 2023-24 through fiscal year 2027-28, will likely be issued in January 2023. See "Five Year Financial Plan and March Update" section below.
3. The Controller's Office proposes 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 the City is required 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. Key financial policies that have been enacted include:
 - Non-Recurring Revenue Policy – This policy limits the Mayor's and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance, 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. See "Original Budget for Fiscal Years 2022-23 and 2023-24" section for more details.
 - Rainy Day and Budget Stabilization Reserve Policies – These reserves were established to support the City's budget in years when revenues decline. These and other reserves are discussed in detail below. Charter Section 9.113.5 requires deposits into the Rainy Day Reserve if total General Fund revenues for a fiscal year exceed total General Fund revenues for the prior fiscal year by more than five percent. Similarly, if budget year revenues exceed current year revenues by more than five percent, the budget must allocate deposits to the Rainy Day Reserve. The Budget Stabilization Reserve augments the Rainy Day Reserve and is funded through the dedication of 75% of certain volatile revenues. The fiscal year 2020-21 Original Budget withdrew the maximum permissible amount from the City's Rainy Day and Budget Stabilization Reserves, but the original fiscal year 2021-22 budget provided for the withdrawal of a *de minimis* amount, preserving the remaining balance of the reserves. FY 2022-23 and FY 2023-24 budget did not withdraw from the Rainy Day or Budget Stabilization Reserves. These and other reserves are discussed under Rainy Day Reserve and Budget Stabilization Reserve, as well as in the "Original Budget for Fiscal Years 2022-23 and 2023-24" section.

4. The City is required to submit labor agreements to the Board of Supervisors by May 15, so the fiscal impact of the agreements can be incorporated in the Mayor's proposed June 1 budget. Miscellaneous employee labor agreements are closed for fiscal years 2022-23 and 2023-24. In spring 2023, the City will be negotiating successor agreements with its public safety employee organizations for fiscal years 2023-24 and 2024-25.

Role of Controller in 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 actual expenditures are often different from the estimated expenditures in the Original Budget due to supplemental appropriations, continuing appropriations of prior years, and unexpended current-year funds. If the Controller estimates revenue shortfalls that exceed applicable reserves and any other allowances for revenue shortfalls in the adopted City budget, upon receipt of such estimates, the Mayor is to inform the Board of Supervisors of actions to address this shortfall. The Board of Supervisors may adopt an ordinance to reflect the Mayor's proposal or alternative proposals in order to balance the budget.

In addition to the five-year planning responsibilities 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 first of these reports, the fiscal year 2021-22 Six Month Report (the "Six Month Report") on February 15, 2022 and issued the second, the Nine Month Report ("Nine Month Report"), on May 16, 2022. 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 in the Revenue Letter, which was issued on June 9, 2022.

General Fund Results: Audited Financial Statements

The City issued the Annual Comprehensive Financial Report ("ACFR"), which includes the City's audited financial statements, for fiscal year 2020-21 on February 2, 2022. The ACFR for fiscal year 2021-22 is anticipated to be issued in December 2022 and final results are still pending. However, based on preliminary estimates the City estimates that the fiscal year 2021-22 General Fund balance will show a slight increase from the fiscal year 2020-21 General Fund balance. Thus, unless otherwise noted, actual amounts reflect results from fiscal year 2020-21 audited financial statements. As of June 30, 2021, the General Fund fund balance available for appropriation in subsequent years was \$902.0 million (see Table A-4), which represents an \$5.8 million increase in available fund balance from the \$896.2 million available as of June 30, 2020. This increase resulted primarily from greater-than-budgeted property tax revenue

and real property transfer taxes, mostly offset by under-performance in business and other local tax revenues in fiscal year 2020-21.

The General Fund fund balance as of June 30, 2021 was \$2.7 billion (shown in Tables A-3 and A-4) using Generally Accepted Accounting Principles (“GAAP”), derived from revenues of \$5.7 billion. The City prepares its budget on a modified accrual basis, which is also referred to as “budget basis” in the ACFR. 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. Table A-3 focuses on a specific portion of the City’s balance sheet; General Fund fund balances are shown on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2017 through June 30, 2021.

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TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO
Summary of General Fund Fund Balances
Fiscal Years 2016-17 through 2020-21
(000s)

	2016-17	2017-18	2018-19	2019-20	2020-21
Restricted for rainy day (Economic Stabilization account) ¹	\$78,336	\$89,309	\$229,069	\$229,069	\$114,539
Restricted for rainy day (One-time Spending account) ²	47,353	54,668	95,908	-	-
Committed for budget stabilization (citywide) ²	323,204	369,958	396,760	362,607	320,637
Committed for Recreation & Parks savings reserve	4,403	1,740	803	803	-
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	\$244,158	\$345,596	\$351,446	\$394,912	\$407,137
Assigned for appropriation carryforward	434,223	423,835	496,846	630,759	753,776
Assigned for budget savings incentive program (Citywide)	67,450	73,650	86,979	-	-
Assigned for salaries and benefits ³	23,051	23,931	28,965	25,371	5,088
Assigned for Self-Insurance ⁴					42,454
Assigned for Hotel Tax Loss Contingency					6,000
Total Fund Balance Not Available for Appropriation	\$1,222,178	\$1,382,687	\$1,686,776	\$1,643,521	\$1,649,631
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies ³	\$136,080	\$235,925	\$186,913	\$160,314	\$173,591
Assigned for subsequent year's budget	183,326	188,562	210,638	370,405	173,989
Unassigned for General Reserve ⁵	95,156	106,878	130,894	78,498	78,333
Unassigned - Budgeted for use second budget year	288,185	223,251	285,152	84	-
Unassigned - Contingency for second budget year	60,000	160,000	308,000	510,400	-
Unassigned - COVID-19 Response and Economic Contingency Reserve ⁶					113,500
Unassigned - Federal & State Emergency Revenue Reserve ⁶					100,000
Unassigned - Fiscal Cliff Reserve ⁶					293,900
Unassigned - Business Tax Stabilization Reserve					149,000
Unassigned - Gross Receipts Prepayment Reserve					26,000
Unassigned - Other Reserve					13,807
Unassigned - Available for future appropriation	14,409	44,779	8,897	18,283	31,784
Total Fund Balance Available for Appropriation	\$777,156	\$959,395	\$1,130,494	\$1,137,984	\$1,153,904
Total Fund Balance, Budget Basis	\$1,999,334	\$2,342,082	\$2,817,270	\$2,781,505	\$2,803,535
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$1,999,334	\$2,342,082	\$2,817,270	\$2,781,505	\$2,803,535
Unrealized gain or loss on investments	(1,197)	(20,602)	16,275	36,626	3,978
Nonspendable fund balance	525	1,512	1,259	1,274	2,714
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(38,469)	(25,495)	(23,793)	(20,655)	(31,745)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(83,757)	(68,958)	(87,794)	(139,590)	(120,569)
Inventories	-	-	-	33,212	17,925
Pre-paid lease revenue	(5,733)	(6,598)	(6,194)	(6,450)	(5,734)
Total Fund Balance, GAAP Basis	\$1,870,703	\$2,221,941	\$2,717,023	\$2,685,922	\$2,670,104

¹ Additional information in Rainy Day Reserves section of Appendix A, following this table.

² Additional information in Budget Stabilization Reserve section of Appendix A, following this table.

³ Additional information in Salaries, Benefits and Litigation Reserves section of Appendix A, following this table.

The increase in FY18 was largely due to a small number of claims filed against the City with large known or potential settlement stipulations.

⁴ Due to the GASB 84 implementation, the self-insurance and other general City activities from the former Payroll (Agency) Fund became part of the General Fund.

The balance represents a fund collected and restricted for self-insurance purpose.

⁵ Additional information in General Reserves section of Appendix A, following this table.

⁶ Additional information in the COVID Response and Economic Loss Reserve section of Appendix A, following this table.

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

In addition to the reconciliation of GAAP versus budget-basis fund balance, Table A-3 shows the City's various reserve balances as designations of fund balance. Key reserves are described further as follows:

Rainy Day Reserve

The City maintains a Rainy Day Reserve, as shown on the first and second line of Table A-3 above. Charter Section 9.113.5 requires that if total General Fund revenues for the current year exceed total General Fund revenues for the prior year by more than five percent, then the City must deposit anticipated General Fund revenues in excess of that five percent growth into three accounts within the Rainy Day Reserve (see below) and for other lawful governmental purposes. Similarly, if budgeted revenues exceed current year revenues by more than five percent, the budget must allocate deposits to the Rainy Day Reserve. Effective January 1, 2015, Proposition C, passed by the voters in November 2014, divided the existing Rainy Day Economic Stabilization Account into a City Rainy Day Reserve ("City Reserve") and a School Rainy Day Reserve ("School Reserve") for SFUSD, with each reserve account receiving 50% of the existing balance at the time. Deposits to the reserve are 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 (not shown in Table A-3 because it is not part of the General Fund, it is reserved for SFUSD);
- 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.

The fiscal year 2020-21 ending balance of the Rainy Day Economic Stabilization City Reserve was \$114.5 million, after a budgeted \$114.5 million withdrawal, as shown in Table A-3. The Original Budget withdrew a minimal amount of Rainy Day Reserve in fiscal year 2021-22 and no withdrawals are budgeted in fiscal years 2022-23 and 2023-24, preserving the balance of \$114.5 million in those years.

The combined balances of the Rainy Day Reserve's Economic Stabilization account and the Budget Stabilization Reserve 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 placed in the Budget Stabilization One-Time Reserve, which is eligible to be allocated to capital and other one-time expenditures. Monies in the City Reserve are available to provide budgetary support 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 One-Time Reserve are available for capital and other one-time spending initiatives.

Budget Stabilization Reserve

The City maintains a Budget Stabilization Reserve, as shown on the third line of Table A-3 above. The Budget Stabilization Reserve augments the 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 rolling five-year annual average (adjusting 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.

The combined value of the Budget Stabilization Reserve and the Budget Stabilization One Time Reserve is \$320.6 million at the end of fiscal year 2020-21, with an ending balance of \$265.8 million in the Budget Stabilization Reserve and \$54.8 million in the Budget Stabilization One-Time Reserve.

The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve. 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. No deposits are required in years when the City is eligible to withdraw.

In fiscal year 2020-21, the City withdrew \$41.9 million from the Budget Stabilization Reserve. The Original Budgets for fiscal year 2021-22, 2022-23, and 2023-24 make no withdrawal from this reserve, maintaining the fiscal year 2020-21 \$265.8 million balance.

Salaries, Benefits and Litigation Reserves

The City maintains two reserves to offset potential expenses, which are available to City departments through a Controller's Office review and approval process. These are shown in the "assigned, not available for appropriation," and "assigned and unassigned, available for appropriation" sections of Table A-3 above. These include the Salaries and Benefit Reserve (beginning balance of \$47.4 million as of fiscal year 2021-22) and the Litigation Reserve. The Litigation Reserve and Public Health Management Reserve (beginning balance of \$173.6 million in fiscal year 2021-22) are combined for reporting purposes. The purpose of the latter is to manage patient revenue volatility in the Department of Public Health.

General Reserve

The City maintains a General Reserve, shown as "Unassigned for General Reserve" in the "assigned and unassigned, available for appropriation" section of Table A-3 above. The General Reserve is to be used for current-year fiscal pressures not anticipated during the budget process. The policy, originally adopted on April 13, 2010, set the General 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. 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 in years when the City appropriates a withdrawal from the Rainy Day reserve. The intent of this policy change was to increase reserves available during a multi-year downturn. In fiscal year 2020-21 and 2021-22, the City withdrew from the Rainy Day Reserve and reset its General Fund Reserve deposit requirement to 1.5% of General Fund revenues in those years. As a result, the fiscal year 2020-21 ending balance of the General Reserve is \$78.5 million. The Original Budget for fiscal years 2021-22, 2022-23, and 2023-24 includes deposits of \$5.3 million, \$64.4 million, and \$20.6 million, respectively. See "CITY BUDGET – Five-Year Financial Plan and March Update" and "– Other Budget Updates: Fiscal Year 2021-22 Nine-Month Budget Status Report" for a summary of the most recent projections.

COVID Response and Economic Loss Reserve

The fiscal year 2020-21 Original Budget consolidated the balances of several City reserves into a single COVID Response and Economic Loss Reserve of \$507.4 million in fiscal year 2019-20, as shown as part of

“Unassigned Contingency for Second Budget Year” line in Table A-3. The COVID Response and Economic Loss Reserve was available to offset revenue losses or to assist otherwise with balancing of future fiscal year budgets. The Controller noted that the \$507.4 million total balance would be sufficient to offset some, but not all, of the budget risks identified in future years.

The Original Budget for fiscal years 2021-22 and 2022-23 draws down \$113.5 million of the COVID Response and Economic Loss Reserve to support the costs of the City’s continuing COVID-19 response. As of the end of fiscal year 2020-21, the remaining balance was split into two new reserves, \$100.0 million for a “Federal and State Emergency Grant Disallowance Reserve,” and \$293.9 million for a “Fiscal Cliff Reserve.” The Federal and State Emergency Grant Disallowance Reserve was created for the purpose of managing revenue shortfalls related to reimbursement disallowances from the Federal Emergency Management Agency (“FEMA”) and other state and federal agencies. The Fiscal Cliff Reserve was created for the purpose of managing projected budget shortfalls following the spend down of federal and state stimulus funds and other one-time sources.

The Original Budgets for fiscal year 2021-22, 2022-23 and 2023-24 assume the use of \$0 million, \$9.3 million and \$90.2 million, respectively, of Fiscal Cliff Reserve and \$18.7 million, \$0 million, and \$0 million, respectively, of Federal and State Emergency Grant Disallowance Reserve. In addition, mid-way through fiscal year 2021-22, \$64.2 million of the Fiscal Cliff Reserve was appropriated through a supplemental appropriations ordinance by the Mayor and Board of Supervisors to support spending on rent relief and social housing. As a result, the Fiscal Cliff Reserve and Federal and State Emergency Grant Disallowance Reserve have anticipated balances of \$130.3 million and \$81.3 million, respectively, by the end of fiscal year 2023-24.

Operating Cash Reserve

Not shown in Table A-3, under the City 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 (which contains cash for all pool participants, including city departments and external agencies such as San Francisco Unified School District and City College). 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. See “INVESTMENT OF CITY FUNDS – Investment Policy” herein.

Table A-4, entitled “Statement of Revenues, Expenditures and Changes in General Fund Balances,” is extracted from information in the City’s published Annual Comprehensive Financial Report. Audited financial statements can be obtained from the City Controller’s website <https://sfcontroller.org/annual-comprehensive-financial-report-acfr>. 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. See “CITY BUDGET – Five-Year Financial Plan and March Update” for a summary of the most recent projections.

TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Statement of Revenues, Expenditures and Changes in General Fund Fund Balances¹
Fiscal Years 2016-17 through 2020-21
(000s)

	2016-17	2017-18	2018-19	2019-20	2020-21
Revenues:					
Property Taxes ²	\$1,478,671	\$1,673,950	\$2,248,004	\$2,075,002	\$2,332,864
Business Taxes	700,536	897,076	917,811	822,154	722,642
Other Local Taxes ³	1,203,587	1,093,769	1,215,306	996,180	709,018
Licenses, Permits and Franchises	29,336	28,803	27,960	25,318	12,332
Fines, Forfeitures and Penalties	2,734	7,966	4,740	3,705	4,508
Interest and Investment Income	14,439	16,245	88,523	65,459	(1,605)
Rents and Concessions	15,352	14,533	14,460	9,816	5,111
Intergovernmental	932,576	983,809	1,069,349	1,183,341	1,607,803
Charges for Services	220,877	248,926	257,814	229,759	230,048
Other	38,679	24,478	46,254	62,218	46,434
Total Revenues	\$4,636,787	\$4,989,555	\$5,890,221	\$5,472,952	\$5,669,155
Expenditures:					
Public Protection	\$1,257,948	\$1,312,582	\$1,382,031	\$1,479,195	\$1,498,514
Public Works, Transportation & Commerce	166,285	223,830	202,988	203,350	204,973
Human Welfare and Neighborhood Development	956,478	999,048	1,071,309	1,252,865	1,562,982
Community Health	600,067	706,322	809,120	909,261	1,056,590
Culture and Recreation	139,368	142,215	152,250	155,164	145,405
General Administration & Finance	238,064	244,773	267,997	304,073	314,298
General City Responsibilities	121,444	110,812	144,808	129,941	113,913
Total Expenditures	\$3,479,654	\$3,739,582	\$4,030,503	\$4,433,849	\$4,896,675
Excess of Revenues over Expenditures	\$1,157,133	\$1,249,973	\$1,859,718	\$1,039,103	\$772,480
Other Financing Sources (Uses):					
Transfers In	\$140,272	\$112,228	\$104,338	\$87,618	\$343,498
Transfers Out	(857,629)	(1,010,785)	(1,468,971)	(1,157,822)	(1,166,855)
Other Financing Sources	1,765	-	-	-	-
Other Financing Uses	-	(178)	(3)	-	(338)
Total Other Financing Sources (Uses)	(\$715,592)	(\$898,735)	(\$1,364,636)	(\$1,070,204)	(\$823,695)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$441,541	\$351,238	\$495,082	(\$31,101)	(\$51,215)
Total Fund Balance at Beginning of Year	\$1,429,162	\$1,870,703	\$2,221,941	\$2,717,023	\$2,685,922
Cummulative effect of accounting change					35,397
Total Fund Balance at End of Year -- GAAP Basis	\$1,870,703	\$2,221,941	\$2,717,023	\$2,685,922	\$2,670,104
Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End					
-- GAAP Basis	\$273,827	\$286,143	\$326,582	\$395,776	\$179,077
-- Budget Basis	\$545,920	\$616,592	\$812,687	\$896,172	\$901,980

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 The City recognized \$548.0 million of "Excess Educational Revenue Augmentation Fund (ERAF)" revenue in FY 2018-19, representing FY16-17, FY17-18, and FY18-19 (3 fiscal years) of ERAF. Please see "GENERAL FUND REVENUES - Property Taxation" for more information about Excess ERAF.

3 Other Local Taxes includes sales, hotel, utility users, parking, sugar sweetened beverage, stadium admissions, access line, and cannabis taxes

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

Five-Year Financial Plan and March Update

The Five-Year Financial Plan (“Plan”) is required under Proposition A, a charter amendment approved by voters in November 2009. The Charter requires the City 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. Charter Section 9.119 requires that by March 1 of each odd-numbered year, the Mayor submit a Plan to the Board. The City’s Administrative Code requires that by March 1 of each even-numbered year, the Mayor, Board of Supervisors Budget Analyst, and Controller submit an updated estimate for the remaining four years of the most recently adopted Plan.

On January 12, 2022, the Mayor, Budget Analyst for the Board of Supervisors, and the Controller’s Office issued the Plan for fiscal years 2022-23 through 2025-26 (“Joint Report”), which projected cumulative annual surplus of \$26.2 million and \$81.9 million for fiscal years 2022-23 and 2023-24, respectively, and shortfalls of \$38.6 million and \$148.9 million, for fiscal years 2024-25 and 2025-26, respectively. This report was updated on March 31, 2022 (the “March Joint Report”) with a lower surplus in the first two years of the report, and increased deficits in the later years. Since this forecast, the Mayor and Board have already balanced the FY 2022-23 and FY 2023-24 budgets; however, recession risks have increased significantly since then. The next Five Year Plan, for fiscal year 2023-24 through fiscal year 2027-28, will likely be issued in January 2023.

The March Joint Report projects a cumulative annual surplus of \$14.7 million and \$60.0 million for fiscal years 2022-23 and 2023-24, respectively, and shortfalls of \$44.2 million and \$156.2 million for fiscal years 2024-25 and 2025-26, respectively. For fiscal years 2022-23 and 2023-24, this represented a decline of \$33.4 million.

CITY AND COUNTY OF SAN FRANCISCO
Joint Report (Five Year Plan)
Fiscal Years 2022-23 through 2025-26
Projections as of March 31, 2022
(\$ Millions)

	2022-23	2023-24	2024-25	2025-26
Sources - Increase / (Decrease):	\$111.2	\$365.7	\$549.6	\$743.1
Uses:				
Baselines & Reserves	(\$160.4)	(\$237.6)	(\$324.0)	(\$387.5)
Salaries & Benefits	(78.5)	(106.3)	(144.4)	(262.5)
Citywide Operating Budget Costs	124.0	62.4	(59.1)	(135.4)
Departmental Costs	18.4	(24.4)	(66.3)	(113.9)
Total Uses - (Increase) / Decrease:	(\$96.5)	(\$305.8)	(\$593.8)	(\$899.3)
Projected Cumulative Surplus / (Shortfall):	\$14.7	\$60.0	(\$44.2)	(\$156.2)

On net, the March Joint Report presents modest changes to the January 2022 forecast. Key assumptions in the March Joint Report compared to the January report are:

- Modest additional growth in General Fund sources over the forecast period due to current year activity, improvements in property tax, Federal Emergency Management Agency (FEMA) reimbursements, and interest income, partially offset by weakness in business, hotel, and transfer taxes. Significantly:

- The property tax forecast has been updated to account for the risk from pandemic-induced changes in normal operations, and therefore values of, San Francisco real estate. Projections assume that only those properties that received Proposition 8 temporary reductions in value in 2021 will be considered for reductions in subsequent years. For all other properties, the forecast assumes reduction only if an appeal has been filed with the Assessment Appeals Board, rather than for classes of properties as a whole. As a result, the direct property tax forecast is increased, as is the excess Educational Revenue Augmentation Fund (ERAF) forecast.
- The City's business tax revenues are determined in part by the share of a business' workforce that physically works within the City. As such, the number of workers who telecommute can dramatically affect revenue. The Joint Report assumed the average office worker would telecommute 15% of the time. In weeks leading up to the March Joint Report, more companies have announced specifics for their long-term telecommuting plans, with many companies returning to the office in March and April 2022. Reflecting these plans, the March projection increases its projection of long-term telecommuting from 15% to 33%, beginning in the first quarter of fiscal year 2022-23. Considering current levels of available office space and the potential for more efficient use of existing space, the projection also increases the economic growth assumption from 4% to 5% in fiscal year 2022-23 and from 3% to 4% in all other years of the projection.
- Hotel tax is anticipated to recover to pre-pandemic levels during calendar year 2026. It is projected to grow slightly faster than prior forecast in fiscal year 2022-23, because of pent-up demand from domestic leisure travelers. However, uncertainty related to the return of international, business, and convention-related travel results in slightly lower projections for fiscal years 2023-24, 2024-25, and 2025-26. Revenue per available room, an industry metric highly correlated with hotel tax revenue, is projected to be \$146 million, \$183 million, \$218 million, and \$237 million in fiscal years 2022-23, 2023-24, 2024-25, and 2025-26, respectively.
- Transfers in commercial real estate are expected to stagnate in the next fiscal year as buyers wait for prices to drop and sellers hold during an unfavorable market. This forecast anticipates fiscal year 2022-23 transfer activity to be largely the same as fiscal year 2021-22, adjusting for two historic transfers that generated nearly \$100 million of transfer tax. In fiscal years 2023-24 and 2024-25, transfer tax is expected to increase, recovering to its long-run average of \$456.2 million by fiscal year 2024-25.
- FEMA reimbursements are expected to increase by \$45.9 million during the plan period, fiscal years 2022-23 through 2025-26, versus the January update, largely due to FEMA's extension of eligible costs through June 30, 2022.
- Increases to contributions to Charter-mandated baselines and deposits, largely due to the City's requirement to replenish General Reserve funds in the budget year, when they are used in the current year.
- Increases to salary and benefits costs. The projection updates the employer contribution rate to the San Francisco Employees' Retirement System (SFERS), which increased from 19.91% in

the January projections to 21.35% in the March Joint Report. Health costs for active members are lower compared to prior projections reflecting updated medical enrollments as of March 2022. Health costs for retired City employees are expected to increase at a higher rate than compared to the January projection.

The March Joint Report notes key factors that could materially impact the City's financial condition, including the following:

- **Labor negotiations:** This projection continues to assume approved wage increases in collective bargaining agreements for public safety through the end of fiscal year 2022-23, and applies inflation increases on open contracts in all other years based on the same CPI rates used in the Joint Report. Other than these costs, this report does not assume any contract changes due to active labor negotiations. Wage or benefit changes above or below these assumptions would have a significant impact the projection. See "CITY BUDGET – Other Budget Updates: Fiscal Year 2021-22 Nine-Month Budget Status Report" for updates.
- **Recession risk:** Since the January forecast, economists have become increasingly concerned about the potential for a recession in the next twelve months. The war in Ukraine has increased prices of gasoline, metals, and other raw materials. These increases, along with the excess demand in the labor market, are increasing pressure on the Federal Reserve to raise interest rates to tamp down inflation. Aggressive rate hikes would increase the risk of recession.
- **Retirement contribution rate:** Projections assume the SFERS adopted 7.2% rate of return in fiscal year 2021-22, however, returns through February 28, 2022, were 2.31%. Global markets remain volatile due to continued uncertainty about tighter monetary policy, inflation, and the effect of the war in Ukraine. Final results below the 7.2% assumption will result in higher retirement contribution costs during the forecast period. As discussed in "EMPLOYMENT COSTS; POST EMPLOYMENT OBLIGATIONS – San Francisco Employees' Retirement System ("SFERS" or "Retirement System")," Returns in fiscal year 2021-22 were estimated to be -2.78% at June 30, 2022.
- **COVID-19 pandemic and public health response:** As noted in the Joint Report, the COVID-19 pandemic and its impact on both the local economy and the demands on the City's public health system continue to be areas of great uncertainty. The projection only assumes modest expenses to address COVID-19 that were budgeted in the previous two-year budget process. Any increase in the level of public health response without subsequent additional revenue would impact this forecast.
- **State and federal budget impacts:** In recent years, federal funding has been a significant source of revenue in this forecast. Other than some improvements in FEMA revenue based on current year claims, this forecast does not project any major changes in federal revenue allocations. Further, the Governor introduced changes to the fiscal year 2022-23 State budget in the May Revise, which were further amended by the State legislature; this projection did not assume significant new State budget proposals at the time, aside from modest education funding formula changes noted in the "GENERAL FUND REVENUES – Property Taxation" section herein.

- **Pending or proposed new programs or legislation:** Legislative or voter-approved increases to existing baselines, set-asides, or other new spending increases without commensurate revenue increases from new funding sources will impact the projections included in the March Joint Report.

As noted above, the City expects to issue a new Five-Year Financial Plan in January 2023. Since the release of the of the March Joint Report in May 2022, several of the key risk factors noted in the March Joint Report have materialized and based on its preliminary analysis the City expects that the next Five-Year Financial Plan to project materially higher cumulative deficits in latter years. These factors include but are not limited to: further recessionary risks affecting the national and local economy caused in part by interest rates reaching 40 year highs, and remote working continuing at higher levels than projected in the most recent Five-Year Financial Plan with the corresponding effect on business taxes, commercial office vacancies and the general economic impact of having fewer workers returning to their offices. These negative budgetary impacts may be offset in the short-term by performance of certain projected revenues, including hotel and sales taxes. See “CITY FINANCIAL CHALLENGES” and “BUDGETARY RISKS – Office Vacancy in San Francisco” for additional detail.

Other Budget Updates: Fiscal Year 2021-22 Nine-Month Budget Status Report; Preliminary Fiscal Year 2021-22 Year End Analysis

The Nine-Month Budget Status Report (the “Nine-Month Report”) was released on May 16, 2022. The Nine-Month Report indicates a projected General Fund net surplus of \$252.5 million in fiscal year 2021-22, which is a \$120.9 million improvement from the March Joint Report. This includes a \$149.2 million improvement in the projected ending balance in the current year offset by a \$28.3 million deposit in the coming fiscal year required to replenish current year reserve draws.

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Nine Month Report
FY21-22 Projected General Fund Variances to Budget (\$ million)

	<u>March Joint Report vs FY22 Budget</u>	<u>Nine-Month Report vs FY22 Budget</u>	<u>Change from March Joint Report to Nine-Month Report</u>
FY2020-21 Ending Fund Balance	205.8	205.8	0.0
FY2021-22 Anticipated ARPA	324.9	324.9	0.0
Appropriation in the FY2021-22 Budget	(498.8)	(498.8)	0.0
Prior Year Fund Balance Above Budgeted Levels	31.8	31.8	0.0
Citywide Revenues	2.5	40.7	38.2
Baseline Contributions	(41.0)	(49.3)	(8.3)
Departmental Operations	91.5	210.8	119.3
Current Year Revenues and Expenditures	52.9	202.1	149.2
General Reserve Appropriated - Source	9.4	37.6	28.2
Fiscal Cliff Reserve Appropriated - Source	64.2	64.2	0.0
Supplemental Appropriations - Expenditure	(73.6)	(101.8)	(28.2)
FY2021-22 Mid-Year Appropriation of Fund Balance	(7.4)	(7.4)	0.0
Approved Supplementals + Mid-Year Appropriations	(7.4)	(7.4)	0.0
Use of Business Tax Prepayment Reserve	26.0	26.0	0.0
Withdrawals from/(Deposits) to Reserves	26.0	26.0	0.0
FY2021-22 Projected Ending Balance	103.3	252.5	149.2
FY2022-23 Required General Reserve Replenishment	(9.4)	(37.6)	(28.2)
Improvement versus Prior Projection	93.9	214.9	120.9

The following is a discussion of certain elements of the revised fiscal year 2020-21 projections in the Nine-Month Report:

- Implications for upcoming fiscal years.** This improved balance from the current year will increase the projected surplus for the coming two-year budget period, should the Mayor and Board choose to spend it. This improvement is offset by the cost of labor contracts currently pending final negotiation, ratification, and approval. The cost of these labor contracts is higher than assumed in the prior projection by approximately \$180 million during the two year period. Accounting for these two significant factors alone – the current year improvement noted in this report and the cost of pending labor contracts – **would result in projected surplus for the upcoming two-year budget of approximately \$15 million.**
- Primary drivers of this change.** The majority of the change versus the last current fiscal year projection are driven by a \$77.1 million improvement in revenues at the Department of Public Health (DPH). The majority of DPH’s revenue variance is driven by large, one-time grants and audit settlements, including a \$35.7 million threshold change for the Global Payment Program, a \$26.4 million improvement resulting from the extension of the Federal Medical Assistance Percentage emergency rate, and \$17.8 million in other one-time grant and audit settlements. Other notable changes projected in the Nine-Month Report include a \$38.2 million improvement in citywide tax

revenues, predominantly driven by property taxes, and \$18.6 million in improvement due to lower than previously anticipated costs for overtime costs associated with COVID staffing shortages.

Estimated emergency response costs are reflected in these projections. Emergency appropriations have increased the COVID response budget by \$139.7 million, and the Department of Public Health (DPH) has transferred \$10.9 million of Whole Person Care pilot program budget to COVID response. The Board of Supervisors has approved the use of \$32.3 million of state Project RoomKey revenue for the Shelter in Place (SIP) hotel program; while this will fund the program through the end of the current fiscal year, it may not be sufficient for damage repair costs as the City exits hotels. DPH's Nine-Month Report projection reflects additional need of \$9.8 million for its response activities. For the Tenderloin Drug Overdose Emergency, emergency appropriations have increased budget by \$7.4 million, and the Department of Emergency Management has repurposed \$2.0 million of COVID response budget to the Tenderloin Emergency.

Preliminary Fiscal Year 2021-22 year end analysis. The ACFR for fiscal year 2021-22 is anticipated to be issued in December 2022 and final results are still pending. However, based on the City's preliminary analysis, the City expects to have ended fiscal year 2021-22 with a slightly larger General Fund balance than previously projected by the Nine Month Report.

Original Budget for Fiscal Years 2022-23 and 2023-24

On June 1, 2022, the Mayor submitted a proposed, balanced budget for fiscal years 2022-23 and 2023-24 to the Board of Supervisors. On July 26, 2022, the Board of Supervisors adopted an amended final budget, and the Mayor approved this budget on July 27, 2022.

The Original Budget totals \$14.0 billion for fiscal year 2022-23 and \$13.9 billion for fiscal year 2023-24. The General Fund portion is \$6.8 billion in fiscal year 2022-23 and \$6.9 billion in fiscal year 2023-24. There are 33,207 funded full-time equivalent positions in fiscal year 2022-23 and 33,629 in fiscal year 2023-24, representing a year-over-year increase of 1,027 and a year-over-year increase of 422 positions, respectively.

Other Budget Updates: Fiscal Year 2022-23 and 2023-24 Revenue Letter

On June 9, 2022, the Controller's Office published the Revenue Letter, fulfilling a Charter requirement to comment on the revenue estimates assumed in the Mayor's proposed budget. The revenue estimates in the Mayor's proposed budget on June 1, 2022 was largely unchanged versus the budget adopted on July 27, 2022.

The Revenue Letter found tax revenue assumptions to be reasonable, but cautioned revenues are highly dependent on the course of economic reopening, will require frequent monitoring, and are subject to updates as conditions change.

The revenue letter observes the following about Mayor's proposed budget:

- Tax revenue assumptions are reasonable and based on the expectation that San Francisco's economy will recover from the public health emergency over several years, with the help of recently adopted new sources of revenue. The budget broadly assumes General Fund local tax

revenue recovers to pre-pandemic levels by fiscal year 2023-24, with significant projected growth during the two budget years. However, the City's fiscal recovery is largely driven by tax increases and new revenue sources that went into effect during the COVID-19 pandemic or are about to be implemented in the budget years. The impact of the pandemic on the City's core, economically sensitive tax revenues – business, hotel, sales, and parking taxes – is expected to linger beyond the budget years, through fiscal year 2025-26.

In fiscal year 2022-23, the largest increases in General Fund tax revenues are in property, hotel, and executive compensation taxes, with increases of \$263.9 million, \$110.4 million, and \$60.0 million, respectively, from the fiscal year 2021-22 original budget. This growth is partially offset by a decrease in business and cannabis tax. In fiscal year 2023-24, General Fund revenue continues to grow from fiscal year 2022-23, with growth in property, business, and hotel taxes, as the city continues its economic recovery. The General Fund budget includes the November 2020 Proposition F business tax overhaul, which raises gross receipts tax rates; November 2020 Proposition I transfer tax rate increase, which doubled taxes on transfers \$10 million and over; and November 2020 Proposition L tax on executive compensation, which is effective in the 2022 tax year. The combined impact of these policy changes total \$233.0 million and \$304.8 million in fiscal year 2022-23 and fiscal year 2023-24, respectively.

The revenue outlook for the City is closely tied to the recovery of sectors most affected by the pandemic: tourism, office using industries, and small businesses. The extent to which changes in these sectors, including the prevalence of telecommuting, patterns of out-migration, resumption of conventions and international travel, are temporary or permanent will be critically important to the City's tax base. The Revenue Letter notes that the Controller's Office will closely monitor and report on revenues during the upcoming fiscal year, and active management of the City's budget will likely be required by the Mayor and Board of Supervisors.

- The budget assumes nearly \$1 billion of General Fund one-time sources over the two-years, comprised of federal disaster relief, fund balance, and reserves. The budget includes \$407.5 million of FEMA reimbursements for COVID-19 emergency response costs through June 30, 2022, given current estimated timelines for FEMA to obligate and remit funds. The budget also uses \$364.0 million of current year fund balance and \$177.8 million of reserves.

By fiscal year 2023-24, the City will have used more than \$500 million (or about 40%) of its almost \$1.4 billion of reserves, as of fiscal year 2018-19, to support on-going operations. If the City's tax revenues do not grow significantly faster than our latest projections, the City's projected structural deficit will increase as a result. The Mayor's proposed budget maintains a balance of \$380.3 million in the combined Rainy Day and Budget Stabilization reserves (also known as combined "Economic Stabilization Reserves"). General Reserve deposits of \$64.4 million and \$20.6 million in fiscal year 2022-23 and fiscal year 2023-24, respectively, are budgeted at required levels.

- Nonrecurring Revenue Policy. The Board of Supervisors has adopted a nonrecurring revenue policy, codified in Administrative Code Section 10.61, which requires selected nonrecurring revenues to be used only for nonrecurring expenditures. As defined by this policy, the fiscal year 2022-23 and fiscal year 2023-24 budget relies on \$177.8 million of one-time sources (use of reserves) to support \$357.8 million of one-time expenditures.

The revenue letter observes the following key financial risks:

- Economic risk. The budget assumes an economic recovery will drive tax revenue growth of \$557.0 million in fiscal year 2022-23 and \$305.9 million in fiscal year 2023-24. While these assumptions track to the City’s economic and financial projections, they are subject to significant uncertainty. Key factors to monitor include whether conditions in the City will remain relatively favorable and continue to permit a growing amount of economic activity to resume; whether return to offices will play out as expected in the coming two fiscal years; and whether the local hospitality and convention industries will recover at the pace underpinning these tax revenue projections. Modest changes in these key factors would drive significant variances in actual financial revenue performance.

In addition, economists have become increasingly concerned about the potential for a recession in the next twelve months. The war in Ukraine has increased prices of gasoline, metals, and other raw materials. These increases, along with the excess demand in the labor market, are increasing pressure on the Federal Reserve to raise interest rates to tamp down inflation. Aggressive rate hikes could increase the risk of recession.

- Laguna Honda Hospital. The City has received notice from the Centers for Medicare and Medicaid Services (CMS) of termination of eligibility for participation in those federal programs for services provided at Laguna Honda Hospital. The City is seeking an extension of those revenue sources during the recertification process, which may take six months or longer to complete. If this request for continuity of payment is not successful, the City would lose approximately \$16 million per month. The City maintains a Public Health Revenue Reserve that may be utilized to offset these losses in the current year, should it occur. See “BUDGETARY RISKS – Laguna Honda Hospital Potential Loss of Federal Funding.”
- Federal revenue risk. The City anticipates \$629.5 million of reimbursements from the Federal Emergency Management Agency (FEMA) for public health emergency response costs incurred beginning in March 2020, including amounts in the proposed budget of \$243.4 million in fiscal year 2022-23 and \$164.4 million in fiscal year 2023-24. To date, FEMA has obligated \$222.0 million of claims and \$219.0 million has been paid to the City. The federal reimbursement and auditing process will likely continue for several fiscal years, leaving a key risk to budgeted revenues.
- Structural budget challenges in future fiscal years. As noted above, the Mayor’s proposed budget is balanced with a heavy reliance on one-time sources, including FEMA reimbursements, reserves, and fund balance. As proposed, these funds would be depleted over the two-year budget period, leaving a structural budget challenge, projected to be \$44.2 million in fiscal year 2024-25 and \$156.2 million in fiscal year 2025-26 in the March 2022 update to the Five-Year Financial Plan.

BUDGETARY RISKS

In addition to the budgetary risks described below, see “CITY BUDGET – Other Budget Updates: Fiscal Year 2021-22 Nine-Month Budget Status Report” for the most recent periodic budget status update released from the Controller’s Office, as required by Section 3.105 of the City Charter.

Threat of Recession

Geopolitical events and successive interest rate increases by the Federal Reserve to combat inflation have increased expectations of recession in financial markets. A recession could adversely impact the City's economy, and the financial condition of the General Fund. During the "Great Recession" that occurred nationally from December 2007 to June 2009 (according to the U.S. National Bureau of Economic Research), California real GDP growth slowed for five consecutive quarters from the third quarter of 2008 to the third quarter of 2009 and did not return to pre-recession level of output until three years later in the third quarter of 2012. The unemployment rate rose steadily from 4.9% in the fourth quarter of 2006 to peak at 12.3% in the fourth quarter of 2010 and did not return to the pre-recession level until the second quarter of 2017.

Commuting Pattern Changes

An increase in telecommuting creates revenue risk. Approximately half of workers in major tax-paying sectors such as professional services, financial services, and information live outside of San Francisco. Continued high levels of telecommuting and work from anywhere policies may affect how much of any business's gross receipts are apportionable to the City. San Francisco still lags the state as a whole in time spent at workplaces, and weekly office attendance has reached approximately 40 percent, below other peer cities. As of September 2022, BART ridership was slightly over 30% of pre-pandemic levels. Businesses owe gross receipts tax only on their employees physically working within the City. For certain categories of businesses, the gross receipts tax is also dependent on their San Francisco payroll. Thus, the sharp rise in telecommuting has resulted in reduced business taxes and, if the change becomes permanent, could negatively impact the City for the foreseeable future. Although some City residents who previously commuted out of the City are now telecommuting from within the City, many of these residents work for employers who do not have a nexus in the City, and thus are not subject to business taxes.

Office Vacancy in San Francisco

On October 19, 2022, the Chief Economist of the City's Office of the Controller released a memorandum regarding the impact of remote work on commercial property and tax revenue in the City. The following summarizes certain portions of such memorandum.

The City has experienced the largest increase in office vacancy among major urban office markets in the United States, currently estimated at 24% in the 3rd quarter of 2022, from around 5% before the pandemic. Because of the prevalence of long-term leases in the commercial real estate industry, sudden reductions in demand often result in increases in sublease vacancy, instead of direct vacancy. Sublease vacancy occurs when existing tenants vacate their space and seek to find sub-lessees, but continue to pay rent under the original lease. A direct vacancy occurs when the original lease has been broken, or has expired and not been renewed. In this case, the property's income declines until a new lease is signed. In San Francisco, sublease vacancies were a very high percentage (80-90%) of office vacancies during 2020 and 2021. In 2022, the sublease vacancy rate has declined, while the direct vacancy rate has continued to rise.

By mid-2022, direct vacancies accounted for most of the vacant office space in San Francisco, according to Jones Lang LaSalle IP, Inc. ("JLL"). For example, JLL has developed a series of office vacancy rate forecasts for the City, through the year 2026. JLL generally show historically high office vacancy rates persisting throughout the forecast period. JLL forecasts office vacancy in the city to remain between 19.5%

and 25.3% by 2026, a range which is as high, or higher than any previous peak in office vacancy dating back to the 1990s. JLL also forecasts rents to rise again by the end of the forecast period, but at a slower rate than was seen in the 2010s. If vacancy rates remain at this elevated level, and a large share of these are direct vacancies, then the income, and market value, of office buildings in the city are likely to be negatively affected. The market value of commercial real estate reflects the current and future income that the market expects the property to generate. If expectations of future income streams are reduced, then the market value of office properties will be reduced.

A reduction in demand from tenants is not the only thing that could reduce the market value of San Francisco office buildings in the near future. Using an income valuation approach, the market value of properties is commonly estimated as the property's net operating income, divided by its capitalization rate (its effective rate of return). Capitalization rates are generally calculated from the sales of comparable properties, and vary across markets, and over time, according to changes in investors' perception of risk, and the risk-free rate of return. When investors perceive greater risk, they require a higher rate of return, and the spread between that asset's capitalization rate and the risk-free rate. Widens. When the capitalization rate rises, for whatever reason, the market value of a property will decline, all other things being equal.

The market value of a property is important for property tax revenue, because a property's assessed value – the basis of its property tax liability – may not exceed its market value. If a property owner believes a property is assessed above its market value, they can request a reduction in assessment from the Assessor, and/or appeal a decision to the Assessment Appeals Board.

Under California's Proposition 13, however, a property's assessed value may grow by no more than 2% per year, unless a sale or other assessable event (like new construction) prompts a reassessment. In San Francisco, for several decades, the average market value of most classes of property has increased by well more than 2% annually. Proposition 13 has thus created a situation in which most San Francisco properties, that have not been recently sold, are assessed at levels below their market value. Most properties would not be over-assessed, and property tax revenue would not be at risk, if their market values declined by a small amount. In other words, Proposition 13 effectively cushions the City's property tax base from downturns in property markets, at the cost of reduced growth in property tax revenue during periods of strong economic growth.

On November 16, 2022, the Controller's Office provided a presentation to the Board of Supervisors concerning potential property tax implications relating to the continuation of significant remote work by employees of companies located in the City (the "Office Property Tax Presentation"). The presentation noted that remote work has persisted in the City, and that office vacancy rates have risen and could rise further. The Office Property Tax Presentation contained projected property tax losses based on three different market value scenarios provided by JLL relating to continuing remote work and vacancy rates. The projected losses under scenarios ranged from approximately \$80 million to \$150 million by 2026, with a potential widening to \$100 million to \$200 million by 2028, if conditions do not improve. The City cannot predict the actual level of revenues losses, however the City will continue to account for these trends in our periodic reports.

COVID-19 Pandemic

The COVID-19 pandemic is ongoing, and the City will likely incur significant additional costs, depending on the ultimate duration and severity of the pandemic. The City can give no assurance of the duration or severity of the COVID-19 pandemic, and there is no assurance that its effects will not impose more significant financial and operating effects on the City before mitigation measures are successfully implemented.

Bankruptcy Filing by the Pacific Gas and Electric Company (PG&E)

On January 29, 2019, PG&E filed for Chapter 11 bankruptcy protection to shield itself from potential wildfire liability that was estimated upwards of \$30 billion. Taxes and fees paid by PG&E to the City total approximately \$75 million annually and include property taxes, franchise fees and business taxes, as well as the utility user taxes it remits on behalf of its customers.

On June 20, 2020, the United States Bankruptcy Court for the Northern District of California confirmed PG&E's Plan of Reorganization, and on July 1, 2020 PG&E announced that it had emerged from Chapter 11 bankruptcy. As part of its restructuring, on June 9, PG&E announced that it would be relocating its business headquarters, currently located at 245 Market Street and 77 Beale Street in San Francisco, to Oakland. The relocation was expected to begin June 2022.

During the pendency of the PG&E bankruptcy, on September 6, 2019 the City submitted a non-binding indication of interest ("IOI") to PG&E and PG&E Corporation to purchase substantially all of PG&E's electric distribution and transmission assets needed to provide retail electric service to all electricity customers within the geographic boundaries of the City ("Target Assets") for a purchase price of \$2.5 billion (such transaction, the "Proposed Transaction"). In a letter dated October 7, 2019, PG&E declined the City's offer. On November 4, 2019, the City sent PG&E a follow-up letter reiterating its interest in acquiring the Target Assets. To demonstrate public support for the Proposed Transaction, on January 14, 2020, the City's Board of Supervisors and the PUC's Commission conditionally authorized the sale of up to \$3.065 billion of Power Enterprise Revenue Bonds to finance the acquisition of the Target Assets and related costs, subject to specific conditions set forth in each authorizing resolution.

On July 27, 2021, the City submitted a petition with the California Public Utilities Commission ("CPUC") seeking formal determination of the value of investor-owned PG&E's local electric infrastructure. The matter is pending before the CPUC and the City can give no assurance about whether or when the CPUC will hold a hearing on the matter.

The City is unable to predict whether it will be able to consummate a final negotiated acquisition price for the Target Assets and, if so, the terms thereof. Any such final terms would be subject to approval by the Board of Supervisors and the PUC. If consummated, it is expected that such new electric system would be wholly supported by its own revenues, and no revenues of the City's General Fund would be available to pay for system operations, or City General Fund secured bonds issued to acquire the Target Assets. The City is committed to acquiring PG&E's assets and expects to continue its pursuit with the newly reorganized entity.

Impact of Recent Voter-Initiated and Approved Revenue Measures on Local Finances

On August 28, 2017, the California Supreme Court in California *Cannabis Coalition v. City of Upland* (August 28, 2017, No. S234148) (“Upland Decision”) interpreted Article XIII C, Section 2(b) of the State Constitution, which requires local government proposals imposing general taxes to be submitted to the voters at a general election (i.e., an election at which members of the governing body stand for election). The court concluded such provision did not to apply to tax measures submitted through the citizen initiative process. Under the Upland Decision, citizens exercising their right of initiative may now call for general or special taxes on the ballot at a special election (i.e. an election where members of the governing body are not standing for election). The court did not, however, resolve whether a special tax submitted by voter initiative needs only simple majority voter approval, and not the super-majority (i.e. two-thirds) voter approval required of special taxes placed on the ballot by a governing body. On June 5, 2018 voters of the City passed by majority vote two special taxes submitted through the citizen initiative process: a Commercial Rent Tax for Childcare and Early Education (“June Proposition C”) and a Parcel Tax for the San Francisco Unified School District (“Proposition G” and, together with June Proposition C, the “June Propositions C and G”). In addition, on November 6, 2018 voters passed by a majority vote a special tax submitted through the citizen initiative process: a Homelessness Gross Receipts Tax (“November Proposition C”), a gross receipts tax on larger companies in the City to fund affordable housing, mental health, and other homeless services.

The Upland Decision was subsequently affirmed by the California Supreme Court when it declined to review lower court challenges by plaintiffs in two other San Francisco Cases: *City of County of San Francisco v. All Persons Interested in the Matter of Proposition C*, 51 Cal. App. 5th 703 (2020) (Court of Appeal rejected a taxpayer challenge to validity of June Proposition C) and *City of County of San Francisco v. All Persons Interested in the Matter of Proposition G* (July 26, 2021, A16059) (Court of Appeal rejected a taxpayer challenge to validity of Proposition G). In so doing, the Upland Decision was affirmed as binding authority for the proposition that special taxes submitted through a citizen’s initiative process only need pass by a majority vote, and not the supermajority requirement of Article XIII C, Section 2(b) of the State Constitution.

Impact of the State of California Budget on Local Finances

Revenues from the State represent approximately 10% of the General Fund revenues appropriated in the Final Adopted Budget for fiscal years 202-23 and 2023-24, and thus changes in State revenues could have a material 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 May 13, 2022, the Governor released the May Revision to the State of California’s Proposed Budget for fiscal year 2022-23 (the “May Revision”). The State estimates that there is a surplus of \$97.5 billion to allocate in the fiscal year 2022-23 budget process. The Governor proposes spending approximately almost all of the \$49 billion discretionary resources on a one-time or temporary basis, including \$18.1 billion to provide inflation relief for California citizens (including tax refunds, emergency rental assistance and assistance with past-due utility bills), \$37 billion for infrastructure investments, and \$2.3 billion on COVID-19-related expenditures. Additionally, the May Revision allocated nearly \$128.3 billion in spending for schools and community colleges throughout the State.

Impact of Federal Government on Local Finances

The City receives substantial federal funds for assistance payments, social service programs and other programs. A portion of the City's assets are also invested in securities of the United States government. The City's finances may be adversely impacted by fiscal matters at the federal level, including but not limited to cuts to federal spending.

In the event Congress and the President fail to enact appropriations, budgets or debt ceiling increases on a timely basis in the future, such events could have a material adverse effect on the financial markets and economic conditions in the United States and an adverse impact on the City's finances. The City cannot predict the outcome of future federal budget deliberations and the impact that such budgets will have on the City's finances and operations. The City's General Fund and hospitals, which are supported by the General Fund, collectively receive over \$1 billion annually in federal subventions for entitlement programs, the large majority of which are reimbursements for care provided to Medicaid and Medicare recipients. See "Laguna Honda Hospital Potential Loss of Federal Funding." In addition, tens of thousands of San Franciscans receive federal subsidies to purchase private insurance on the State's health care exchange, Covered California. Efforts to change such subsidies or alter provisions of the Affordable Care Act through regulatory changes could have significant effects on future health care costs.

Under the CARES Act, the United States Treasury department distributed \$150 billion to state and local governments within 30 days of enactment under a population-based formula. The statute limits the use of funds to COVID-19 expense reimbursement rather than to offset anticipated State tax revenue losses. The City received a direct allocation of \$153.8 million from this Coronavirus Relief Fund, which was used to cover COVID-19-related medical, public health, economic support, and other emergency response costs. In addition, the State allocated \$20.7 million of its allocation to the City for the same purposes. These funds were spent in fiscal years 2019-20 and 2020-21. The federal government also provides significant funding for COVID-19 expenses through FEMA.

On March 11, 2021, President Biden signed H.R. 1319, the American Rescue Plan Act of 2021 ("ARPA"). The bill includes \$350 billion in state and local government fiscal aid to augment allocations provided in the CARES Act Coronavirus Relief Fund ("CRF"), through which San Francisco is to directly receive \$624.8 million. Distributions occurred in two tranches, one each in 2021 and 2022, and are required to be spent by December 31, 2024. Allowable uses include COVID-19 response or mitigation of the negative economic impacts of it, such as assistance to households, small businesses, nonprofits, and aid to impacted industries. A critical improvement versus CRF funds is that ARPA funds may be used for the provision of government services to the extent of the reduction in revenue. San Francisco will likely benefit from other subventions and grants authorized in the bill. This funding is assumed in the Original Budget for fiscal years 2021-22 and 2022-23.

Laguna Hospital Potential Loss of Federal Funding

The Laguna Honda Hospital and Rehabilitation Center (the "Laguna Honda Hospital") is a skilled nursing facility owned and operated by the City through its Department of Public Health, serving up to over 700 patients, most of whom are low income or extremely low income residents. On March 30, 2022, the City received notice from the Centers for Medicare and Medicaid Services ("CMS"), an agency within the federal Department of Health & Human Services ("DHHS") responsible for administering federal health care programs that, effective April 14, 2022, CMS was terminating its contract with the City for Medicare

and Medicaid reimbursements for patients at the Laguna Honda Hospital. CMS's notice of termination of Laguna Honda Hospital's provider agreement for Medicare and Medicaid reimbursements relates to a series of incidents from July 2021 to March 30, 2022 that the Laguna Honda Hospital self-reported to the California Department of Public Health ("CDPH", the state agency with delegated authority to enforce all applicable regulations and federal conditions of participation for Medicare and Medicaid) and follow up surveys by CDPH and CMS. CDPH and CMS determined that Laguna Honda Hospital had not substantially complied with the CMS conditions of participation in the Medicare program. Out of the approximately \$308.6 million fiscal year 2021-22 budget for operating the Laguna Honda Hospital, approximately \$202.73 million is paid from reimbursements from CMS. The remaining portion of the budget is paid from the City's General Fund. CMS initially agreed to extend funding at least through November 13, 2022. On October 12, 2022, CMS agreed to extend Medicare and Medicaid payment for services through November 13, 2023, contingent on Laguna Honda meeting requirements aimed at making health and safety improvements at the facility. During this period, Laguna Honda will continue to work on quality improvement efforts while aiming to reapply to participate in Medicare and/or Medicaid. Additionally, transfers and discharges of current residents will remain paused until February 2, 2023, with a possibility of a further extension if Laguna Honda complies with its obligations under the terms of the extension. The Laguna Honda Hospital has undertaken steps to address the findings determined by CDPH and CMS. Laguna Honda Hospital plans to seek recertification of its eligibility to participate in Medicare and Medicaid. The City filed an administrative appeal with DHHS challenging the termination and the findings and deficiencies that initiated the termination process of Laguna Honda Hospital's provider agreement. The City also filed a lawsuit against CMS in federal court challenging CMS' termination of Laguna Honda Hospital's Medicare provider agreement on substantive due process grounds. Separately, the Renne Public Law Group filed a lawsuit against CMS and CDPH on behalf of the patients challenging the termination of Laguna Honda Hospital's Medicare provider agreement, the notice of closure, and patient transfer and relocation plan. The administrative appeal and the two lawsuits are ongoing and pending final resolution. The City can make no assurance regarding the outcome of any appeal, lawsuit, or recertification process with CMS, nor can the City predict the outcome of the administrative appeal or lawsuits. Loss of reimbursements from CMS would have a material adverse impact on the Laguna Honda Hospital's finances and operations, depending on whether the loss is temporary or permanent, including its ability to deliver health care services to residents of the City, if such loss of reimbursement funds are not offset by additional funding from the City's General Fund or other available sources. CMS' actions does not revoke Laguna Honda Hospital's license to operate from the CDPH, which the City paid the appropriate fees to renew in September 2022.

THE SUCCESSOR AGENCY

Effect of the Dissolution Act

The San Francisco Redevelopment Agency (herein after the "Former Agency") was organized in 1948 by the Board of Supervisors 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.

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, (collectively, the "Dissolution Act"), 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 agencies all under the supervision of a new oversight board, the State Department of Finance and the State Controller.

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 to the Former Agency: the “Successor Agency to the Redevelopment Agency of the City and County of San Francisco,” (the “Successor Agency”) also referred to as the “Office of Community Investment & Infrastructure” (“OCII”), (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 to implement the surviving redevelopment projects, the replacement housing obligations of the Former Agency and other enforceable obligations and the authority to take actions that AB 26 and AB 1484 require or allow and (iv) established the composition and terms of the members of the Successor Agency Commission.

Because of the existence of enforceable obligations, the Successor Agency is authorized to continue to implement, through the issuance of tax allocation bonds, certain major redevelopment projects that were previously administered by the Former Agency. The Successor Agency exercises land use, development and design approval authority for the developed projects. The Successor Agency, in addition to other various City agencies and entities, also may issue community facilities district (“CFD”) bonds from time to time to facilitate development in the major approved development projects in accordance with the terms of such enforceable obligations. See also, Table A-33: “Statement of Direct and Overlapping Debt and Long-Term Obligations.”

CITY INFRASTRUCTURE FINANCING DISTRICTS

San Francisco has formed numerous special financing districts in order to finance infrastructure improvements benefiting the public in newly developing areas of the City. Projects that may be financed by revenues from special finance districts include, but are not limited to streets, water and sewer systems, libraries, parks, and public safety facilities. Pursuant to California Government Code Section 53395 *et seq.* (“IFD Law”), the Board of Supervisors has formed Infrastructure Financing Districts and Infrastructure Revitalization Financing Districts (collectively “IFDs”) within the geographic boundaries of the City.

Under the IFD Law, municipalities may fund improvements within the IFD geographic boundary. IFDs capture increases in property tax revenue stemming from growth in assessed value as a result of new development and uses that revenue to finance infrastructure projects and improvements. Each district has its own plan of finance for the allocation and use of tax increment.

GENERAL FUND REVENUES

The revenues discussed below are recorded in the General Fund, unless otherwise noted.

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 30, the 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. Typically, the Board of Supervisors approves the schedule of tax rates each year by resolution no later than the last working day of September. The Treasurer and Tax Collector prepares and mails tax bills to taxpayers and collects 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-6 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. It is possible that the COVID-19 pandemic, which triggered business changes such as extended work-from-home policies that resulted in less demand for office spaces, will result in a reduction in property values in the City, and such reduction could be material.

The total tax rate shown in Table A-6 includes taxes assessed on behalf of the City as well as the San Francisco Unified School District (SFUSD), County Office of Education (SFCOE), San Francisco Community College District (SFCCD), Bay Area Air Quality Management District (BAAQMD), and San Francisco Bay Area Rapid Transit District (BART), all of which are legal entities separate from the City. See also, Table A-33: "Statement of Direct and Overlapping Debt and Long-Term Obligations." 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 Office of Community Investment and Infrastructure (OCII), the successor agency to the San Francisco Redevelopment Agency. 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 and a portion of administrative costs of the agency, reducing 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. OCII received \$133.6 million of property tax increment in fiscal year 2021-22 for recognized obligations, diverting about \$74.3 million that would have otherwise been apportioned to the City's General Fund.

The percent collected of property tax (current year levies excluding supplemental) was 99.18% for fiscal year 2021-22.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property
Fiscal Years 2008-09 through 2022-23
(000s)

Fiscal Year	Net Assessed ¹ Valuation (NAV)	% Change from Prior Year	Total Tax Rate per \$100 ²	Total Tax Levy ³	Total Tax Collected ³	% Collected June 30
2008-09	141,274,628	8.7%	1.163	1,702,533	1,661,717	97.6%
2009-10	150,233,436	6.3%	1.159	1,808,505	1,764,100	97.5%
2010-11	157,865,981	5.1%	1.164	1,888,048	1,849,460	98.0%
2011-12	158,649,888	0.5%	1.172	1,918,680	1,883,666	98.2%
2012-13	165,043,120	4.0%	1.169	1,997,645	1,970,662	98.6%
2013-14	172,489,208	4.5%	1.188	2,138,245	2,113,284	98.8%
2014-15	181,809,981	5.4%	1.174	2,139,050	2,113,968	98.8%
2015-16	194,392,572	6.9%	1.183	2,290,280	2,268,876	99.1%
2016-17	211,532,524	8.8%	1.179	2,492,789	2,471,486	99.1%
2017-18	234,074,597	10.7%	1.172	2,732,615	2,709,048	99.1%
2018-19	259,329,479	10.8%	1.163	2,999,794	2,977,664	99.3%
2019-20	281,073,307	8.4%	1.180	3,509,022	3,475,682	99.0%
2020-21	299,686,811	6.6%	1.198	3,823,246	3,785,038	99.0%
2021-22	307,832,248	2.7%	1.182	3,864,100	3,832,546	99.2%
2022-23	328,530,494 ⁴	6.7%	1.180	3,876,660	N/A	N/A

¹ 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 2021-22 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 SCO). Total Tax Levy for fiscal year 2022-23 is based upon initial assessed valuations times the secured property tax rate to provide an estimate.

⁴ Based on initial assessed valuations for fiscal year 2022-23

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

SCO source noted in (3): <http://www.sco.ca.gov/Files-ARD-Tax-Info/TaxDelinq/sanfrancisco.pdf>

At the start of fiscal year 2022-23, the total net assessed valuation of taxable property within the City was approximately \$328.5 billion. Of this total, \$311.8 billion (94.9%) represents secured valuations and \$16.7 billion (5.1%) 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 the 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. Taxpayers can appeal the Assessor’s determination of their property’s assessed value, and 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 assessment appeals as the economy rebounds. During the severe economic downturn of fiscal years 2009-10 and 2010-11, partial reductions of up to approximately 30% of the assessed valuations appealed were 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, SFCOE, SFCCD, BAAQMD, and BART share proportionately in 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 the period following the Great Recession, assessment appeals increased significantly, and a similar trend is developing post-pandemic. For scale, in the wake of the Great Recession, the reductions in residential property assessed value reached upwards of \$2 billion in 2010-11. As described further below, the number of new assessment appeals filed as of September 30, 2022, which represents approximately 1.0% of all parcels in San Francisco, increased by approximately 10% from the number of new assessment appeals filed during the same period the prior year.

It is possible that global and national recessions and economic dislocation will result in declines in real estate values in the City, and such declines could be material.

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 appeals reserve fund for fiscal years 2013-14 through 2021-22 are listed in Table A-7 below.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO
Reduction of Prior Years' Property Tax Revenues
General Fund
Fiscal Years 2013-14 through 2021-22
(000s)

Fiscal Year	Amount Refunded
2013-14	\$25,756
2014-15	16,304
2015-16	16,199
2016-17	33,397
2017-18	24,401
2018-19	30,071
2019-20	17,900
2020-21*	10,729
2021-22	16,479

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

* Amount reduced in FY2020-21 and forward reflects both Teeter and Non-Teetered property tax amounts.

A property's annual assessed value is determined as of January 1 of the year preceding the fiscal year for which taxes are billed and paid. Under California's Proposition 13, a property's annual assessed value is the lesser of (1) its base year value (fair market value as of the date of change in ownership or completion of new construction), factored for inflation at no more than two percent per year; or (2) its fair market value as of January 1 of the year preceding the fiscal year for which property taxes are billed and paid. If a property's fair market value falls below its factored base year value, the reduced value is enrolled on a temporary basis (for one year) and is commonly referred to as a "Proposition 8" reduction, after the 1978 initiative. If a property receives a temporary "Proposition 8" reduction, the Assessor is required to annually review the property for a decline-in-value reduction for each subsequent January 1 lien date, until the time when the market value exceeds the property's factored base year value, then the factored base year value will be enrolled as the taxable value for that January 1 lien date.

Assessors in California have authority to use Proposition 8 criteria to apply reductions in valuation to classes of properties affected by any factors affecting value, including but not limited to negative economic conditions. By the start of the fiscal year 2022-23, the Assessor had granted 7,012 temporary decline-in-value reductions, resulting in an assessed value reduction of \$1.25 billion citywide to the 2022 Assessment Roll. The largest number of these reductions, totaling 4,508 and a loss of \$1.01 billion in assessed value, were for condominiums. For comparison, in fiscal year 2020-21, the Assessor granted 2,797 decline-in-value reductions resulting in a total assessed value reduction of \$377.88 million, and in fiscal year 2021-22 the Assessor granted \$2.3 billion in assessed value reductions to the 2021 Assessment Roll.

In addition, qualifying taxpayers seek adjustment of their property assessed values based on a variety of factors. Requests for changes can be motivated by real estate market conditions or other factors.

A qualifying taxpayer can seek assessed value adjustments from the Assessment Appeals Board ("AAB") or from the Assessor or both. There are several types of appeals – Supplemental and Base Year appeals are to establish a property's base value. Escape and Regular Appeals are filed to contest a property's decline in value as of January 1. The majority of appeals filed are Regular Appeals. For regular, annual secured property tax assessments, the period for property owners to file an appeal is between July 2nd and September 15th. If September 15th falls on a Saturday or Sunday, applications filed or postmarked the next business day are considered timely. The AAB generally is required to determine the outcome of appeals within two (2) years of each appeal's filing date. Upon hearing a case, the AAB may decide to increase, decrease, or not change an assessment. An appeal may also be resolved when the Assessor and a property owner stipulate to a corrected value, which the AAB may approve, or reject and require a hearing in which it determines the value. If an appeal results in a change in value, the new assessed value will be used to determine the property taxes for the year that was appealed. Subsequently, each year, the Assessor examines the property to see if the market value has risen back to the Proposition 13 base year value, or higher, and if so, restores the Proposition 13 base year value. This does not apply to base year appeals.

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 that are based on historical results as to appeals.

In the first quarter of fiscal year 2021-22, the total number of open appeals before the AAB was 4,115, with 2,334 new applications filed. Subsequently, as of June 30, 2022, the total number of open appeals before the AAB had been reduced to 2,670 while an additional 258 new applications were filed during the remainder of the 2021-22 fiscal year.

In the first quarter of fiscal year 2022-23, the total number of open appeals before the AAB was 4,321 with 2,577 new applications filed during this period. The difference between the current assessed value and the taxpayer's opinion of values for all the open applications is \$63.6 billion. Assuming the City did not contest any taxpayer appeals and the AAB upheld all the taxpayer's requests, a negative potential total property tax impact of about \$752.6 million would result. The General Fund's portion of that potential \$752.6 million would be approximately \$345.6 million. Per a November presentation by the AAB, potential tax impact of total appeal applications received as of September 30, 2022 in the Financial District, SOMA, and Embarcadero neighborhoods is approximately \$182 million. This describes the worst-case scenario in terms of potential negative revenue impacts for the purposes of illustration based on information as of September 30, 2022. In practice, the City has contested most taxpayer appeals. As such, actual reductions have historically been much lower than values asserted by appellant property owners and a majority of appeals are eventually withdrawn. Of the 2,359 appeals closed during fiscal year 2021-22 as of June 30, 2022, 1,769, or 75% of appeals, were withdrawn. The percentage rate of withdrawals increased during fiscal year 2021-22 because hearings were ceased for most of fiscal year 2020-21. Of the 336 appeals closed during the first quarter of fiscal year 2022-23 as of September 30, 2022, 215, or 64% of appeals, were withdrawn.

Nearly all the appeal applications filed during fiscal year 2020-21 challenge the assessed value of property for fiscal year 2020-21. However, because the assessed value of secured property for fiscal year 2020-21 is determined by the Assessor as of the January 1, 2020, lien date, which predated the COVID-19 pandemic and its related economic effects, the City does not expect a material reduction in assessed values resulting from fiscal year 2020-21 appeal applications. However, there was an increase in the number of appeals for fiscal year 2021-22 and a modest increase for fiscal year 2022-23. Additionally, under Proposition 8, adopted by California voters in 1978, the Assessor's Office could on its own initiative reduce the assessed value of properties with market values that fall below their values assessed in accordance with Proposition 13. Following a Proposition 8 reduction, the assessed value continues to match the market value until the market value again meets or exceeds the maximum assessed value calculated under Proposition 13, at which point the Proposition 13 base year value is restored.

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 BAAQMD and BART. The total tax levy for all taxing entities to begin fiscal year 2021-22 was \$3.7 billion, not including supplemental, escape and special assessments that may be assessed during the year. Of total property tax revenues (including supplemental and escape property taxes), the City budgeted to receive \$2.0 billion in the General Fund and \$248.1 million in special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD were estimated to receive approximately \$214.2 million and \$40.2 million, respectively, and the local ERAF was estimated to receive \$414.9 million (before adjusting for the vehicle license fees ("VLF") backfill shift). The Successor Agency was estimated to receive approximately \$160.0 million. The remaining portion will be 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. The City's General Fund is allocated about 47.0% of total property tax revenue before adjusting for the VLF backfill shift and excess ERAF.

General Fund property tax revenues in fiscal year 2020-21 were \$2.2 billion, representing an increase of \$205.9 million (10.5%) over fiscal year 2019-20 actual revenue. The majority of the increase was from excess

ERAF revenue growth of \$131.6 million, due to guidance released to all counties by the State Controller's Office in February 2021 confirming the methodology for considering school district-sponsored charter schools in ERAF calculations, as well as guidance specific to San Francisco that recognized the City's pre-dissolution practice of limiting the property tax increment distributions to the former San Francisco Redevelopment Agency. The remainder of the increase resulted from year-over-year secured roll growth of 7.5%, which also increases Property Tax In-Lieu of Vehicle License Fee allocations. Tables A-2 and A-4 set forth a history of budgeted and actual property tax revenues.

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. Additionally, the Teeter Plan was extended to include the allocation and distribution of special taxes levied for City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) in June 2017 (effective fiscal year 2017-18) and for the Bay Restoration Authority Parcel Tax, SFUSD School Facilities Special Tax, SFUSD School Parcel Tax, and City College Parcel Tax in October 2017 (effective fiscal year 2018-19). The Teeter Plan 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-8. The Tax Loss Reserve sets aside 1% of the total of all taxes and assessments levied for which the Teeter Plan is the applicable distribution method. The purpose of the Tax Loss Reserve is to cover losses that may occur. The amount has grown in recent years as the assessed values on the secured roll has grown.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Teeter Plan
Tax Loss Reserve Fund Balance
Fiscal Years 2013-14 through 2020-21
(000s)

Year Ended	Amount Funded
2013-14	\$19,654
2014-15	20,569
2015-16	22,882
2016-17	24,882
2017-18	25,567
2018-19	29,126
2019-20	31,968
2020-21	35,298

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, 2022 are shown in Table A-9. 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 Office of the Assessor-Recorder.

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Top 10 Parcels Total Assessed Value
July 1, 2022

Assessee ¹	Location	Parcel Number	Type	Total Assessed	
				Value ²	% Basis of Levy ³
SUTTER BAY HOSPITALS ⁴	1101-1133 VAN NESS	0695 007	HOSPITAL	\$2,689,828,828	0.817%
TRANSBAY TOWER LLC	415 MISSION ST	3720 009	OFFICE	\$1,839,390,574	0.559%
GSW ARENA LLC	1 WARRIORS WAY	8722 026	ENTERTAINMENT COMP	\$1,488,126,171	0.452%
PARK TOWER OWNER LLC	250 HOWARD ST	3718 040	OFFICE	\$1,118,038,941	0.340%
KRE EXCHANGE OWNER LLC	1800 OWENS ST	8727 008	OFFICE	\$1,103,805,000	0.335%
HWA 555 OWNERS LLC	555 CALIFORNIA ST	0259 026	OFFICE	\$1,091,950,516	0.332%
ELM PROPERTY VENTURE LLC	101 CALIFORNIA ST	0263 011	OFFICE	\$1,056,523,553	0.321%
PPF PARAMOUNT ONE MARKET PLAZA LP	1 MARKET ST	3713 007	OFFICE	\$894,928,448	0.272%
SHR ST FRANCIS LLC	301-305 POWELL ST	0307 001	HOTEL	\$786,924,101	0.239%
SUTTER BAY HOSPITALS DBA CA PACIFIC MED ⁴	3555 CESAR CHAVEZ ST/555 SAN JOSE	6575 005	HOSPITAL	\$768,821,895	0.234%
				\$12,838,338,027	3.901%

¹ Certain parcels fall within RDA project areas.

² 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. Values reflect information as of January 1, 2022 lien date.

³ 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).

⁴ Nonprofit organization that is exempt from property taxes.

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 2022-23 valuation of property assessed by the State Board of Equalization in San Francisco is approximately \$4.1 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. The City’s General Fund is also supported by other sources of revenue, including charges for services, fines and penalties, and transfers-in, which are not discussed below.

See Table A-10 below for a summary of revenue source as a percentage of total General Fund revenue based on audited financials for fiscal year 2020-21 and the Original Budget for fiscal year 2021-22.

TABLE A-10

Revenues	FY 2020-21		FY 2021-22	
			Original Budget	
Property Taxes	\$2,332,864	41.2%	\$2,115,600	39.0%
Business Taxes	722,642	12.7%	957,140	17.6%
Other Local Taxes	709,018	12.5%	777,750	14.3%
Licenses, Permits and Franchises	12,332	0.2%	27,944	0.5%
Fines, Forfeitures and Penalties	4,508	0.1%	4,035	0.1%
Interest and Investment Income	(1,605)	0.0%	36,247	0.7%
Rents and Concessions	5,111	0.1%	11,728	0.2%
Intergovernmental	1,607,803	28.4%	1,216,765	22.4%
Charges for Services	230,048	4.1%	255,111	4.7%
Other	46,434	0.8%	24,238	0.4%
Total Revenues	\$5,669,155	100.0%	\$5,426,557	100.0%

Business Taxes

Through tax year 2014, businesses in the City were subject to payroll expense and business registration taxes. Proposition E approved by the voters in the November 2012 election changed business registration tax rates and introduced a gross receipts tax which phased in over a five-year period beginning January 1, 2014, replacing the then existing 1.5% tax on business payrolls over the same period. Overall, the ordinance increased the number and types of businesses in the City that pay business tax and registration fees from approximately 7,500 to 15,000. In November 2020, voters passed Proposition F, which eliminated the payroll tax and modified gross receipt tax rates. Most gross receipt tax rates increased by 40% for tax year 2021 over the prior year. Much smaller increases were scheduled for 2023 and 2024, should the City's taxable gross receipts in 2021 and 2022 reach at least 90% and 95%, respectively of 2019 taxable gross receipts. The 2023 tax increase is suspended for one year because the City's 2021 taxable gross receipts did not reach the 90% threshold. In some industries that were particularly hurt during the pandemic, such as retail, trade and food services, tax rates were lowered for businesses with less than \$25 million in gross receipts through 2022. The measure also reduced business registration fees for businesses with less than \$1 million in gross receipts and raised the small business exemption for gross receipts taxes to \$2 million.

Pre-audit business tax revenue in fiscal year 2021-22 is \$863.5 million for all funds, representing an increase of \$139.4 million (19.2%) from fiscal year 2020-21. The fiscal year 2022-23 Original Budget is \$904.8 million, an increase of \$41.3 million (4.8%) from the fiscal year 2021-22 actuals. Fiscal year 2023-24 Original Budget is \$962.7 million, an increase of \$57.9 million (6.4%) from fiscal year 2022-23 budget.

Revenues from business tax and registration fees have generally followed economic conditions in the City, primarily employment and wage growth. The COVID-19 emergency significantly adversely affected employment and wage growth, and the City's economic condition is still weak relative to pre-pandemic levels. The unemployment rate in the City peaked at 13.7% in April 2020 and declined steadily since then, reaching 2.1% in August 2022. Just prior to the start of the pandemic, there were approximately 570,000 employed residents in the City. After falling to a low of about 480,000 in April 2020, the number of employed residents has risen to about 550,000, which is still approximately 20,000 fewer than the pre-pandemic level.

Remote work occurring outside the City creates fiscal risk because, for certain categories of businesses, the gross receipts tax is dependent on their San Francisco payroll, and the firms only need to calculate their San Francisco payroll expense for employees that physically work within the City's geographic boundaries. Approximately half of the workers in major tax-paying sectors such as Professional Services, Financial Services, and Information live outside of San Francisco. Some of the City's largest employers in these sectors have indicated that employees may be able to work from home permanently or with a hybrid schedule.

For example, according to most recently available public data, Twitter plans to let employees work from home indefinitely, Google expects employees in the office three days per week, and Salesforce is leaving the decision up to individual teams within the company. The budget (for fiscal years 2022-23 and 2023-24) assumes that by the end of 2022, the number of days worked at home for employees in office-centric sectors will remain on average 33% above pre-pandemic levels.

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Business Tax Revenues - All Funds¹
Fiscal Years 2018-19 through 2023-24
(000s)

Fiscal Year ²	Revenue	Change	Change %
2018-19	\$919,552	\$20,410	2.3%
2019-20	824,670	(94,882)	-10.3%
2020-21	724,140	(100,530)	-12.2%
2021-22 <i>pre-audit</i>	863,510	139,370	19.2%
2022-23 <i>budgeted</i> ³	904,800	41,290	4.8%
2023-24 <i>budgeted</i> ³	962,700	57,900	6.4%

¹ Figures exclude Homelessness Gross Receipts and Commercial Rent Taxes that are allocated to special revenue funds.

² Figures for fiscal year 2018-19 through fiscal year 2020-21 are pre-audit actuals. Figures for fiscal year 2021-22 are unaudited. Includes portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program and Business Registration Tax.

³ FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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 to the City monthly. A quarterly tax-filing requirement is also imposed. Pre-audit hotel tax revenue in fiscal year 2021-22 ended at \$179.1 million (all funds), an increase of \$136.9 million (324.5%) from fiscal year 2020-21. The fiscal year 2022-23 Original Budget is \$216.5 million, an increase of \$37.4 million (20.9%) from fiscal year 2021-22. The fiscal year 2023-24 Original Budget is \$271.0 million (25.2%) from fiscal year 2022-23 budget. Table A-12 includes hotel tax in all funds. Slightly less than 90% of the City's hotel tax is allocated to the General Fund, with 10.7% allocated to arts and cultural organizations and approximately \$5 million for debt service on hotel tax revenue bonds.

Fiscal year 2021-22 revenue performed better than previously expected in the Six and Nine Month Reports, as leisure visits and convention activity resumed in 2022, after the winter Omicron surge. The City's five-year forecast anticipates hotel tax will return to pre-pandemic levels by fiscal year 2025-26, with pent-up demand for leisure travel initially driving growth in fiscal year 2021-22 and the resumption of large group events at full capacity contributing to additional growth future fiscal years.

San Francisco's hotel tax is derived from hotel stays from individual business travelers, group events such as conferences and meetings, and leisure tourists. These visitors primarily travel to the City by air. In April 2020, at the height of the first peak of the COVID pandemic, enplanements at SFO decreased by 97% compared to prior year. While air travel has grown since April 2020, the recovery in San Francisco has lagged other metropolitan areas. Enplanements in fiscal year 2020-21 were 65.7% below fiscal year 2019-20 enplanements. In fiscal year 2021-22 enplanements improved 151.2% over the prior fiscal year but were still 39.2% lower as compared to fiscal year 2018-19. Enplanements in August 2022 were below

August 2019 levels by 29.5%, with domestic and international enplanements lower by 30.2% and 27.3%, respectively. San Francisco International Airport's (SFO) geographic location lends itself to being a "gateway" to Asia, and a hub for international travel, which is anticipated to lag domestic travel. The budget assumes the recovery in hotel tax begins with visits to the City from domestic leisure tourists, with the return of business travelers, group events, and international visitors following, given the time needed to plan large gathering and reestablish policies for in-person business meetings. Conventions drive up hotel room rates through compression pricing, which is important to the full recovery of the City's hotel tax base.

Revenue per Available Room (RevPAR), a measurement of hotel tax revenue growth, is a function of occupancy and average daily room rates (ADR). Despite some slowdown in the growth in the hospitality industry after the 9/11 attacks in 2001 and the global financial crisis in 2008, average annual RevPAR generally grew at a steady rate from fiscal year 2000-01 to fiscal year 2018-19. In fiscal year 2018-19, RevPAR reached an all-time high of \$263.90. In the first eight months of fiscal year 2019-20, RevPAR declined to \$224.50. Due to the COVID-19 pandemic, associated flight bans, and shelter in place orders, RevPAR reached a historic all-time low of \$14.40 in April 2020. RevPAR has steadily improved with the rollout of COVID vaccines and loosened restrictions. Annual average RevPAR in fiscal year 2020-21 was \$42.03 and increased to \$108.77 in fiscal year 2021-22. As of August 2022, RevPAR reached \$162.45, with ADR at \$230.13 and occupancy at 70.6%. Due to compression pricing, large conferences and events such as Dreamforce and RSA can strongly drive up the demand for rooms and ADR. As traffic at SFO improves and conventions return to San Francisco, RevPAR is projected to continue rising. The Original Budget for fiscal years 2022-23 and 2023-24 assumes annual average RevPAR will increase significantly in the next two fiscal years – \$146.37 in fiscal year 2022-23 and \$183.30 in fiscal year 2023-24. However, annual average RevPAR is not expected to recover to pre-pandemic levels until fiscal year 2025-26. Full recovery will depend on the return of visitors from Asia, where several large markets, including China's, continue to maintain significant COVID restrictions on travel.

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TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Revenues - All Funds¹
Fiscal Years 2018-19 through 2023-24
(000s)

Fiscal Year ²	Tax Rate	Revenue	Change	
2018-19	14.0%	\$414,343	\$28,792	7.5%
2019-20	14.0%	281,615	(132,728)	-32.0%
2020-21	14.0%	42,195	(239,420)	-85.0%
2021-22 <i>pre-audit</i>	14.0%	179,134	136,939	324.5%
2022-23 <i>budgeted</i> ³	14.0%	216,542	37,408	20.9%
2023-24 <i>budgeted</i> ³	14.0%	271,030	54,488	25.2%

¹ Amounts include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds, as well as the portion of hotel tax revenue dedicated to arts and cultural programming reflecting the passage of Proposition E in November 2018, which took effect January 1, 2019.

² Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are unaudited.

³ FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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

Real Property Transfer Tax

Real property transfer tax (RPTT) 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. After the passage of Proposition W on November 8, 2016, transfer tax rates were \$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; \$22.50 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; \$27.50 per \$1,000 for properties valued at more than \$10.0 million and less than \$25.0 million; and \$30.00 per \$1,000 for properties valued at more than \$25.0 million. After the passage of Proposition I in November 2020, transfer tax rates were doubled for the two highest tiers, to \$55.00 per \$1,000 for properties valued at more than \$10.0 million and less than \$25.0 million and \$60.00 per \$1,000 for properties valued at more than \$25.0 million.

Pre-audit RPTT revenue for fiscal year 2021-22 ended at \$518.8 million, a \$174.1 million (50.5%) increase from fiscal year 2020-21 revenue. The fiscal year 2022-23 Original Budget is \$390.5 million, a reduction of \$128.3 million (24.7%) from the fiscal year 2021-22 actual. The fiscal year 2023-24 Original Budget is \$423.3 million, an increase of \$32.7 million (8.4%) from prior year budget. The entirety of RPTT revenue is recorded in the General Fund.

Despite a decrease in the number of large transactions since fiscal year 2018-19, the total dollar value of transfer tax is increasing primarily due to the Proposition I rate change and to a handful of large, once-in-a-generation transfers in the first six months of this year. The effect of Proposition I in fiscal year 2021-22, which took effect in January 2021, is \$178.1 million in fiscal year 2021-22.

As the City’s most volatile revenue source, RPTT collections can see large year-over-year changes that have exceeded 70% in some instances. The main factors creating volatility are sales of high-value properties, availability of financing, and the relative attractiveness of San Francisco real estate compared to global investment options, all of which track closely with economic cycles, as well as voter-approved rate changes, which occurred in 2008, 2010, 2016, and 2020. The volatility of RPTT is attributable mainly to the sales of high-value (largely commercial) properties over \$25 million. In fiscal year 2008-09, transactions above \$25 million would have generated only \$10.6 million under the current rates compared to the peak in fiscal year 2016-17, when these transactions generated \$295.8 million. Since the end of the recession in fiscal year 2009-10, these large transactions made up on average 58.0% of total revenue but only 0.6% of the transaction count. This means that revenue is determined by a small handful of transactions. In the two recessions prior to COVID, the taxes collected on large transactions fell dramatically.

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO
Real Property Transfer Tax Receipts - All Funds
Fiscal Years 2018-19 through 2023-24
(000s)

Fiscal Year ¹	Revenue	Change	
2018-19	\$364,044	\$83,628	29.8%
2019-20	334,535	(29,509)	-8.1%
2020-21	344,683	10,148	3.0%
2021-22 <i>pre-audit</i>	518,791	174,108	50.5%
2022-23 <i>budgeted</i> ²	390,480	(128,311)	-24.7%
2023-24 <i>budgeted</i> ²	423,340	32,860	8.4%

¹ Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are unaudited.

² FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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

Sales and Use Tax

The sales tax rate on retail transactions in the City is 8.6250%, of which 1.00% represents the City’s local share (“Bradley-Burns” portion). 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 components of San Francisco’s 8.6250% sales tax rate are shown in Table A-14. In addition to the 1% portion of local sales tax, the State subvenes portions of sales tax back to counties through 2011 realignment (1.0625%), 1991 realignment (0.5%), and public safety sales tax (0.5%). The subventions are discussed in more detail under “INTERGOVERNMENTAL REVENUES” herein.

TABLE A-14

San Francisco's Sales & Use Tax Rate	
State Sales Tax	6.00%
State General Fund	3.9375%
Local Realignment Fund 2011*	1.0625%
Local Revenue Fund*	0.50%
(to counties for health & welfare)	
Public Safety Fund (to counties & cities)*	0.50%
Local Sales Tax	1.25%
Local Sales Tax (to General Fund)*	1.00%
Local Transportation Tax (TDA)	0.25%
Special District Use Tax	1.375%
2020 Peninsula Corridor Joint Powers Board Transactions and Use Tax (JPBF)	0.125%
SF County Transportation Authority	0.50%
Bay Area Rapid Transit (BART)	0.50%
SF Public Financing Authority (Schools)	0.25%
TOTAL Sales Tax Rate	8.625%

* Represents portions of the sales tax allocated to the City.

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

Pre-audit local sales tax (the 1% portion) revenue in fiscal year 2021-22 was \$188.3 million, an increase of \$41.5 million (28.2%) more than fiscal year 2020-21. The fiscal year 2022-23 Original Budget is \$182.9 million, a reduction of \$5.5 million (2.9%) from the fiscal year 2021-22 actual. The fiscal year 2023-24 Original Budget is \$193.1 million, an increase of \$10.3 million (5.6%) from prior year budget. The entirety of sales tax revenue is recorded in the General Fund.

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 and spending patterns. In recent years, online retailers have contributed significantly to sales tax receipts, offsetting sustained declines in point of sale purchases.

The improvement from prior projections is a result of pandemic recovery and continued re-opening of the economy, and particularly notable in general consumer goods and restaurants and hospitality. Reduced restrictions on indoor dining and a return of visitors for work and travel resulted in large gains as compared to fiscal year 2020-21. Consumer spending in apparel, electronics, jewelry, and home furnishings has grown year over year. Sales tax from vehicle purchases is strong due to high demand along with inventory constraints, and tax from fuel sales has risen with higher prices and consumption. Despite rapid and better-than-expected growth in fiscal year 2021-22, sales tax revenues are not projected to reach pre-pandemic levels until fiscal year 2025-26.

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Revenues
Fiscal Years 2018-19 through 2023-24
General Fund
(000s)

Fiscal Year ¹	Tax Rate	City Share	Revenue	Change	
2018-19	8.50%	1.00%	\$213,625	\$20,679	10.7%
2019-20	8.50%	1.00%	180,184	(33,441)	-15.7%
2020-21	8.50%	1.00%	146,863	(33,321)	-18.5%
2021-22 <i>pre-audit</i>	8.625%	1.00%	188,337	41,474	28.2%
2022-23 <i>budgeted</i> ²	8.625%	1.00%	182,870	(5,467)	-2.9%
2023-24 <i>budgeted</i> ²	8.625%	1.00%	193,120	10,250	5.6%

¹ Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are unaudited.

² FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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

Other Local Taxes

The City imposes a number of other general purpose taxes:

- Utility Users Tax (UUT) - A 7.5% tax on non-residential users of gas, electricity, water, steam and telephone services.
- Access Line Tax (“ALT”) – A charge of \$3.80 on every telecommunications line, \$28.58 on every trunk line, and \$514.49 on every high capacity line in the City. The ALT replaced the Emergency Response Fee (“ERF”) in 2009. The tax is collected from telephone communications service subscribers by the telephone service supplier.
- Parking Tax - A 25% tax for off-street parking spaces. The tax is paid by occupants and remitted monthly to the City by parking facility operators. In accordance with Charter Section 16.110, 80% of parking tax revenues are transferred from the General Fund to the MTA’s Enterprise Funds to support public transit.
- Sugar Sweetened Beverage Tax – A one cent per ounce tax on the distribution of sugary beverages. This measure was adopted by voters on November 9, 2016 (Proposition V) and took effect on January 1, 2018.
- Stadium Admission Tax – A tax between \$0.25 and \$1.50 per seat or space in a stadium for any event, with some specific exclusions.
- Cannabis Tax – A gross receipts tax of 1% to 5% on marijuana business and permits the City to

tax businesses that do not have a physical presence in the City. This measure was adopted by voters in November 2018 (Proposition D). The tax was originally slated to go into effect on January 1, 2021, but the Board has delayed the imposition of the tax by one year twice. The cannabis tax will now take effect beginning January 1, 2023.

- Franchise Tax – A tax for the use of City streets and rights-of-way on cable TV, electric, natural gas, and steam franchises.
- Tax on Executive Pay – In November 2020, voters adopted Proposition L, a new tax on businesses in the City, where compensation of the businesses’ highest-paid managerial employee compared to the median compensation paid to the businesses’ employees based in the City exceeds a ratio of 100:1. The measure took effect on January 1, 2022 for tax year 2022, so revenues will not be received until fiscal year 2022-23. Revenue from this tax is expected to be highly volatile due to the narrow base of expected payers, annual fluctuations in the value and form of executive compensation, which typically includes equity, and tax-avoidance risk associated with tax increases. Estimates based on prior years’ activity may not be predictive of future revenues. The fiscal year 2022-23 and 2023-24 Original Budget assumes \$60 million and \$80 million revenue from this new source, respectively.

Table A-16 reflects the City’s actual tax receipts for fiscal years 2017-18 through 2020-21, pre-audit actuals for fiscal year 2021-22 and Original Budget for fiscal years 2022-23 and 2023-24.

As with the larger tax revenues described above, the City anticipates these sources will be impacted by the pace of economic recovery. See “CITY BUDGET-Five-Year Financial Plan and March Update” and “Other Budget Updates: Fiscal Year 2021-22 Nine-Month Budget Status Report” for a summary of the most recent projections.

TABLE A-16

CITY AND COUNTY OF SAN FRANCISCO						
Other Local Taxes						
Fiscal Years 2018-19 through 2023-24						
General Fund						
(000s)						
Tax	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Actuals	Actuals	Actuals	Pre-Audit	Budget ²	Budget ²
Utility Users Tax	\$93,918	\$94,231	\$81,367	\$106,771	\$82,630	\$83,840
Access Line Tax	48,058	49,570	44,700	55,710	47,100	48,560
Parking Tax	86,020	69,461	47,555	71,122	80,180	82,550
Sugar Sweetened Beverage Tax	16,098	13,182	10,435	11,973	13,280	13,010
Stadium Admissions Tax	1,215	2,730	182	4,615	5,400	11,300
Cannabis Tax	N/A	N/A	N/A	N/A	-	10,250
Franchise Tax	15,640	16,028	14,898	15,355	14,250	14,250
Tax on Executive Pay	N/A	N/A	N/A	N/A	60,000	80,000

¹ Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are unaudited.

² FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

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

INTERGOVERNMENTAL REVENUES

State Subventions Based on Taxes

San Francisco receives allocations of State sales tax and Vehicle License Fee (VLF) revenue for 1991 Health and Welfare Realignment, 2011 Public Safety Realignment, and Prop 172 Public Safety Sales Tax. These subventions fund programs that are substantially supported by the General Fund. See “GENERAL FUND REVENUES – Other City Tax Revenues – Sales and Use Tax” above.

- Health and Welfare Realignment, enacted in 1991, restructured the state-county partnership by giving counties increased responsibilities and dedicated funding to administer certain public health, mental health and social service programs.
- 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.
- 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. These revenues are allocated to counties by the State separately from the local one-percent sales tax discussed above. 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.

Table A-17 reflects the City’s actual receipts for fiscal years 2017-18 through 2020-21, Pre-audit actuals for fiscal year 2021-22 and Original Budget for fiscal years 2022-23 and 2023-24. State-wide sales tax has performed better than local sales tax and is expected to recover faster than the City’s sales tax; therefore, formula-driven subventions are expected to grow faster than local sales tax. The State of California temporarily backfilled county realignment revenues in fiscal year 2020-21. The value of this backfill to the City is \$28.0 million.

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TABLE A-17

CITY AND COUNTY OF SAN FRANCISCO
Selected State Subventions - All Funds
Fiscal Years 2018-19 through 2023-24
(\$millions)

Tax	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Actuals	Actuals	Actuals	Pre-Audit	Budget ²	Budget ²
Health and Welfare Realignment						
General Fund	\$217.6	\$219.6	\$188.9	\$283.5	\$269.1	\$274.9
Hospital Fund	58.5	54.1	48.1	67.1	64.9	65.2
Total - Health and Welfare	\$276.1	\$273.7	\$237.1	\$350.6	\$334.1	\$340.1
Backfill Realignment³						
General Fund			\$22.1			
Non General Fund			6.0			
Total - Backfill Realignment			\$28.0			
Public Safety Realignment (General Fund)	\$39.4	\$41.1	\$38.4	\$52.1	\$61.7	\$66.0
Public Safety Sales Tax (Prop 172) (General Fund)	\$107.6	\$103.9	\$105.0	93.8	\$89.7	\$94.2

1 Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are unaudited.

2 FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

3 Backfill Realignment is a one-time State funding to fill the shortfall in Health and Welfare Realignment and Public Safety Realignment due to the decrease of sales tax and vehicle license fees.

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

CITY GENERAL FUND PROGRAMS AND EXPENDITURES

General Fund Expenditures by Major Service Area

As a consolidated city and county, San Francisco budgets General Fund expenditures in seven major service areas as described in Table A-18 below:

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TABLE A-18

CITY AND COUNTY OF SAN FRANCISCO
Expenditures by Major Service Area
Fiscal Years 2018-19 through 2023-24
(000s)

Major Service Areas	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
	Final Budget	Final Budget	Final Budget	Original Budget ¹	Original Budget ²	Original Budget ²
Public Protection	\$1,390,266	\$1,493,240	\$1,505,780	\$1,507,122	\$1,675,801	\$1,678,498
Human Welfare & Neighborhood Development	1,120,892	1,270,530	218,986	1,418,406	1,576,410	1,551,143
Community Health	967,113	1,065,051	1,605,573	1,056,459	1,162,956	1,168,262
General Administration & Finance	290,274	332,296	1,158,599	497,915	338,055	365,922
Culture & Recreation	154,056	161,274	147,334	220,866	197,596	204,661
General City Responsibilities	172,028	137,851	332,997	243,733	226,931	256,020
Public Works, Transportation & Commerce	214,928	216,824	126,993	236,525	262,733	229,775
Total ²	\$4,309,557	\$4,677,066	\$5,096,262	\$5,181,026	\$5,440,482	\$5,454,281

¹ Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are from the Final Budget, July 29, 2021.

² FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

³ 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. Human Welfare & Neighborhood Development includes the Department of Human Services’ aid assistance, aid payments, and City grant programs. Community Health includes the Public Health Department, which also operates San Francisco General Hospital and Laguna Honda Hospital.

For budgetary purposes, enterprise funds (which are not shown on the table above) 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 General Hospital Fund, and the Laguna Honda Hospital Fund. These funds are supported by transfers from the General Fund to the extent their dedicated revenue streams are insufficient to support the desired level of services.

Voter-Mandated Spending Requirements

The Charter requires funding for voter-mandated spending requirements, which are also referred to as “baselines,” “set-asides,” or “mandates”. The chart below identifies the required and budgeted levels of funding for key mandates. The spending requirements are formula-driven, variously based on projected aggregate General Fund discretionary revenue, property tax revenues, total budgeted spending, staffing levels, or population growth. Table A-19 reflects fiscal year 2022-23 and 2023-24 spending requirements in the Original Budget. These mandates are generally budgeted as transfers out of the General Fund or allocations of revenue.

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TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO
 Baselines & Set-Asides
 FY 2022-23 and FY 2023-24
 (\$millions)

	2022-23 Original Budget ¹	2023-24 Original Budget ¹
Projected General Fund Aggregate Discretionary Revenue (ADR)	\$4,329.2	\$4,657.5
Municipal Transportation Agency (MTA)		
MTA - Municipal Railway Baseline: 6.686% ADR	\$306.0	\$328.9
MTA - Parking & Traffic Baseline: 2.507% ADR	108.5	116.8
MTA - Population Adjustment	58.0	87.3
MTA - 80% Parking Tax In-Lieu	64.1	66.0
Subtotal - MTA	\$536.7	\$599.0
Library Preservation Fund		
Library - Baseline: 2.286% ADR	\$99.0	\$106.5
Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV)	75.6	79.6
Subtotal - Library	\$174.6	\$186.1
Children's Services		
<i>Children's Services Baseline - Requirement: 4.830% ADR</i>	<i>\$209.1</i>	<i>\$224.9</i>
Children's Services Baseline - Eligible Items Budgeted	231.4	227.8
<i>Transitional Aged Youth Baseline - Requirement: 0.580% ADR</i>	<i>25.1</i>	<i>27.0</i>
Transitional Aged Youth Baseline - Eligible Items Budgeted	37.1	37.0
Public Education Services Baseline: 0.290% ADR	12.6	13.5
Children and Youth Fund Property Tax Set-Aside: \$0.0375-0.4 per \$100 NAV	121.2	126.5
<i>Public Education Enrichment Fund: 3.057% ADR</i>	<i>132.3</i>	<i>142.4</i>
1/3 Annual Contribution to Preschool for All	44.1	47.5
2/3 Annual Contribution to SF Unified School District	88.2	94.9
Subtotal - Children's Services	\$534.6	\$547.3
Recreation and Parks		
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	\$75.6	\$79.6
<i>Recreation & Parks Baseline - Requirement</i>	<i>82.2</i>	<i>85.2</i>
Recreation & Parks Baseline - Budgeted	88.6	95.0
Subtotal - Recreation and Parks	\$164.3	\$174.6
Other		
<i>Housing Trust Fund Requirement</i>	<i>\$45.2</i>	<i>\$44.5</i>
Housing Trust Fund Budget	45.2	44.5
Dignity Fund	56.1	59.1
Street Tree Maintenance Fund: 0.5154% ADR	22.3	24.0
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	4.0	4.2
City Services Auditor: 0.2% of Citywide Budget	26.1	25.7
Subtotal - Other	\$153.7	\$157.4
Recently Adopted Expenditure Requirements		
<i>Our City, Our Home Baseline Requirement (Nov 2018 Prop C)</i>	<i>215.0</i>	<i>215.0</i>
Our City, Our Home Budget, Estimated	367.9	364.2
<i>Early Care and Education Baseline Requirement (June 2018 Prop C)</i>	<i>91.1</i>	<i>98.0</i>
Early Care and Education Budget	94.7	98.3
Total Baselines and Set-Asides	\$2,026.4	\$2,126.8

¹ FY 2022-23 and 2023-24 amounts represent the Original Budget, adopted July 27, 2022.

EMPLOYMENT COSTS; POST-EMPLOYMENT OBLIGATIONS

The cost of salaries and benefits for City employees represents slightly less than half of the City's expenditures, totaling \$6.5 billion and \$6.6 billion in fiscal years 2022-23 and 2023-24 in the Original Budget. For the General Fund, the combined salary and benefits Original Budget is \$3.1 billion in each year of the 2022-23 and 2023-24 .

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-employment health and medical benefits. Employees of SF Unified School District ("SFUSD"), SFCCD and the San Francisco Superior Court, called Trial Court below, are not City employees.

Labor Relations

The City's Original Budget for fiscal year 2022-23 included 39,246 full-time and part-time budgeted and funded City positions. City workers are represented by 36 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021; the International Federation of Professional and Technical Engineers, Local 21; and the unions representing Police, Fire, Deputy Sheriffs, and Transit Workers.

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 City Charter. San Francisco is unusual among California's cities and counties in that nearly all of its employees, including managerial and executive-level employees, are represented by labor organizations.

Further, the City Charter requires binding arbitration to resolve negotiations in the event of impasse. If impasse is reached, the parties are required to convene a tripartite arbitration panel, chaired by an impartial third-party arbitrator, which sets the disputed terms of the new agreement. The award of the arbitration panel is final and binding. This process applies to all City employees except Nurses and a small group of unrepresented employees. Wages, hours and working conditions of nurses are not subject to interest arbitration but are subject to Charter-mandated economic limits. Since 1976, no City employees have participated in a union-authorized strike, which is prohibited by the Charter.

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 sworn police officers and fire fighters.

For fiscal year 2021-22, all parties agreed to a base wage increase schedule of 3% on July 1, 2021 and 0.5% on January 8, 2022 (miscellaneous unions only), with a provision to delay the fiscal year 2021-22 increase by six months if the City's budget deficit for fiscal year 2021-22, as projected in the 2021 March Joint Report, exceeded \$200 million. The scheduled July 1, 2021 wage increase was implemented as the 2021 March Joint Report did not project a \$200 million deficit. For fiscal year 2021-22, the Unrepresented Employee Ordinance was passed approving a wage increase of 3%.

In May 2022, the City negotiated two-year agreements (for fiscal years 2022-23 through 2023-24) with 27 labor unions. For the fiscal year 2022-23, the parties agreed to a base wage increase of 5.25% on July 1, 2022. For fiscal year 2023-24, the parties agreed to a base wage increase schedule of 2.5% on July 1, 2023 and 2.25% on January 6, 2024, with a provision to delay the fiscal year 2023-24 increases by six months if the City's budget deficit for fiscal year 2023-24, as projected in the 2023 March Joint Report, exceeded \$300 million.

The City had previously negotiated a 2.0% base wage increase with labor organizations representing sworn members of the Police department due on July 1, 2020 and delayed to the pay period including January 1, 2021. The parties then agreed to defer this increase until the close of business on June 30, 2022. The parties also previously negotiated a 1% base wage increase to be effective January 1, 2021 and delayed until June 30, 2021. The parties then agreed to defer this increase until the close of business on June 30, 2022 as well. The parties agreed to a base wage increase of 3.0% on July 1, 2021. For the fiscal year 2022-23, the parties agreed to a base wage increase of 3.0% on July 1, 2022, with a provision to delay the increase by six months if the City's budget deficit for fiscal year 2022-23, as projected in the 2022 March Joint Report, exceeded \$200 million.

The City had previously negotiated a 3% base wage increase with labor organizations representing the sworn members of the Fire department due on July 1, 2020 and delayed to the pay period including January 1, 2021. The parties then agreed to defer this increase until the close of business on June 30, 2022. The parties agreed to a base wage increase of 3.0% on July 1, 2021. For the fiscal year 2022-23, the parties agreed to a base wage increase of 3.0% on July 1, 2022, with a provision to delay the increase by six months if the City's budget deficit for fiscal year 2022-23, as projected in the 2022 March Joint Report, exceeded \$200 million.

Also, in May 2022, the MTA negotiated two-year agreements (for fiscal years 2022-23 through 2023-24) with the unions that represent Transit Operators, Mechanics, Station Agents, Parking Control Officers and others. The parties agreed to the same wage increase schedule as the City, with the same wage deferral triggers.

In the Fall of 2022, the City will commence bargaining successor MOUs with labor organizations representing sworn members of Fire and Police departments.

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TABLE A-20

CITY AND COUNTY OF SAN FRANCISCO (All Funds)
Employee Organizations as of September 27, 2022

Organization	City Budgeted Positions	Expiration Date of MOU
Automotive Machinists, Local 1414	542	30-Jun-24
Bricklayers, Local 3	3	30-Jun-24
Building Inspectors' Association	88	30-Jun-24
Carpenters, Local 22	101	30-Jun-24
Carpet, Linoleum & Soft Tile	1	30-Jun-24
Cement Masons, Local 300	16	30-Jun-24
Deputy Probation Officers' Association (DPOA)	124	30-Jun-24
Deputy Sheriffs' Association (DSA)	792	30-Jun-24
Electrical Workers, Local 6	1,003	30-Jun-24
Firefighters' Association, Local 798	2,011	30-Jun-23
Glaziers, Local 718	10	30-Jun-24
Hod Carriers, Local 36	3	30-Jun-24
Ironworkers, Local 377	13	30-Jun-24
Laborers, Local 261	883	30-Jun-24
Municipal Attorneys' Association (MAA)	494	30-Jun-24
Municipal Executives' Association (MEA) Fire	12	30-Jun-23
Municipal Executives' Association (MEA) Miscellaneous	1,655	30-Jun-24
Municipal Executives' Association (MEA) Police	16	30-Jun-23
Operating Engineers, Local 3 Miscellaneous	55	30-Jun-24
Operating Engineers, Local 3 Supervising Probation	28	30-Jun-24
Pile Drivers, Local 34	27	30-Jun-24
Plumbers, Local 38	349	30-Jun-24
Police Officers' Association (POA)	2,360	30-Jun-23
Professional and Technical Engineers, Local 21	7,130	30-Jun-24
Roofers, Local 40	11	30-Jun-24
SEIU, Local 1021, H-1	1	30-Jun-24
SEIU, Local 1021 Misc	13,348	30-Jun-24
SEIU, Local 1021 Nurses	1,840	30-Jun-24
SF City Workers United	134	30-Jun-24
SFDA Investigators Association	44	30-Jun-24
Sheet Metal Workers, Local 104	31	30-Jun-24
Sheriffs' Supervisory and Management Association (MSA)	118	30-Jun-24
Stationary Engineers, Local 39	689	30-Jun-24
Teamsters, Local 853	130	30-Jun-24
Teamsters, Local 856, Multi	98	30-Jun-24
Teamsters, Local 856, Supervising Nurses	134	30-Jun-24
Theatrical Stage Emp, Local 16	32	30-Jun-24
TWU, Local 200	512	30-Jun-24
TWU, Local 250-A, Auto Service Work	135	30-Jun-24
TWU, Local 250-A, Miscellaneous	108	30-Jun-24
TWU, Local 250-A, Transit Fare Inspectors	45	30-Jun-24
TWU, Local 250-A, Transit Operator	2,670	30-Jun-24
Union of American Physicians and Dentists (UAPD)	210	30-Jun-24
Unrepresented Employees	93	30-Jun-24
Other	1,147	
	39,246	

San Francisco 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 and Chief Investment Officer of SFERS. 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.

Membership

Retirement System members include eligible employees of the City, SFUSD, SFCCD, and the San Francisco Trial Courts. The Retirement System estimates that the total active membership as of July 1, 2021 is 44,770, compared to 45,070 as of July 1, 2020. Active membership as of July 1, 2021 includes 10,066 terminated vested members and 1,060 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. Monthly retirement allowances are paid to approximately 30,854 retired members and beneficiaries. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Table A-21 shows various member counts in the total Retirement System (City, SFUSD, SFCCD, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates, July 1, 2017 through July 1, 2021. The number of retirees supported by each active member can be an important indicator of growing plan maturity and sensitivity to investment returns, assumption changes, and other changes to the System. In particular, if the ratio of retirees to active members grows, it indicates that any actuarial losses on retiree liabilities or assets are likely to place a relatively greater burden on employers and active members. The ratio for SFERS had been relatively stable but increased modestly in 2021 with the decline in number of active members.

TABLE A-21

**City and County of San Francisco
Employees' Retirement System
July 1, 2017 through July 1, 2021**

As of July 1st	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Retiree to Active Ratio
2017	33,447	7,381	1,039	41,867	29,127 *	0.871
2018	33,946	8,123	1,060	43,129	29,965 *	0.883
2019	34,202	8,911	1,044	44,157	29,490	0.862
2020	34,521	9,478	1,071	45,070	30,128	0.873
2021	33,644	10,066	1,060	44,770	30,854	0.917

Sources: SFERS' annual Actuarial Valuation Report dated July 1st.
See Retirement's website, mysfers.org under Publications. The information on such website is not incorporated herein by reference.

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

*Retiree member counts reflect combining records for members who have both a Safety and a Miscellaneous benefit.

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 December 9, 2020 Retirement Board meeting, the Board adopted all recommended demographic assumptions from the experience study dated August 12, 2020. The most significant adjustment was the update to the new Society of Actuaries public plan mortality tables, Pub-2010, for both general and safety members. The Board also adopted lower price and wage inflation rates, from 2.75% to 2.50% and from 3.50% to 3.25%, respectively. The new assumptions were first effective for the July 1, 2020 actuarial valuation. At the November 10, 2021 Board meeting, the Board lowered the assumed long-term investment earnings assumption from 7.40% to 7.20% , effective for the July 1, 2021 actuarial valuation. In the short term, this decrease is expected to result in increases in City contributions. In the long term, the true cost of a pension plan is determined by actual results and not by assumptions. At the November 17, 2022 Board meeting, the Board voted to maintain the actuarial assumptions at their current levels.

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 debt obligations 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, www.mysfers.org, under Publications. The information on such website is not incorporated herein by reference. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the City's debt obligations 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 2020-21 City employer contributions to the Retirement System were \$791.7 million, which includes \$388.4 million from the General Fund. For fiscal year 2021-22, total City employer contributions to the Retirement System were \$719.5 million, which included \$423.4 million from the General Fund. The fiscal year 2022-23 employer contribution rate is 21.35% (estimated to be 18.21% after cost-sharing), with a total budget of \$721.5 million, which includes \$434.3 million in the General Fund. The rate change reflects a reduction of the amortization period from twenty to five years, including investment gains from fiscal year 2020-21, offset by the drop in assumed investment return from 7.4% to 7.2% and the July 1, 2021 supplemental COLA to all retired members and their beneficiaries. Employer contribution rates anticipate annual increases in pensionable payroll of 3.5%. As discussed under "CITY BUDGET – Five-Year Financial Plan and March Update" increases in retirement costs are projected in the City's Five Year Financial Plan.

Table A-22 shows total Retirement System liabilities, assets and percent funded for the last five actuarial valuations as well as contributions for the fiscal years 2016-17 through 2020-21. Information is shown for all employers in the Retirement System (City & County, 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" refers to 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 sum of mandated employee and employer contributions received by the Retirement System in the fiscal year ended June 30 prior to the July 1 valuation date.

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TABLE A-22

**City and County of San Francisco
Employees' Retirement System
Fiscal Years 2016-17 through 2020-21
(000s)**

As of July 1st	Actuarial Liability	Market Value of Assets	Actuarial Value of Assets	Market Percent Funded	Actuarial Percent Funded	Employee & Employer Contributions in prior FY	Employer Contribution Rates ¹ in prior FY
2017	\$ 25,706,090	\$ 22,410,350	\$ 22,185,244	87.2%	86.3%	\$ 868,653	21.40%
2018	27,335,417	24,557,966	23,866,028	89.8%	87.3%	983,763	23.46%
2019	28,798,581	26,078,649	25,247,549	90.6%	87.7%	1,026,036	23.31%
2020	29,499,918	26,620,218	26,695,844	90.2%	90.5%	1,143,634	25.19%
2021	31,905,275	35,673,834	30,043,222	111.8%	94.2%	1,245,957	26.90%

¹ Employer contribution rates are shown prior to employer/employee cost-sharing provisions of 2011 Proposition C.

Employer contribution rates for fiscal years 2021-22 and 2022-23 are 24.41% and 21.35%, respectively.

Sources: SFERS' audited year-end financial statements and required supplemental information.
SFERS' annual Actuarial Valuation Report dated July 1st. See the Retirement System's website, mysfers.org, under Publications.
The information on the website is not incorporated herein by reference.

Note: Information above reflects entire Retirement System, not just the City and County of San Francisco.

As shown in the table above as of July 2021, the Market Percent Funded ratio was much higher than the Actuarial Percent Funded ratio. The Retirement System's investment portfolio had a 33.7% return during fiscal year 2020-21, the highest fiscal return in the System's history. The July 1, 2021 actuarial value of assets only reflects 20% of this high return. Returns in fiscal year 2021-22 were estimated to be -2.78% at June 30, 2022. Global markets remain volatile due to continued uncertainty about tighter monetary policy, inflation, and the effect of the war in Ukraine. Even so, the large gap between market value of assets and actuarial value of assets provides a cushion for future adverse experience. Employer contribution rates are anticipated to continue to decline in the next few years.

The actuarial accrued liability is measured by an 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.

Risks to City's Retirement Plan

In its 2021 actuarial report, Cheiron identified three primary risks to the System as required by Actuarial Standards of Practice No. 51 (Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions). The material risks identified were as follows: investment risk, interest rate risk, and supplemental COLA risk. Investment risk is the potential for investment returns to be different than expected, while interest rate risk is the potential for longer-term trends to impact economic assumptions such as inflation and wage increases but particularly the discount rate. Supplemental COLA risk is the potential for the cost of future Supplemental COLAs to increase contribution rates.

Supplemental COLAs are mandated by the Charter when investment returns exceed expectations. Certain groups of retirees may not receive a supplemental COLA unless the pension plan is deemed to be fully funded on a market value basis. Due to the large fiscal year 2020-21 return, the plan was deemed to be fully funded on June 30, 2021 and all members in annuitant status received a Supplemental COLA effective July 1, 2021. Supplemental COLAs are capped at 3.5% less any basic COLA. As the majority of retirees have annual basic COLAs capped at 2.0%, a Supplemental COLA when granted typically represents a 1.5% increase in benefit.

Cheiron noted stress testing the supplemental COLA provision shows that the current funding policy of amortizing new supplemental COLAs over five years manages the risk prudently.

Governmental Accounting Standards Board (“GASB”) Disclosures

The Retirement System discloses accounting and financial reporting information under GASB Statement No. 67, *Financial Reporting for Pension Plans*. The City discloses accounting and financial information about the Retirement System under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. In general, the City’s funding of its pension obligations is not affected by the GASB 68 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 Actuarial Liability 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 adjusted for significant events that occurred during the year. 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 a municipal bond rate, to the extent that the fiduciary net position is unavailable to make payments. There have been no differences between the discount rate and assumed investment return at the last five 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 Actuarial Liability for funding purposes includes only Supplemental COLAs that have already been granted as of the valuation date.

Table A-23 below shows for the five most recent fiscal years 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-23

City and County of San Francisco Employees' Retirement System GASB 67/68 Disclosures Fiscal Years 2016-17 through 2020-21 (000s)						
As of June 30th	Collective Total Pension Liability (TPL)	Discount Rate	Plan Fiduciary Net Position	Plan Net Position as % of TPL	Collective Net Pension Liability (NPL)	City and County's Proportionate Share of NPL
2017	\$27,403,715	7.50	\$22,410,350	81.8	\$4,993,365	\$4,697,131
2018	28,840,673	7.50	24,557,966	85.2	4,282,707	4,030,207
2019	30,555,289	7.40	26,078,649	85.3	4,476,640	4,213,807
2020	32,031,018	7.40	26,620,218	83.1	5,410,800	5,107,271
2021	33,088,765	7.40	35,673,834	107.8	(2,585,069)	(2,446,563)

Sources: SFERS fiscal year-end GASB 67/68 Reports as of each June 30.

Notes: Collective amounts include all employees (City and County, SFUSD, SFCCD, Superior Courts)

NPL can be quite volatile. The increase in NPL between fiscal year-ends 2018 and 2019 is attributable to the decline in discount rate from 7.5% to 7.4%, while the increase in NPL at fiscal year-end 2020 is due to lower than expected investment returns during fiscal year 2019-2020. The large decline at fiscal year-end 2021 is due to the 33.7% investment portfolio return during the year.

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.

Annualized investment return (net of fees and expenses) for the Retirement System for the five years ending June 30, 2021 was 13.38%. For the ten-year and twenty-year periods ending June 30, 2021, annualized investment returns were 10.41% and 8.19% respectively.

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) 487-7000. These documents are not incorporated herein by reference.

2011 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. The most recent amendment, Proposition C, was approved by voters in November 2011 to reduce future pension costs and introduced new benefit tiers effective for employees hired on and after January 7, 2012.

In August 2012, then-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.

Impact on the Retirement System from Changes in the Economic Environment

As of June 30, 2021, the audited market value of Retirement System assets was \$35.7 billion. As of September 30, 2022, the unaudited value of the System assets was \$32.5 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 lower or higher. 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. Section A8.510 of the Charter requires the City to pay the full amount required by the actuarial valuations. The actual total employer contributions to CalPERS were \$45.6 million in fiscal year 2020-21. In addition to the required amounts, the City elected to pay an additional amount of \$8.4 million in fiscal years 2017-18, 2018-19 and 2019-2020 and \$5.0 million in fiscal year 2021-22 in order to reduce its unfunded liability. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under “Medical Benefits – Post-Employment Health Care Benefits” and “GASB 75 Reporting Requirements.”

Medical Benefits

Administration through San Francisco Health Service System; Audited System Financial Statements

Medical and COBRA 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 San Francisco Health Service System (the “San Francisco Health Service System” or “SFHSS”) pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the SFHSS also administers medical benefits to active and retired employees of SFUSD, SFCCD and the San Francisco Superior Court; however, the City is only required to fund medical benefits for City Beneficiaries.

The San Francisco Health Service System is overseen by the City’s Health Service Board (the “Health Service Board”). The plans (the “SFHSS Medical Plans”) for providing medical care to the City Beneficiaries are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

The San Francisco Health Service System oversees a trust fund (the “Health Service System Trust Fund”) established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the City Beneficiaries are funded. The San Francisco Health Service System issues an annual, publicly available, independently-audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained through the SFHSS website at sfhss.org, by writing to the San Francisco Health Service System, 1145 Market Street, Third Floor, San Francisco, California 94103, or by calling (628)

652-4646. Audited annual financial statements for prior years are posted to the SFHSS website, however the information available on the SFHSS website is not incorporated in this Official Statement by reference.

Under the City Charter, the Health Service System Trust Fund is not a fund through which assets are accumulated to finance post-employment healthcare benefits (an "Other Post-Employment Benefits Trust Fund"). Thus, GASB Statement Number 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* ("GASB 45") and GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* ("GASB 75"), which apply to OPEB trust funds, do not apply to the San Francisco Health Service System Trust Fund. However, the City has been funding the Retiree Health Care Trust Fund for the purpose of prefunding future OPEB payments as described below.

Determination of Employer and Employee Contributions for Medical Benefits

According to the City Charter Section A8.428, the City's contribution towards SFHSS Medical Plans for active employees and retirees is determined by the results of an annual survey of the amount of premium contributions provided by the ten most populous counties in California (other than the City) for health care. The survey is commonly called the 10-County Average Survey and is 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." The "average contribution" is used to calculate the City's required contribution to the Health Service System Trust Fund for retirees.

Unions representing approximately 93.3% of City employees, negotiate through collective bargaining rather than applying the "average contribution" to determine the amount the City is required to contribute for active employees. 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 SFHSS Beneficiaries. 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 San Francisco Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under "*– Post-Employment Health Care Benefits.*"

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City Contribution for Retirees

The City contributes the full employer contribution amount for medical coverage for eligible retirees who were hired on or before January 9, 2009 pursuant to Charter Section A8.428. For retirees who were hired on or after January 10, 2009, the City contributes a portion of the medical coverage costs based on five coverage / employer contribution classifications that reflect certain criteria outlined in the Table below.

Retiree Medical Coverage / Employer Contribution for Those Hired On or After January 10, 2009	
Years of Credited Service at Retirement	Percentage of Employer Contribution Established in Charter Section A8.428 Subsection (b)(3)
Less than 5 year of Credited Service with the Employers (except for the surviving spouses or surviving domestic partners of active employees who died in the line of duty)	No Retiree Medical Benefits Coverage
At least 5 but less than 10 years of Credited Service with the Employers; or greater than 10 years of Credited Service with the Employers but not eligible to receive benefits under Subsections (a)(4), (b)(5) (A8.428 Subsection (b)(6))	0% - Access to Retiree Medical Benefits Coverage. Including Access to Dependent Coverage
At least 10 but less than 15 years of Credited Service with the Employers (AB.428 Subsection (b)(5))	50%
At least 15 but less than 20 years pf Credited Service with the Employers (AB.428 Subsection (b)(5))	75%
At least 20 years of Credited Service with the Employer; Retired Persons who retired for disability; surviving spouses or surviving domestic partners of active employees who died in the line of duty (AB.428 Subsection (b)(4))	100%

Health Care Reform

The following discussion is based on the current status of the Patient Protection and Affordable Care Act (the “ACA”). Many attempts have been made to completely repeal the ACA, however full repeal has been unsuccessful thus far.

Three ACA taxes impact SFHSS rates for medical coverage. The taxes and the current status are as follow:

- **Excise Tax on High-cost Employer-sponsored Health Plans**

The Excise Tax on High-cost Employer-sponsored Health Plans (Cadillac Tax) is a 40% excise tax on high-cost coverage health plans. The National Defense Authorization Act for Fiscal Year 2020 repealed the Cadillac tax, effective January 1, 2020.

- **Health Insurance Tax (“HIT”)**

The ACA also imposed a tax on health insurance providers, which was passed on to employer sponsored fully-insured plans in the form of higher premiums. The HIT was in effect in 2020 and substantially impacted rates. The tax was repealed effective January 1, 2021 also by the National Defense Authorization Act for Fiscal Year 2020.

- **Medical Device Excise Tax**

The ACA’s medical device excise tax imposes a 2.3 percent tax on sales of medical devices (except certain devices sold at retail). The tax was repealed effective January 1, 2020.

- **Patient-Centered Outcomes Research Institute (PCORI) Fee**

Congress revived and extended the PCORI fee, which had expired in 2019. The PCORI fee, adopted in the ACA, is paid by issuers of health insurance policies and plan sponsors of self-insured health plans to help fund the Patient-Centered Outcomes Research Institute. The fee is based on the average number of lives covered under the policy or plan. The fee applies to policy or plan years ending on or after October 1, 2012, and before October 1, 2029.

Employer Contributions for San Francisco Health Service System Benefits

For fiscal year 2020-21, based on the most recent audited financial statements, the San Francisco Health Service System received approximately \$853.8 million from participating employers for San Francisco Health Service System benefit costs. Of this total, the City contributed approximately \$735.6 million; approximately \$236.6 million of this \$735.6 million amount was for health care benefits for approximately 23,201 retired City employees and their eligible dependents, and approximately \$499 million was for benefits for approximately 32,956 active City employees and their eligible dependents.

The 2022 aggregate (employee and employer) cost of medical benefits offered by SFHSS to the City increased by 2.16%, which is below national trends of 4.7% to 5.7%. This can be attributed to several factors including contracting by SFHSS that maintains competition among the health plans, implementing value-based models such as Accountable Care Organizations, increased use of generic prescription, and changing the City’s Blue Shield plan from a fully-funded to a flex-funded product and implementing a narrow network. Flex-funding allows premiums to be set by the City’s actuarial consultant, Aon, 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 2022 aggregate cost of benefits offered by SFHSS to the City increased 1.28% which is also less than the national trends.

Post-Employment Health Care Benefits

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 these employees equal to 2% of their salary, with the City contributing an additional 1%, into a Retiree Health Care Trust Fund.

Under Proposition C, passed by San Francisco voters in November of 2011, employees hired on or before January 9, 2009, were required to contribute 0.25% of compensation into the Retiree Health Care Trust Fund beginning in fiscal year 2016-17. This contribution increased to 0.50% in fiscal year 2017-18, 0.75% in fiscal year 2018-19, and reached the maximum contribution of 1.00% in fiscal year 2019-20. These contributions are matched by the City on a one-to-one basis.

Unlike employee pension contributions that are made to individual accounts, contributions to the Retiree Health Care Trust Fund are non-refundable, even if an employee separates from the City and does not receive retiree health care from the City.

Proposition A, passed by San Francisco voters on November 5, 2013, restricted the City's ability to withdraw funds from the Retiree Health Care Trust Fund. The restrictions allow payments from the fund only when certain conditions are met. The balance in the Retiree Health Care Trust Fund as of June 30, 2019 is approximately \$366.6 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 75.

GASB 75 Reporting Requirements

In June 2015, GASB issued GASB 75. GASB 75 revises and establishes new accounting and financial reporting requirements for governments that provide their employees with OPEBs. The new standard is effective for periods beginning after June 15, 2017. The City implemented the provisions of GASB 75 in its audited financial statements for fiscal year 2017-18. According to GASB's Summary of GASB 75, GASB 75 requires recognition of the entire OPEB liability, a more comprehensive measure of OPEB expense, and new note disclosures and required supplementary information to enhance decision-usefulness and accountability.

City's Estimated Liability

The City is required by GASB 75 to prepare a new actuarial study of its postemployment benefits obligation at least once every two years. As of the measurement date of June 30, 2020 (issued December 2021), used in the most recent actuarial valuation report updated June 30, 2020, the retiree health care fiduciary plan net position as a percentage of the total OPEB liability was 11.3%. This reflects the net position of the Retiree Health Care Trust Fund in the amount of \$489.0 million divided by the total OPEB liability of \$4.3 billion. The estimated covered payroll (annual payroll of active employees covered by the plan) was \$3.95 billion, and the ratio of the Net OPEB liability to the covered payroll was 96.7%.

While GASB 75 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 liability. Five-year trend information is displayed in Table A-24, which reflects the annual OPEB expense and the City's charter mandated payments on a percentage basis. For example, for fiscal year 2020-21 the annual OPEB expense was \$320.7 million, and the City paid \$246.0 million, which includes "pay-as-you-go" benefit payments and contributions to the Retiree Health Care Trust Fund.

TABLE A-24

CITY AND COUNTY OF SAN FRANCISCO
Five-year Trend
Fiscal Years 2015-16 to 2020-21
(000s)

Fiscal Year	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
2015-16	\$326,133	51.8%	\$2,147,434
2016-17	421,402	43.6%	2,384,938
2017-18	355,186	57.4%	3,717,209 ¹
2018-19	320,331	68.2%	3,600,967
2019-20	330,673	71.4%	3,915,815 ²
2020-21	320,684	76.7%	3,823,335

¹ Starting in FY2017-18, the liability amount reflects what is referred to as Net OPEB Liability due to the implementation of GASB Statement No. 75.

² Fiscal Year 2019-20 figures are unaudited.

Total City Employee Benefits Costs

Table A-25 provides historical and budget information for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. Historically, approximately 50% of health benefit costs are paid from the General Fund. For all fiscal years shown, a “pay-as-you-go” approach was used by the City for health care benefits.

Table A-25 below provides a summary of the City’s employee benefit actual costs for fiscal years 2017-18 through 2020-21 and budgeted costs for fiscal years 2021-22 through 2023-24.

TABLE A-25

CITY AND COUNTY OF SAN FRANCISCO
Employee Benefit Costs, All Funds
Fiscal Years 2018-19 through 2023-24
(000s)

	2018-19 Actual ¹	2019-20 Actual ¹	2020-21 Actual ¹	2021-22 Budget ⁵	2022-23 Budget ⁵	2023-24 Budget ⁵
SFERS and PERS Retirement Contributions	\$650,011	\$759,933	\$823,317	\$766,968	\$795,832	\$677,245
Social Security & Medicare	\$219,176	\$231,557	\$229,044	\$250,776	\$280,444	\$292,553
Health - Medical + Dental, active employees ²	\$522,006	\$555,780	\$564,453	\$585,439	\$610,023	\$656,039
Health - Retiree Medical ²	\$186,677	\$196,641	\$216,916	\$225,025	\$231,213	\$245,317
Other Benefits ³	\$26,452	\$28,493	\$24,111	\$23,410	\$26,547	\$24,911
Total Benefit Costs	\$1,604,322	\$1,772,403	\$1,857,841	\$1,851,618	\$1,944,060	\$1,896,066

¹ Figures for fiscal year 2018-19 through fiscal year 2020-21 are actuals. Figures for fiscal year 2021-22 are from the Final Budget, July 30, 2022.

² Does not include Health Service System administrative costs. Does include flexible benefits that may be used for health insurance.

³ "Other Benefits" includes unemployment insurance premiums, life insurance and other miscellaneous employee benefits.

⁴ Figures for fiscal years 2022-23 and 2023-24 reflect the Final Budget, July 30, 2022.

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

INVESTMENT OF CITY FUNDS

Investment Pool

The Treasurer of the City (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. A complete copy of the Treasurer’s Investment Policy, dated May 2021, is included as an Appendix to this Official Statement.

Investment Portfolio

As of September 30, 2022, the City’s surplus investment fund consisted of the investments classified in Table A-26 and had the investment maturity distribution presented in Table A-27.

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TABLE A-26

City and County of San Francisco
Investment Portfolio
Pooled Funds
As of September 30, 2022

<u>Type of Investment</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasuries	\$4,225,000,000	\$4,230,838,104	\$3,916,980,670
Federal Agencies	5,130,594,000	5,132,681,696	4,855,106,126
Public Time Deposits	30,000,000	30,000,000	30,000,000
Negotiable Certificates of Deposit	1,910,000,000	1,910,000,000	1,898,766,520
Commercial Paper	400,000,000	397,026,875	399,004,700
Money Market Funds	1,118,005,369	1,118,005,369	1,118,005,369
Supranationals	668,543,000	676,146,538	640,605,818
Total	\$13,482,142,369	\$13,494,698,582	\$12,858,469,203

September Earned Income Yield: 1.387%

*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-27

City and County of San Francisco
Investment Maturity Distribution
Pooled Funds
As of September 30, 2022

<u>Maturity in Months</u>			<u>Par Value</u>	<u>Percentage</u>
0	to	1	\$1,772,392,369	13.15%
1	to	2	200,000,000	1.48%
2	to	3	330,000,000	2.45%
3	to	4	470,140,000	3.49%
4	to	5	439,900,000	3.26%
5	to	6	275,000,000	2.04%
6	to	12	2,296,466,000	17.03%
12	to	24	2,723,231,000	20.20%
24	to	36	2,347,800,000	17.41%
36	to	48	1,809,675,000	13.42%
48	to	60	817,538,000	6.06%
			\$13,482,142,369	100.00%

Weighted Average Maturity: 594 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.

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 10-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 makes recommendations to the Mayor and Board of Supervisors on the City's capital expenditures and plans. The CPC reviews and submits the Capital Plan, Capital Budget, and issuances of long-term debt for approval. The CPC is chaired by the City Administrator and includes the President of the Board of Supervisors, the Mayor's Budget Director, the Controller, the City Planning Director, the Director of Public Works, the Airport Director, the Executive Director of the Municipal Transportation Agency, the General Manager of the Public Utilities Commission, the General Manager of the Recreation and Parks Department, and the Executive Director of the Port of San Francisco. 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 10-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 and other funding needs over 10 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 years 2022-2031 Capital Plan ("Adopted Capital Plan") was approved by the CPC on February 22, 2021 and was adopted by the Board of Supervisors on April 30, 2021. The Adopted Capital Plan contains \$38.0 billion in capital investments over the coming decade for all City departments, including \$4.6 billion in projects for General Fund-supported departments. The Adopted Capital Plan proposes \$1.2 billion for General Fund pay-as-you-go capital projects over the next 10 years. The amount for General Fund pay-as-you-go capital projects is \$1 billion lower than the previous capital plan funding

level due to budget impacts in the early years resulting from the COVID-19 pandemic. Major capital projects for General Fund-supported departments included in the Capital Plan consist of critical seismic projects and relocation of staff from seismically vulnerable facilities; upgrades to public health, police, and fire facilities; transportation and utility system improvements; improvements to homeless service sites and permanent supportive housing projects; affordable housing; street and right-of-way improvements; the removal of barriers to accessibility; and park improvements, among other capital projects. \$1.5 billion of the capital projects of General Fund supported departments are expected to be financed with general obligation bonds and other long-term obligations, subject to planning policy constraints. 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 Adopted Capital Plan recommends \$18.0 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, the Sewer System Improvement Program, and building adequate facilities to support the City's growing transit fleet, among others. Approximately \$8.5 billion of enterprise fund department capital projects are anticipated to be financed with revenue bonds and general obligation bonds. 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 \$7.5 billion in capital needs including enhancements are deferred from the plan's horizon.

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 – City General Obligation Bonds

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds" or "GO bonds") can only be authorized with a two-thirds approval of the voters. As of October 1, 2022, the City had approximately \$2.6 billion aggregate principal amount of GO bonds outstanding. In addition to the City's general obligation bonds, BART, SFUSD and SFCCD also have outstanding general obligation bonds as shown in Table A-33.

Table A-28 shows the annual amount of debt service payable on the City's outstanding GO bonds.

TABLE A-28

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds Debt Service
As of October 1, 2022^{1 2}

Fiscal Year	Principal	Interest	Annual Debt Service
2022-23	\$173,545,251	\$105,917,805	\$279,463,055
2023-24	175,056,206	97,944,159	273,000,365
2024-25	177,481,476	89,887,165	267,368,641
2025-26	165,756,279	81,804,053	247,560,332
2026-27	172,635,840	74,368,550	247,004,390
2027-28	179,064,035	66,869,778	245,933,814
2028-29	181,156,751	59,409,377	240,566,128
2029-30	179,395,095	51,583,497	230,978,592
2030-31	144,611,950	43,994,155	188,606,105
2031-32	149,965,000	38,340,356	188,305,356
2032-33	118,820,000	32,657,286	151,477,286
2033-34	101,040,000	28,262,795	129,302,795
2034-35	95,040,000	24,705,347	119,745,347
2035-36	80,045,000	21,475,808	101,520,808
2036-37	69,590,000	18,769,081	88,359,081
2037-38	60,880,000	16,429,118	77,309,118
2038-39	42,505,000	14,358,049	56,863,049
2039-40	42,240,000	12,952,057	55,192,057
2040-41	36,635,000	11,535,894	48,170,894
2041-42	37,970,000	10,201,011	48,171,011
2042-43	39,365,000	8,802,762	48,167,762
2043-44	40,820,000	7,352,149	48,172,149
2044-45	42,315,000	5,846,885	48,161,885
2045-46	38,505,000	4,285,480	42,790,480
2046-47	5,005,000	2,880,246	7,885,246
2047-48	5,170,000	2,710,945	7,880,945
2048-49	5,345,000	2,535,881	7,880,881
2049-50	5,530,000	2,354,712	7,884,712
2050-51	5,725,000	2,159,925	7,884,925
2051-52	5,935,000	1,950,338	7,885,338
2052-53	6,155,000	1,732,790	7,887,790
2053-54	6,380,000	1,506,973	7,886,973
2054-55	6,610,000	1,272,671	7,882,671
2055-56	6,855,000	1,029,667	7,884,667
2056-57	7,110,000	777,438	7,887,438
2057-58	7,370,000	515,551	7,885,551
2058-59	3,895,000	243,790	4,138,790
2059-60	4,010,000	123,668	4,133,668
TOTAL⁴	\$2,625,532,882	\$949,547,213	\$3,575,080,096

¹ This table only includes the City's General Obligation Bonds and does not include any of the overlapping debt as shown in Table A-33.

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 assessed value.

Source: Office of Public Finance, City and County of San Francisco.

Authorized but Unissued City GO Bonds

Certain GO 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 ("1992 Proposition A") which authorized the issuance of up to \$350.0 million in GO bonds to support San Francisco's Seismic Safety Loan Program ("SSLP"), which provides loans for the seismic strengthening of privately-owned unreinforced masonry affordable housing, market-rate residential, commercial and institutional buildings. Between 1994 and 2015, the City issued \$89.3 million of bonds under the original 1992 Proposition A authorization. In November 2016, voters approved Proposition C ("2016 Proposition C"), which amended the 1992 Proposition A authorization (together, the "1992A/2016A Propositions") to broaden the scope of the remaining \$260.7 million authorization by adding the eligibility to finance the acquisition, improvement, and rehabilitation to convert at-risk multi-unit residential buildings to affordable housing, as well as the needed seismic, fire, health, and safety upgrades and other major rehabilitation for habitability, and related costs. In 2019 and 2020, the City issued \$175.0 million of bonds across two series under the 1992A/2016A Propositions. Currently \$85.7 million remains authorized and unissued.

In November 2018, voters approved Proposition A ("2018 Embarcadero Seawall Improvement Proposition"), authorizing the issuance of up to \$425.0 million in general obligation bonds for repair and improvement projects along the City's Embarcadero and Seawall to protect the waterfront, BART and Muni, buildings, historic piers, and roads from earthquakes, flooding, and sea level rise. On June 2, 2020, the City closed the first series of bonds in the par amount of \$49.7 million, leaving \$375.3 million authorized and unissued.

In November 2019, voters approved Proposition A ("2019 Affordable Housing Proposition"), which authorized the issuance of up to \$600.0 million in general obligation bonds to finance the construction, development, acquisition, and preservation of affordable housing for certain vulnerable San Francisco residents; to assist in the acquisition, rehabilitation, and preservation of existing affordable housing to prevent the displacement of residents; to repair and reconstruct distressed and dilapidated public housing developments and their underlying infrastructure; to assist the City's middle-income residents or workers in obtaining affordable rental or home ownership opportunities including down payment assistance and support for new construction of affordable housing for SFUSD and City College of San Francisco employees; and to pay related costs. On March 30, 2021, the City closed the first series of bonds in the par amount of \$254.6 million, leaving \$345.4 million authorized and unissued.

In March 2020, voters approved Proposition B ("2020 Earthquake Safety and Emergency Response Proposition") which authorized the issuance of up to \$628.5 million in general obligation bonds to aid fire, earthquake and emergency response by improving, constructing, and/or replacing: deteriorating cisterns, pipes, tunnels, and related facilities to ensure firefighters a reliable water supply for fires and disasters; neighborhood fire and police stations and supporting facilities; the City's 911 Call Center; and other disaster response and public safety facilities, and to pay related costs. In 2021, the City closed the first four series of bonds with a total par amount of \$167.8 million, leaving \$460.7 million authorized and unissued.

In November 2020, voters approved Proposition A ("2020 Health and Recovery Bond"), which authorized the issuance of up to \$487.5 million in general obligation bonds to fund permanent investments in transitional supportive housing facilities, shelters, and/or facilities that serve individuals experiencing homelessness, mental health challenges, or substance use; improve the safety and quality of parks; and improve the safety and condition of streets and other public rights of way. In 2021, the City closed the first two series of bonds in an aggregate par amount of \$258.5 million, leaving approximately \$229 million authorized and unissued.

Refunding General Obligation Bonds

The Board of Supervisors adopted and the Mayor approved Resolution No. 272-04 in May of 2004 (“2004 Resolution”). The 2004 Resolution authorized the issuance of \$800.0 million 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 outstanding General Obligation Bonds. In November of 2011, the Board of Supervisors adopted and the Mayor approved, Resolution No. 448-11 (“2011 Resolution,” and together with the 2004 Resolution, the “Refunding Resolutions”). The 2011 Resolution authorized the issuance of approximately \$1.5 billion 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. In March of 2020, the Board of Supervisors adopted and the Mayor approved, Resolution No. 097-20 (“2020 Resolution,” and together with the 2004 Resolution and 2011 Resolution, the “Refunding Resolutions”). The 2020 Resolution authorized the issuance of approximately \$1.5 billion 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 refunding bonds outstanding as of October 1, 2022, under the Refunding Resolutions, are shown in Table A-29 below.

TABLE A-29

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Refunding Bonds
As of October 1, 2022

Series Name	Date Issued	Principal Amount Issued	Amount Outstanding
2015-R1	February 2015	\$293,910,000	\$208,800,000 ¹
2020-R1	May 2020	195,250,000	181,945,000 ²
2021-R1	May 2021	91,230,000	91,230,000 ³
2021-R2	September 2021	86,905,000	86,905,000 ⁴
2022-R1	May 2022	327,300,000	327,300,000 ⁵

¹ Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015.

² Series 2008-R1 Bonds were refunded by the 2020-R1 Bonds in May 2020.

³ Series 2013A, 2013B, and 2013C Bonds were refunded by the 2021-R1 Bonds in May 2021.

⁴ Series 2011-R1 Bonds, which refunded the 2004-R1 Bonds, were refunded by the 2021-R2 Bonds in September 2021.

⁵ Series 2012D, 2012E, 2014A, 2014C, and 2014D Bonds were refunded by the 2022-R1 Bonds in May 2022.

Table A-30 on the following page lists for each of the City’s voter-authorized general obligation bond programs 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 October 1, 2022, the City had authorized and unissued general obligation bond authority of approximately \$1.5 billion.

TABLE A-30

CITY AND COUNTY OF SAN FRANCISCO
 General Obligation Bonds
 As of October 1, 2022¹

Bond Authorization Name	Election Date	Authorized Amount	Series	Bonds Issued	Bonds Outstanding	Authorized & Unissued
Seismic Safety Loan Program	11/3/92	\$350,000,000	1994A	\$35,000,000	-	2
			2007A	\$30,315,450	\$13,912,882	
			2015A	\$24,000,000	-	
Reauthorization to Repurpose for Affordable Housing	11/8/16		2019A	\$72,420,000	\$69,665,000	
			2020C	\$102,580,000	\$95,240,000	\$85,684,550
Clean & Safe Neighborhood Parks	2/5/08	\$185,000,000	2008B	\$42,520,000	-	
			2010B	\$24,785,000	-	
			2010D	\$35,645,000	\$27,185,000	
			2012B	\$73,355,000	-	
			2016A	\$8,695,000	\$6,125,000	-
San Francisco General Hospital & Trauma Center Earthquake Safety	11/4/08	\$887,400,000	2009A	\$131,650,000	-	
			2010A	\$120,890,000	-	
			2010C	\$173,805,000	\$132,565,000	
			2012D	\$251,100,000	-	
			2014A	\$209,955,000	-	-
Earthquake Safety and Emergency Response Bond	6/8/10	\$412,300,000	2010E	\$79,520,000	-	
			2012A	\$183,330,000	-	
			2012E	\$38,265,000	-	
			2013B	\$31,020,000	-	
			2014C	\$54,950,000	-	
			2016C	\$25,215,000	\$18,330,000	-
Road Repaving & Street Safety	11/8/11	\$248,000,000	2012C	\$74,295,000	-	
			2013C	\$129,560,000	-	
			2016E	\$44,145,000	\$32,090,000	-
Clean & Safe Neighborhood Parks	11/6/12	\$195,000,000	2013A	\$71,970,000	-	
			2016B	\$43,220,000	\$19,890,000	
			2018A	\$76,710,000	\$39,460,000	
			2019B	\$3,100,000	-	-
Earthquake Safety and Emergency Response Bond	6/3/14	\$400,000,000	2014D	\$100,670,000	-	
			2016D	\$109,595,000	\$61,840,000	
			2018C	\$189,735,000	\$122,260,000	-
Transportation and Road Improvement	11/4/14	\$500,000,000	2015B	\$67,005,000	\$35,925,000	
			2018B	\$174,445,000	\$89,740,000	
			2020B	\$135,765,000	\$106,235,000	
			2021C-1	\$104,785,000	\$85,285,000	
			2021C-2	\$18,000,000	-	-
Affordable Housing Bond	11/3/15	\$310,000,000	2016F	\$75,130,000	\$41,280,000	
			2018D	\$142,145,000	\$90,010,000	
			2019C	\$92,725,000	\$22,990,000	-
Public Health and Safety Bond	6/7/16	\$350,000,000	2017A	\$173,120,000	\$101,945,000	
			2018E	\$49,955,000	\$32,520,000	
			2020D-1	\$111,925,000	\$79,830,000	
			2020D-2	\$15,000,000	-	-
Embarcadero Seawall Earthquake Safety	11/6/18	\$425,000,000	2020A	\$49,675,000	-	\$375,325,000
Affordable Housing Bond	11/5/19	\$600,000,000	2021A	\$254,585,000	\$174,410,000	\$345,415,000
Earthquake Safety and Emergency Response Bond	3/3/20	\$628,500,000	2021B-1	\$69,215,000	\$65,925,000	
			2021B-2	\$11,500,000	-	
			2021E-1	\$74,090,000	\$60,990,000	
			2021E-2	\$13,000,000	-	\$460,695,000
Health and Recovery Bond	11/4/20	\$487,500,000	2021D-1	\$194,255,000	\$168,455,000	
			2021D-2	\$64,250,000	-	\$228,995,000
SUBTOTAL		\$5,978,700,000		\$4,482,585,450	\$1,794,102,882	\$1,496,114,550
General Obligation Refunding Bonds			Dated Issued	Bonds Issued	Bonds Outstanding	
Series 2015-R1			2/25/15	\$293,910,000	\$187,040,000	
Series 2020-R1			5/7/20	\$195,250,000	\$168,770,000	
Series 2021-R1			5/6/21	\$91,230,000	\$84,035,000	
Series 2021-R2			9/16/21	\$86,905,000	\$64,285,000	
Series 2022-R1			5/18/22	\$327,300,000	\$327,300,000	
SUBTOTAL				\$994,595,000	\$831,430,000	
TOTALS		\$5,978,700,000		\$5,477,180,450	\$2,625,532,882	\$1,496,114,550

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.

² Of the \$35,000,000 authorized by the Board of Supervisors in February 2007, \$30,315,450 has been drawn upon to date pursuant to the Credit Agreement described under "General Obligation Bonds."

Source: Office of Public Finance, City and County of San Francisco.

General Fund Lease 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 financings 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-31 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding long-term lease revenue bonds and certificates of participation as of October 1, 2022.

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TABLE A-31

CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Bonds and Certificates of Participation
As of October 1, 2022¹

Fiscal Year ²	Principal	Interest ³	Annual Payment Obligation
2022-23 ⁴	\$53,770,000	\$62,817,366	\$116,587,366
2023-24	67,610,000	61,108,658	128,718,658
2024-25	69,050,000	57,686,331	126,736,331
2025-26	70,595,000	54,244,130	124,839,130
2026-27	73,950,000	50,637,831	124,587,831
2027-28	69,060,000	47,055,725	116,115,725
2028-29	74,220,000	43,633,945	117,853,945
2029-30	74,995,000	40,161,516	115,156,516
2030-31	70,485,000	36,975,914	107,460,914
2031-32	63,590,000	34,282,816	97,872,816
2032-33	64,685,000	31,871,841	96,556,841
2033-34	67,135,000	29,260,160	96,395,160
2034-35	60,275,000	26,761,447	87,036,447
2035-36	60,515,000	24,174,243	84,689,243
2036-37	60,190,000	21,538,229	81,728,229
2037-38	62,625,000	18,910,664	81,535,664
2038-39	65,160,000	16,175,156	81,335,156
2039-40	67,805,000	13,324,472	81,129,472
2040-41	70,555,000	10,357,468	80,912,468
2041-42	56,000,000	7,430,811	63,430,811
2042-43	20,990,000	5,247,200	26,237,200
2043-44	19,855,000	4,388,600	24,243,600
2044-45	20,650,000	3,594,400	24,244,400
2045-46	13,695,000	2,768,400	16,463,400
2046-47	14,245,000	2,220,600	16,465,600
2047-48	13,220,000	1,650,800	14,870,800
2048-49	13,750,000	1,122,000	14,872,000
2049-50	14,300,000	572,000	14,872,000
TOTAL⁵	\$1,452,975,000	\$709,972,722	\$2,162,947,722

¹ Excludes the 833 Bryant lease, commercial paper and the following privately placed lease purchase financings (with current outstanding amounts):

SFGH Emergency Backup Generators Project (\$7,344,831)

Gsmart Citywide Emergency Radio Replacement Project (\$16,088,844)

² For the 2020-R1 Series, the amount outstanding as of 10/1/22 reflects payment of the 10/1/22 principal payment, as the Base Rental payment was due by 9/25/22.

³ Totals reflect rounding to nearest dollar.

⁴ Excludes payments made to date in current fiscal year.

⁵ 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 6.0%. These bonds are in variable rate mode.

Source: Office of Public Finance, City and County of San Francisco.

Voter-Approved Lease Revenue Bonds

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 F, 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 additional bonds at this time.

In 1990, voters approved Proposition C ("1990 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. 1990 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 July 1, 2022, the total authorized and unissued amount for such financings was \$95.3 million. There is no current plan to issue additional bonds at this time.

In 1994, voters approved Proposition B ("1994 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 1994 Proposition B lease revenue bonds, respectively, leaving \$14.1 million in remaining authorization. There is no current plan to issue additional series of bonds under 1994 Proposition B.

In 2000, voters approved Proposition C ("2000 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"). 2000 Proposition C also authorized the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. In August 2018 the City issued refunding lease revenue bonds to refund Series 2006 and 2007 Open Space Fund lease revenue bonds.

In 2007, voters approved Proposition D, which amended the Charter and renewed the Library Preservation Fund. Proposition D continued the two and one-half cent per \$100.0 in assessed valuation property tax set-aside and established a minimum level of City appropriations, moneys that are maintained in the Library Preservation Fund. Proposition D also authorized the issuance of revenue bonds or other evidences of indebtedness. In August 2018 the City issued refunding lease revenue bonds to refund Series 2009A Branch Library Improvement Project lease revenue bonds.

Table A-32 below lists the City's outstanding certificates of participation and voter-authorized lease revenue bonds.

TABLE A-32*

CITY AND COUNTY OF SAN FRANCISCO
Outstanding Certificates of Participation and Lease Revenue Bonds¹
As of October 1, 2022

Issue Name	Final Maturity	Original Par	Outstanding Principal
CERTIFICATES OF PARTICIPATION			
Series 2009C (525 Golden Gate Avenue)	2022	\$38,120,000	\$4,375,000
Series 2009D - Taxable BABs (525 Golden Gate Avenue)	2041	129,550,000	129,550,000
Refunding Series 2011A (Moscone Center South)	2024	23,105,000	4,540,000
Series 2012A (Multiple Capital Improvement Projects)	2036	42,835,000	29,465,000
Series 2013B - Non-AMT (Port Facilities Project)	2038	4,830,000	4,830,000
Series 2013C - AMT (Port Facilities Project)	2043	32,870,000	21,345,000
Refunding Series 2014-R2 (Juevenile Hall Project)	2034	33,605,000	23,015,000
Series 2015A (War Memorial Veterans Building)	2045	112,100,000	112,100,000
Series 2015B - Taxable (War Memorial Veterans Building)	2024	22,225,000	2,350,000
Refunding Series 2015-R1 (City Office Buildings - Multiple Properties)	2040	123,600,000	101,725,000
Series 2016A (War Memorial Veterans Building)	2032	16,125,000	10,700,000
Series 2017A - Taxable (Hope SF)	2047	28,320,000	25,235,000
Series 2017B (Moscone Convention Center Expansion Project)	2042	412,355,000	370,090,000
Series 2019A (49 South Van Ness Project)	2050	247,810,000	243,485,000
Refunding Series 2019-R1 (Multiple Capital Improvement Projects)	2035	116,460,000	92,615,000
Refunding Series 2020-R1 (Multiple Capital Improvement Projects)	2033	70,640,000	62,785,000 ²
Series 2020 (Animal Care & Control Project)	2041	47,075,000	45,570,000
Series 2021A (Multiple Capital Improvement Projects)	2041	76,020,000	76,020,000
SUBTOTAL CERTIFICATES OF PARTICIPATION		\$1,577,645,000	\$1,359,795,000
LEASE PURCHASE FINANCINGS			
2010 Lease Purchase Financing (SFGH Emergency Backup Generators)	2025	\$22,549,489	\$7,344,831
2016 Lease Purchase Financing (Public Safety Radio Replacement Project)	2026	34,184,136	16,088,844
SUBTOTAL LEASE PURCHASE FINANCINGS		\$56,733,625	\$23,433,674
FINANCE CORPORATION LEASE REVENUE BONDS			
Refunding Series 2008-1 (Moscone Center Expansion Project) - Variable	2030	\$72,670,000	\$29,100,000
Refunding Series 2008-2 (Moscone Center Expansion Project) - Variable	2030	72,670,000	29,100,000
Refunding Series 2010-R1 (Emergency Communications System)	2024	22,280,000	3,395,000
Refunding Series 2018A (Open Space Fund - Various Park Projects)	2029	34,950,000	22,920,000
Refunding Series 2018B (Branch Library Improvement Program)	2028	13,355,000	8,665,000
SUBTOTAL LEASE REVENUE BONDS		\$215,925,000	\$93,180,000
TOTAL GENERAL FUND OBLIGATIONS		\$1,850,303,625	\$1,476,408,674

¹ Excludes California HFA Revenue Bonds (San Francisco Supportive Housing - 833 Bryant Apartments) (\$26,985,000)

² For the 2020-R1 Series, the amount outstanding as of 10/1/22 reflects payment of the 10/1/22 principal payment, as the Base Rental payment was due by 9/25/22.

Board Authorized and Unissued Long-Term Certificates of Participation

Treasure Island Improvement Project: In October of 2013, the Board authorized, and the Mayor approved the issuance of not to exceed \$13.5 million of City and County of San Francisco Certificates of Participation to finance the cost of additions and improvements to the utility infrastructure at Treasure Island. At this time there is not an expected timeline for the issuance of these certificates, but commercial paper is anticipated to be issued to finance the projects in fiscal year 2023-24.

Housing Trust Fund Project: In April 2016, the Board authorized and the Mayor approved the issuance of not to exceed \$95.0 million of City and County of San Francisco Certificates of Participation (Affordable Housing Projects) to provide funds to assist in the development, acquisition, construction or rehabilitation of affordable rental housing projects. The City currently issues commercial paper to finance these projects and pays down their commercial paper balance annually rather than issuing certificates at this time.

Hall of Justice Relocation Projects: In October 2019, the Board authorized and the Mayor approved the issuance of not to exceed \$62.0 million of City and County of San Francisco Certificates of Participation (Multiple Capital Projects) to finance or refinance tenant improvements involving the construction, acquisition, improvement, renovation, and retrofitting of City-owned properties as needed for the Hall of Justice Improvement Project enabling staff and offices to be consolidated in acquired City-owned properties. The City funded \$4.6 million in project fund and related financing costs related to this authorization for the 444 Sixth Street acquisition as part of the Certificates of Participation, Series 2021A. The City expects to issue the remainder of the long-term COPs in fiscal year 2023-24.

HOPE SF Project: In December 2019, the Board authorized, and the Mayor approved the issuance of not to exceed \$83.6 million of City and County of San Francisco Certificates of Participation to finance or refinance certain capital improvements, including but not limited to certain properties generally known as Hunters View, Sunnydale, and Potrero Terrace and Annex housing developments. As of October 1, 2022, \$28.3M has been issued (Series 2017A) and \$55.3 million remains unissued from the authorization. The City anticipates issuing the remaining long-term COPs from this authorization in fiscal year 2023-24.

Department of Public Health Facilities Improvements: In November 2020, the Board authorized and the Mayor approved the issuance of not to exceed \$157.0 million of City and County of San Francisco Certificates of Participation to finance projects for the Department of Public Health (“DPH”), including but not limited to certain projects generally known as the Homeless Services Center, Laguna Honda Hospital Wings Reuse Project, AITC Immunization and Travel Clinic Relocation, and San Francisco General Hospital Chiller and Cooling Tower Replacement Project. The City anticipates issuing the certificates in fiscal year 2023-24.

Critical Repairs and Recovery Stimulus (FY2022): In July 2021, the Board authorized and the Mayor approved the issuance of not to exceed \$67.5 million of City and County of San Francisco Certificates of Participation, to finance and refinance certain capital improvements generally consisting of critical repairs, renovations and improvements to City-owned buildings, facilities and works utilized by various City departments and local economic stimulus projects. The City anticipates issuing the certificates in fiscal year 2023-24.

Critical Repairs, Recovery Stimulus and Street Repaving Projects (FY2023): In July 2022 the Board authorized and in August 2022 the Mayor approved the issuance of not to exceed \$140.0 million of City and County of San Francisco Certificates of Participation, to finance and refinance certain capital

improvements generally consisting of (a) street repaving and reconstruction, (b) critical repairs, including renovations and improvements to City-owned buildings, facilities and works utilized by various City departments and (c) local economic stimulus projects. The City anticipates issuing the long-term certificates in fiscal year 2023-24.

Affordable Housing and Community Development Projects: In July 2022 the Board authorized and in August 2022 the Mayor approved the appropriation of not to exceed \$112.0 million of Certificate of Participation proceeds to the Mayor's Office of Housing and Community Development for a notice of funding availability (NOFA) to finance land acquisition with priority for development of 100% affordable projects in California Debt Limit Allocation Committee (CDLAC) designated high/resources areas and/or high need areas, repairs for Public Housing or Federal Housing and Urban Development (HUD) co-ops, affordable housing for educators, elevators in the City's Single Room Occupancy (SRO) portfolio, and acquisition for non-profit sites. An additional \$34.8 million of Certificate of Participation proceeds were appropriated for financing costs. The associated legislation authorizing the issuance of these Certificates of Participation has not yet gone to the Board.

Commercial Paper Program

In March 2009, the Board authorized and the Mayor approved 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 "Original CP Program"). In July of 2013, the Board authorized, and the Mayor approved an additional \$100.0 million of Lease Revenue Commercial Paper Certificates of Participation, Series 3 and 3-T and Series 4 and 4-T (the "Second CP Program" and together with the Original CP Program, the "City CP Program") that increased the total authorization of the City CP Program to \$250.0 million. 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.

The Series 1 and 1-T and Series 2 and 2-T CP notes are secured by credit facilities from: (i) State Street Bank and Trust Company (with a maximum principal amount of \$75 million) and (ii) U.S. Bank National Association (with a maximum principal amount of \$75 million). These credit facilities expire in May 2023. The Series 3 and 3-T and 4 and 4-T are secured by a \$100 million revolving letter of credit issued by Bank of the West, which expires in April 2026.

As of October 20, 2022, the outstanding principal amount of CP Notes is \$33.7 million. The interest rate for the \$12.6 million outstanding tax-exempt CP Notes is 2.70%. The interest rate for the \$21.1 million outstanding tax-exempt CP Notes is 4.25%. The projects with Board Authorized and Unissued Certificates of Participation currently utilizing the CP Program includes the Housing Trust Fund, HOPE SF, DPH Facilities Improvements, Critical Repairs & Recovery Stimulus, and Hall of Justice Relocation Project - Tenant Improvements. Additionally, there is a short-term financing for Police Vehicle acquisition utilizing the City's CP Program and expected to be paid down over 5-years beginning FY2022-23. The following is a summary of the outstanding liability by project associated with the CP Notes outstanding.

Project	CP Notes Liability as of 10/20/2022
Housing Trust Fund	\$17,965,985
HOPE SF	\$3,179,015
DPH Facilities Improvements	\$8,551,011
Critical Repairs & Recovery Stimulus	\$1,541,394
Police Vehicle Acquisition	\$2,416,878
HOJ Relocation – Tenant Improvements	\$40,717
TOTAL	\$33,695,000

Overlapping Debt

Table A-33 shows bonded debt and long-term obligations as of October 1, 2022 sold in the public capital markets, except for those financings otherwise noted in the table, 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-33

CITY AND COUNTY OF SAN FRANCISCO
Statement of Direct and Overlapping Debt and Long-Term Obligations
As of October 1, 2022

<u>2022-23 Assessed Valuation</u> (includes unitary utility valuation):	\$329,109,287,967 ¹
<u>GENERAL OBLIGATION BONDED DEBT</u>	
San Francisco City and County	\$2,625,532,882
San Francisco Unified School District	1,118,600,000
San Francisco Community College District	436,085,000
TOTAL GENERAL OBLIGATION BONDED DEBT	\$4,180,217,882
<u>LEASE OBLIGATIONS BONDS</u>	
San Francisco City and County	\$1,469,063,846
TOTAL LEASE OBLIGATION BONDED DEBT	\$1,469,063,846 ²
TOTAL COMBINED DIRECT DEBT	\$5,649,281,728
<u>OVERLAPPING TAX AND ASSESSMENT DEBT</u>	
Bay Area Rapid Transit District General Obligation Bond (34.740%)	\$848,855,342
San Francisco Community Facilities District No. 4	4,420,000
San Francisco Community Facilities District No. 6	111,562,516
San Francisco Community Facilities District No. 7	30,155,000
San Francisco Community Facilities District No. 2009-1, Improvement Areas 1 and 2	2,337,095
San Francisco Community Facilities District No. 2014-1 Transbay Transit Center	497,545,000
San Francisco Community Facilities District No. 2016-1 Treasure Island, Improvement Areas 1 and 2	83,295,000
San Francisco Special Tax District No. 2020-1 Mission Rock Facilities	106,230,000
City of San Francisco Assessment District No. 95-1	260,000
ABAG Community Facilities District No. 2004-1 Seismic Safety Improvements	8,530,000
ABAG Community Facilities District No. 2006-1 San Francisco Rincon Hill	4,655,000
ABAG Community Facilities District No. 2006-2 San Francisco Mint Plaza	2,685,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT	\$1,700,529,953
<u>OVERLAPPING TAX INCREMENT DEBT:</u>	
Successor Agency to the San Francisco Redevelopment Agency	\$629,826,904
Transbay Joint Powers Authority	259,590,000
TOTAL OVERLAPPING INCREMENT DEBT	\$889,416,904
<u>OVERLAPPING TAX INCREMENT REVENUE DEBT:</u>	
San Francisco Infrastructure and Revitalization Financing District No. 1	\$29,390,000
TOTAL OVERLAPPING INCREMENT DEBT	\$29,390,000
TOTAL DIRECT AND OVERLAPPING BONDED DEBT	\$8,268,618,585 ³
<u>Ratios to 2022-23 Assessed Valuation (\$329,109,287,967)</u>	<u>Actual Ratio</u>
Direct General Obligation Bonded Debt (\$4,180,217,882)	1.27% ⁴
Combined Direct Debt (\$5,649,281,728)	1.72%
Total Direct and Overlapping Bonded Debt	2.51%
<u>Ratio to 2022-23 Redevelopment Incremental Valuation (\$42,244,048,147)</u>	
Total Overlapping Tax Increment Debt	2.11%

¹ Includes \$578,793,600 homeowner's exemption for FY22-23.

² Excludes 833 Bryant lease and privately placed SFGH Emergency Backup Generators Project, outstanding in the principal amount of \$7,344,831 as of 10/1/22.

³ Excludes tax and revenue anticipation notes, enterprise revenue bonds and airport improvement corporation bonds, as well as issue to be sold.

⁴ 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. The City's general obligation debt as a percentage of FY22-23 AV is 0.8%.

Source: California Municipal Statistics Inc., City and County of San Francisco

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 were 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.

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 average revenues over two consecutive years exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the following two years. With voter approval, the appropriations limit can be raised for up to four 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 XII 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.

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 increases 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 Article XIII 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 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.

LEGAL MATTERS AND RISK MANAGEMENT

Pending Litigation

There are a number of lawsuits and claims routinely pending against the City. 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 materially impair the ability of the City to pay debt service on its General Fund lease obligations or other debt obligations, nor have an adverse impact on City finances.

Ongoing Investigations

Public Works Investigation. On January 28, 2020 the City's former Director of Public Works Mohammad Nuru was indicted on federal criminal charges of public corruption, including honest services wire fraud and lying to Federal Bureau of Investigation officials. The allegations contained in the complaint involve various schemes, including an attempt by Mr. Nuru and Mr. Nick Bovis, a local restaurateur who was also indicted by the federal government, to bribe an Airport Commissioner to influence the award of lease of space at the San Francisco International Airport, Mr. Nuru using his official position to benefit a developer of a mixed-use project in San Francisco in exchange for personal gifts and benefits; Mr. Nuru attempting to use his former position as the chair of the Transbay Joint Powers Authority to secure a lease for Mr. Bovis in the Salesforce Transit Center, in exchange for personal benefits provided by the restaurateur; Mr. Nuru providing Mr. Bovis with inside information on City projects regarding contracts for portable bathroom trailers and small container-like housing units for use by the homeless, so that Mr. Bovis could win the contracts for those projects; and Mr. Nuru obtaining free and discounted labor and construction

equipment from contractors to help him build a personal vacation home while those contractors were also engaging in business with the City. Mr. Nuru resigned from employment with the City two weeks after his arrest.

On May 20, 2021 Mr. Bovis pled guilty to honest services wire fraud and wire fraud. On December 17, 2021 Mr. Nuru also pled guilty to honest services wire fraud. In August 2022, Mr. Nuru was sentenced to 7 years in prison.

As a result of the announcement of the Nuru and Bovis arrests, the City Attorney and Controller commenced a joint investigation seeking to identify officials, employees and contractors involved in these schemes or other related conduct, and to identify contracts, grants, gifts, and other government decisions possibly tainted by conflicts of interest and other legal or policy violations. The Controller's Office, in conjunction with the City Attorney's Office, has put into place interim controls to review Public Works contracts for red flags and process failures. The Controller's Office is also working with the City Attorney's Office to identify whether stop payments, cancellations or other terminations are justified on any open contracts, purchase orders or bids. Also, the Controller, in coordination with the City Attorney's Office, has made periodic public reports setting forth assessments of patterns and practices to help prevent fraud and corruption and recommendations about best practices, including possible changes in City law and policy.

On March 10, 2020, the City Attorney transmitted to the Mayor its preliminary report of investigations of alleged misconduct by the City's Director of the Department of Building Inspections ("DBI"). The allegations involve violations of the City Campaign and Conduct Code and DBI's Code of Professional Conduct by the Director by (i) providing intentional and preferential treatment to certain permit expeditors, (ii) accepting gifts and dinners in violation of DBI's professional code of conduct, and (iii) otherwise violating City laws and policies by abusing his position to seek positions for his son and son's girlfriend. The Mayor placed the Director of Building Inspection on administrative leave, and he resigned shortly thereafter.

On June 29, 2020, the Controller released its preliminary assessment of Citywide procurement practices, with an emphasis on the Public Works Department. The report is subject to public comment and review and could be revised in the future. The preliminary assessment focused on City laws, practices and policies and made recommendations to make improvements on such City laws and policies to improve transparency, reduce the risk of loss and abuse in City contracting in the future. The Controller expects to issue additional reports in the future. Reviews of the City internal controls will be released in a subsequent report. Finally, the City Attorney investigation continues with respect to the review certain contracts and payments made to outside vendors. To date, the City Attorney's investigation has led to the release of at least four city employees (including the Director of Public Works and the Director of Building Inspections, as described above) or officials from their City positions.

On September 24, 2020 the Controller issued an additional report noting that Mr. Nuru also solicited donations from private sources and directed those donations to a non-profit supporting the Department of Public Works. Such arrangements, which were neither accepted or disclosed by the City, created a perceived risk of "pay-to-play" relationships. The report made recommendations to the Board of Supervisions that, among other things, would restrict the ability of department heads from soliciting donations from interested parties in the future and would increase transparency surrounding gifts made to benefit City departments.

On November 30, 2020, Harlan L. Kelly, Jr., the General Manager of the San Francisco Public Utilities Commission (“PUC”), was charged in a federal criminal complaint with one count of honest services wire fraud. The complaint alleges that Mr. Kelly engaged in a long-running bribery scheme and corrupt partnership with Walter Wong, a San Francisco construction company executive and permit expediting consultant, who ran or controlled multiple entities doing business with the City. The complaint further alleges that as part of the scheme, Mr. Wong provided items of value to Mr. Kelly in exchange for official acts by Mr. Kelly that benefited or attempted to benefit Mr. Wong’s business ventures. Earlier criminal charges filed against Walter Wong alleged that Mr. Wong conspired with multiple City officials, including Mr. Nuru, in a conspiracy and money laundering scheme. Mr. Wong pled guilty in July of this year and is cooperating with the ongoing federal investigation.

Mr. Kelly resigned on December 1, 2020, and the PUC’s Commission acted on his resignation on December 8, 2020. Dennis J. Herrera (the current City Attorney) was nominated by the Mayor to be the General Manager of the PUC and his nomination was confirmed by the PUC on September 28, 2021. Mr. Herrera assumed office as General Manager of PUC on November 1, 2021.

On July 8, 2021 the San Francisco District Attorney announced the arrest of former Department of Public Works bureau manager Gerald “Jerry” Sanguinetti. Mr. Sanguinetti was charged with five felony counts of perjury and two misdemeanor charges arising from his alleged failure to report more than a quarter million dollars of income and file financial disclosure statements associated with the sale to the Public Works Department of merchandise by a company owned by his wife. The charges arise out of the continuing investigation into public corruption involving the Public Works Department. The Public Works Department investigation is ongoing.

Recology Settlement. On March 4, 2021, the City Attorney announced an approximately \$100 million settlement with Recology San Francisco (“Recology”), the contractor handling the City’s waste and recycling collection. The settlement arose from overcharges that were uncovered as part of the continuing public integrity investigation tied to Mr. Nuru and others. As part of the Settlement, Recology was required to lower commercial and residential rates starting April 1, 2021 and make a \$7 million settlement payment to the City under the California Unfair Competition Law and the San Francisco Campaign and Governmental Conduct Code. In addition, Recology will be enjoined for four years from making any gift to any City employee or any contribution to a nonprofit at the behest of a City employee. The comprehensive settlement agreement with Recology was approved by the Board of Supervisors. The bribery and corruption public integrity investigation related to the Nuru matter is ongoing.

On May 16, 2022 the Controller’s Office released a public integrity assessment report on the review of rate-setting and rate reporting processes, and profits earned by Recology that were over and above allowed profit margins. The report found that Recology netted profits of \$23.4 million over and above the allowed profit margin set in the 2017 Rate Application. Even after taking into account the 2021, \$101 million settlement in restitution, penalties, and interest to ratepayers affected by the erroneous calculation of revenues in the rate application, Recology consistently exceeded their allowable operating profits.

On June 7, 2022, the voters of San Francisco passed Proposition F, a ballot measure that allows the City to oversee Recology more closely, including certain changes to the composition of the Refuse Rate Board. The changes are intended to provide more oversight with respect to monitoring rates to residential and commercial customers.

In addition to the ongoing joint investigation by the City Attorney's Office and the Controller's Office into City contracting policies and procedures, the City's Board of Supervisors has initiated a series of public hearings before its Government Audit and Oversight Committee to examine issues raised by the federal complaints. That committee also considered the Controller's periodic reports. The full Board of Supervisors is considering retaining additional independent services relating to the matters that were the subject of the federal indictment. The City can give no assurance regarding when the City's investigation will be completed or what the outcome will be. The criminal investigation by the Federal Bureau of Investigation and the United States Attorney's office is ongoing.

Risk Retention Program

Citywide risk management is coordinated by the Risk Management Division of the City Administrator's Office. With certain exceptions, it is the general policy of the City to first evaluate self-insurance and not purchase commercial liability insurance for the risks of losses to which it is exposed. The City believes that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing 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 decision to obtain commercial insurance depends on various factors. For property insurance, these factors include 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 limits. The majority of the City's commercial insurance coverage is purchased for enterprise fund departments and other similar revenue-generating departments (i.e. the Airport, MTA, the PUC, 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. In recent years, the City has purchased Cyber Liability insurance for departments and certain enterprise fund departments providing critical City services and/or managing high volumes of confidential/personal data.

Through coordination between 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 Annual Comprehensive Financial Report. The appropriations are sized based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The City is self-insured for the financial risk and liability to provide workers' compensation benefits to its employees. The administration of workers' compensation claims and disbursement of all benefit payments is managed by the Workers' Compensation Division of the City's Department of Human Resources and its contracted third-party claims administrator. Estimates of future workers' compensation costs are based on the following criteria: (i) the frequency and severity of historical claim filings; (ii) average claim losses by expense category; (iii) gross payroll and workforce composition; (iv) benefit cost

inflation, including increases to the statewide average weekly wage, and medical cost growth; and (v) regulatory developments that impact benefit cost and delivery. The Workers' Compensation Division determines and allocates workers' compensation costs to departments based upon actual claim benefit expenditures and an allocated share of overhead expenses for self-insurance administration. The City continues to develop and implement programs to lower or mitigate workers' compensation costs.