

File No. 181219

Committee Item No. 7

Board Item No. 21

### COMMITTEE/BOARD OF SUPERVISORS

#### AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date January 10, 2019

Board of Supervisors Meeting

Date January 29, 2019

#### Cmte Board

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| <input type="checkbox"/>            | <input type="checkbox"/>            | Motion                                       |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Resolution                                   |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Ordinance                                    |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Legislative Digest                           |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Budget and Legislative Analyst Report        |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Youth Commission Report                      |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Introduction Form                            |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/>            | <input type="checkbox"/>            | MOU  |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Budget                                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Subcontract Budget                           |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Contract/Agreement                           |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Form 126 – Ethics Commission                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Award Letter                                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Application                                  |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Public Correspondence                        |

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Completed by: Linda Wong Date January 4, 2019  
 Completed by: Linda Wong Date January 23, 2019

AMENDMENT OF THE WHOLE

1/10/19

FILE NO. 181219

RESOLUTION NO.

1 [Sale of Taxable General Obligation Bonds - (Social Bonds - Affordable Housing, 2016),  
2 Series 2019A - Not to Exceed \$75,000,000]

3 **Resolution authorizing the issuance and sale of not to exceed \$75,000,000 aggregate**  
4 **principal amount of City and County of San Francisco Taxable General Obligation**  
5 **Bonds (Social Bonds - Affordable Housing, 2016), Series 2019A; prescribing the form**  
6 **and terms of said bonds; providing for the appointment of depositories and other**  
7 **agents for said bonds; providing for the establishment of accounts related to said**  
8 **bonds; authorizing the sale of said bonds by competitive or negotiated sale; approving**  
9 **the forms of Official Notice of Sale and Notice of Intention to Sell Bonds and directing**  
10 **the publication of the Notice of Intention to Sell Bonds; approving the form of Bond**  
11 **Purchase Contract; approving the form of the Preliminary Official Statement and the**  
12 **form and execution of the Official Statement relating to the sale of said bonds;**  
13 **approving the form of the Continuing Disclosure Certificate; authorizing and approving**  
14 **modifications to documents; ratifying certain actions previously taken, as defined**  
15 **herein; and granting general authority to City officials to take necessary actions in**  
16 **connection with the authorization, issuance, sale, and delivery of said bonds, as**  
17 **defined herein.**

18  
19 WHEREAS, By Ordinance No. 217-92 adopted by the Board of Supervisors on July 13,  
20 1992 (the "1992 Bond Ordinance"), the Board of Supervisors duly called a special election to  
21 be held on November 3, 1992, for the purpose of submitting to the electors of the City a  
22 proposition to incur bonded indebtedness of the City in the amount of up to \$350,000,000 of  
23 general obligation bonds to establish a seismic safety loan program (the "Loan Program") to  
24 provide loans for the seismic strengthening of unreinforced masonry buildings; and  
25 ///

1 WHEREAS, A special election was held in the City on November 3, 1992 (the  
2 "Proposition A Bond Election"), for the purpose of submitting to the qualified voters of the City  
3 said proposition, denominated as Proposition A ("Proposition A"), as follows:

4 "EARTHQUAKE LOAN BOND PROGRAM, 1992. To incur a bonded indebtedness of  
5 \$350,000,000 to provide loans for the seismic strengthening of unreinforced masonry  
6 buildings devoted to affordable housing and to market-rate residential, commercial and  
7 institutional uses and to pay necessary administrative costs incidental thereto"; and

8 WHEREAS, such proposition was approved by two-thirds of the qualified electors of  
9 the City voting on such proposition; and

10 WHEREAS, Proposition A allocated \$150,000,000 to make loans for affordable  
11 housing buildings (the "Affordable Housing Loan Program") and \$200,000,000 to make loans  
12 for market rate residential, commercial and institutional buildings (the "Market Rate Loan  
13 Program" and together with the Affordable Housing Loan Program, the "Programs"); and

14 WHEREAS, to date, the City has issued \$45,315,450 in loans to private parties under  
15 the Affordable Housing Loan Program and \$44,000,000 in loans to private parties under the  
16 Market Rate Loan Program, leaving \$260,684,550 of authorized but unissued bonding  
17 authority under the Programs; and

18 WHEREAS, By Resolution No. 311-16, adopted by the Board of Supervisors (the  
19 "Board of Supervisors") of the City and County of San Francisco (the "City") on July 19, 2016,  
20 it was determined and declared that it was in the public interest to access the remaining  
21 bonding authority under the Programs and expand the permitted uses for which funds could  
22 be loaned to finance the costs to acquire, improve and rehabilitate and to convert at-risk multi-  
23 unit residential buildings to permanent affordable housing by amending Proposition A; and,

24 WHEREAS, By Ordinance No. 136-16, adopted by the Board of Supervisors on July  
25 26, 2016 (the "2016 Bond Ordinance"), the Board of Supervisors duly called a special election

1 to be held on November 8, 2016, for the purpose of submitting to the electors of the City a  
2 proposition to amend Proposition A to authorize the City to incur general obligation  
3 indebtedness for the purposes of providing loans to finance the costs to acquire, improve and  
4 rehabilitate and convert at-risk multi-unit residential buildings to permanent affordable  
5 housing, performing needed seismic, fire, health and safety upgrades and other major  
6 rehabilitation for habitability, and related costs necessary or convenient for the foregoing  
7 purposes; and

8 WHEREAS, A special election was held in the City on November 8, 2016 (the  
9 "Proposition C Bond Election"), for the purpose of submitting to the qualified voters of the City  
10 said proposition, denominated as Proposition C ("Proposition C"), as follows:

11 "SAN FRANCISCO EARTHQUAKE LOAN AND HOUSING PRESERVATION BONDS,  
12 1992. To amend 1992 voter approved measure Proposition A, to allow as an additional  
13 purpose the incurrence of bonded indebtedness to finance the acquisition,  
14 improvement, and rehabilitation of at-risk multi-unit residential buildings and to convert  
15 such structures to permanent affordable housing; shall the City and County of San  
16 Francisco issue up to \$260,700,000 in general obligation bonds, subject to  
17 independent citizen oversight and regular audits?"; and

18 WHEREAS, By Resolution No. \_\_\_\_\_ (the "Authorizing Resolution"), adopted by  
19 the Board of Supervisors on \_\_\_\_\_, 2019, the City authorized the issuance  
20 of the City and County of San Francisco Taxable General Obligation Bonds (Social Bonds -  
21 Affordable Housing, 2016) (the "Bonds"); and

22 WHEREAS, It is necessary and desirable to issue one or more series of the Bonds on  
23 a taxable basis in an aggregate principal amount not to exceed \$75,000,000 (the "Series  
24 2019A Bonds"), to provide funds to make loans the proceeds of which will finance a portion of  
25 the costs of projects for the additional purposes authorized by Proposition C; and

1 WHEREAS, The Series 2019A Bonds are being issued pursuant to the Authorizing  
2 Resolution and Title 5, Division 2, Part 1, Chapter 3, Article 4.5 of the California Government  
3 Code, the Charter of the City (the "Charter"), the 2016 Bond Ordinance and the Proposition C  
4 Bond Election;

5 WHEREAS, In accordance with Government Code Section 5852.1, the Board has  
6 obtained and disclosed the information required thereby, as more fully set forth in the staff  
7 report prepared by the Controller's Office of Public Finance ("Staff Report"); and

8 WHEREAS, Pursuant to the applicable provisions of the San Francisco Administrative  
9 Code Sections 5.30-5.36, the Citizens' General Obligation Bond Oversight Committee shall  
10 conduct an annual review of bond spending and shall provide an annual report on the  
11 management of the program to the Mayor and the Board of Supervisors, and, to the extent  
12 permitted by law, one-tenth of one percent (0.1%) of the gross proceeds of the Series 2019A  
13 Bonds shall be deposited in a fund established by the Office of the City Controller (the  
14 "Controller") and appropriated by the Board of Supervisors at the direction of the Citizens'  
15 General Obligation Bond Oversight Committee to cover the costs of such Committee and its  
16 review process; now, therefore, be it

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

19 Section 1. Recitals. All of the recitals in this Resolution are true and correct.

20 Section 2. Conditions Precedent. All conditions, things and acts required by law to  
21 exist, to happen and to be performed precedent to and in connection with the issuance of the  
22 Series 2019A Bonds exist, have happened and have been performed in due time, form and  
23 manner in accordance with applicable law, and the City is now authorized pursuant to the  
24 Proposition C Bond Election, the Charter and applicable law to incur indebtedness in the  
25 manner and form provided in this Resolution.

1 Section 3. Documents. The documents presented to the Board of Supervisors and on  
2 file with the Clerk of the Board of Supervisors or designee thereof (the "Clerk of the Board of  
3 Supervisors") are contained in File No. 181219.

4 Section 4. Issuance and Sale of Series 2019A Bonds; Determination of Certain Terms;  
5 Designation. The Board of Supervisors authorizes the issuance and sale of not to exceed  
6 \$75,000,000 in aggregate principal amount of Bonds to be designated as "City and County of  
7 San Francisco Taxable General Obligation Bonds (Social Bonds - Affordable Housing, 2016),  
8 Series 2019A," for the purposes set forth in the 2016 Bond Ordinance and Proposition A,  
9 approved by the voters at the Proposition A Bond Election, as amended by Proposition C,  
10 approved by the voters at the Proposition C Bond Election. Prior to issuance, the Series  
11 2019A Bonds may be subdivided into more than one series. For purposes of this Resolution,  
12 all of such subdivided series in the aggregate are referred to herein as the "Series 2019A  
13 Bonds."

14 The Director of Public Finance or a designee thereof is authorized to determine, for the  
15 Series 2019A Bonds, the sale date, the interest rates, the definitive principal amounts, the  
16 maturity dates and the redemption dates, if any, and the terms of any optional or mandatory  
17 redemption, subject to the other specific provisions of this Resolution, including the following  
18 terms and conditions: (i) the Series 2019A Bonds shall not have a true interest cost in excess  
19 of 12%; and (ii) the Series 2019A Bonds shall not have a final maturity date more than 40  
20 years from their date of issuance. The Director of Public Finance is further authorized to give  
21 the Series 2019A Bonds, including each subdivided series thereof, such additional or other  
22 series designation, or to modify such series designation, as may be necessary or appropriate  
23 to distinguish the Series 2019A Bonds from every other series of Bonds and from other bonds  
24 issued by the City, and otherwise as permitted by the Authorizing Resolution.

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1           Section 5. Authentication and Registration of the Series 2019A Bonds. Each of the  
2 Series 2019A Bonds shall be in fully registered form without coupons in denominations of  
3 \$5,000 or any integral multiple of that amount. The officers of the City are directed to cause  
4 the Series 2019A Bonds to be prepared in sufficient quantity for delivery to or for the account  
5 of their purchaser and the Director of Public Finance is directed to cause the blanks in the  
6 Series 2019A Bonds to be completed in accordance with the Authorizing Resolution, the  
7 Official Statement, and the Bond Award or Bond Purchase Contract (as defined below), as  
8 applicable, to procure their execution by the proper officers of the City (including by facsimile  
9 signature if necessary or convenient, except that any signature of the Clerk of the Board of  
10 Supervisors shall be by manual signature) and authentication as provided in this Section, and  
11 to deliver the Series 2019A Bonds when so executed and authenticated to said purchaser in  
12 exchange for their purchase price, all in accordance with the Authorizing Resolution.

13           The Series 2019A Bonds and the certificate of authentication and registration, to be  
14 manually executed by the Treasurer of the City or designee thereof (the "City Treasurer"), and  
15 the form of assignment to appear on the Series 2019A Bonds shall be substantially in the  
16 form attached as Exhibit A (a copy of which is on file with the Clerk of the Board of  
17 Supervisors and which is declared to be a part of this Resolution as if fully set forth in this  
18 Resolution), with necessary or appropriate variations, omissions and insertions as permitted  
19 or required by this Resolution, the Official Statement and the Bond Award or the Bond  
20 Purchase Contract, as applicable.

21           Only Series 2019A Bonds bearing a certificate of authentication and registration  
22 executed by the City Treasurer shall be valid or obligatory for any purpose or entitled to the  
23 benefits of the Authorizing Resolution and this Resolution, and such certificate of the City  
24 Treasurer, executed as provided in this Resolution, shall be conclusive evidence that the  
25 Series 2019A Bonds so authenticated have been duly authenticated and delivered under, and

1 are entitled to the benefits of, the Authorizing Resolution and this Resolution.

2 The Controller shall assign a distinctive letter, or number, or letter and number to each  
3 Series 2019A Bond authenticated and registered by the City Treasurer and shall maintain a  
4 record thereof which shall be available for inspection.

5 Section 6. Registration Books. The City Treasurer shall keep or cause to be kept, at  
6 the office of the City Treasurer or at the designated office of any registrar appointed by the  
7 City Treasurer, separate and sufficient books for the registration and transfer of Series 2019A  
8 Bonds, which books shall at all times be open to inspection, and upon presentation for such  
9 purpose, the City Treasurer shall, under such reasonable regulations as he or she may  
10 prescribe, register or transfer or cause to be registered or transferred, on said books, Series  
11 2019A Bonds as provided in this Resolution. The City and the City Treasurer may treat the  
12 registered owner of each Series 2019A Bond as its absolute owner for all purposes, and the  
13 City and the City Treasurer shall not be affected by any notice to the contrary.

14 Section 7. Transfer or Exchange of Series 2019A Bonds. Any Series 2019A Bond  
15 may, in accordance with its terms, be transferred upon the books required to be kept pursuant  
16 to the provisions of Section 6, by the person in whose name it is registered, in person or by  
17 the duly authorized attorney of such person in writing, upon surrender of such Series 2019A  
18 Bond for cancellation, accompanied by delivery of a duly executed written instrument of  
19 transfer in a form approved by the City Treasurer.

20 Any Series 2019A Bond may be exchanged at the office of the City Treasurer for a like  
21 aggregate principal amount of other authorized denominations of the same interest rate and  
22 maturity.

23 Whenever any Series 2019A Bond shall be surrendered for transfer or exchange, the  
24 designated City officials shall execute (as provided in Section 5) and the City Treasurer shall  
25 authenticate and deliver a new Series 2019A Bond of the same interest rate and maturity in a



1 like aggregate principal amount. The City Treasurer shall require the payment by any bond  
2 owner requesting any such transfer of any tax or other governmental charge required to be  
3 paid with respect to such transfer or exchange.

4 No transfer or exchange of Series of 2019A Bonds shall be required to be made by the  
5 City Treasurer during the period from the Record Date (as defined in Section 8(b)) next  
6 preceding each interest payment date to such interest payment date or after a notice of  
7 redemption shall have been mailed with respect to such Series 2019A Bonds.

8 Section 8. Terms of the Series 2019A Bonds; General Redemption Provisions.

9 (a) Date of the Series 2019A Bonds. The Series 2019A Bonds shall be dated the  
10 date of their delivery or such other date (the "Dated Date") as is specified in the Bond Award  
11 or the Bond Purchase Contract.

12 (b) Payment of the Series 2019A Bonds. The principal of the Series 2019A Bonds  
13 shall be payable in lawful money of the United States of America to their owners, upon  
14 surrender at maturity or earlier redemption at the office of the City Treasurer. The interest on  
15 the Series 2019A Bonds shall be payable in like lawful money to the person whose name  
16 appears on the bond registration books of the City Treasurer as the owner as of the close of  
17 business on the last day of the month immediately preceding an interest payment date (the  
18 "Record Date"), whether or not such day is a Business Day (as defined below).

19 Except as may be otherwise provided in connection with any book-entry only system  
20 applicable to the Series 2019A Bonds, payment of the interest on any Series 2019A Bond  
21 shall be made by check mailed on the interest payment date to such owner at such owner's  
22 address as it appears on the registration books as of the Record Date; provided, that if any  
23 interest payment date occurs on a day that banks in California or New York are closed for  
24 business or the New York Stock Exchange is closed for business, then such payment shall be  
25 made on the next succeeding day that banks in both California and New York are open for

1 business and the New York Stock Exchange is open for business (each, a "Business Day");  
2 and provided, further, that the registered owner of an aggregate principal amount of at least  
3 \$1,000,000 of Series 2019A Bonds may submit a written request to the City Treasurer on or  
4 before a Record Date preceding an interest payment date for payment of interest on the next  
5 succeeding interest payment date and thereafter by wire transfer to a commercial bank  
6 located within the United States of America.

7 For so long as any Series 2019A Bonds are held in book-entry form by a securities  
8 depository selected by the City pursuant to Section 11, payment shall be made to the  
9 registered owner of the Series 2019A Bonds designated by such securities depository by wire  
10 transfer of immediately available funds.

11 (c) Interest on the Series 2019A Bonds. The Series 2019A Bonds shall bear  
12 interest at rates to be determined upon the sale of the Series 2019A Bonds, calculated on the  
13 basis of a 360-day year comprised of twelve 30-day months, payable on June 15, 2019 (or  
14 such other date as may be designated in the Bond Award or the Bond Purchase Contract),  
15 and semiannually thereafter on June 15 and December 15 of each year. Each Series 2019A  
16 Bond shall bear interest from the interest payment date next preceding the date of its  
17 authentication unless it is authenticated as of a day during the period from the Record Date  
18 next preceding any interest payment date to the interest payment date, inclusive, in which  
19 event it shall bear interest from such interest payment date, or unless it is authenticated on or  
20 before the first Record Date, in which event it shall bear interest from the Dated Date;  
21 provided, that if, at the time of authentication of any Series 2019A Bond, interest is in default  
22 on the Series 2019A Bonds, such Series 2019A Bond shall bear interest from the interest  
23 payment date to which interest has previously been paid or made available for payment on  
24 the Series 2019A Bonds or from the Dated Date if the first interest payment is not made.

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1 (d) Optional Redemption. The Series 2019A Bonds shall be subject to optional  
2 redemption prior to maturity as shall be provided in the Official Statement.

3 (e) Mandatory Redemption. The Series 2019A Bonds shall be subject to  
4 mandatory redemption as provided in the final Official Statement (as defined hereinbelow).

5 The principal of and interest on the Series 2019A Bonds subject to mandatory  
6 redemption shall be paid from the Series 2019A Bond Subaccount established in Section 9,  
7 pursuant to Section 9. In lieu of any such mandatory redemption for Series 2019A Bonds, at  
8 any time prior to the selection of Series 2019A Bonds for mandatory redemption, the City may  
9 apply amounts on deposit in the Series 2019A Bond Subaccount to make such payment to  
10 the purchase, at public or private sale, of Series 2019A Bonds subject to such mandatory  
11 redemption, and when and at such prices not in excess of the principal amount thereof  
12 (including sales commission and other charges but excluding accrued interest), as the City  
13 may determine.

14 (f) Selection of Series 2019A Bonds for Redemption. Whenever less than all of the  
15 outstanding Series 2019A Bonds are called for redemption, the manner of selection of the  
16 portion of such Series 2019A Bonds called for redemption shall be as specified in the Official  
17 Statement for the Series 2019A Bonds.

18 (g) Notice of Redemption. The date on which Series 2019A Bonds that are called  
19 for redemption are to be presented for redemption is called the "Redemption Date." The City  
20 Treasurer shall mail, or cause to be mailed, notice of any redemption of Series 2019A Bonds,  
21 postage prepaid, to the respective registered owners at the addresses appearing on the bond  
22 registration books not less than twenty (20) nor more than sixty (60) days prior to the  
23 Redemption Date. The notice of redemption shall (a) state the Redemption Date; (b) state the  
24 redemption price; (c) state the maturity dates of the Series 2019A Bonds to be redeemed and,  
25 if less than all of any such maturity is called for redemption, the distinctive numbers of the

1 Series 2019A Bonds of such maturity to be redeemed, and in the case of any Series 2019A  
2 Bonds to be redeemed in part only, the respective portions of the principal amount to be  
3 redeemed; (d) state the CUSIP number, if any, of each Series 2019A Bond to be redeemed;  
4 (e) require that such Series 2019A Bonds be surrendered by the owners at the office of the  
5 City Treasurer or his or her agent; and (f) give notice that interest on such Series 2019A Bond  
6 or portion of Series 2019A Bond to be redeemed will cease to accrue after the Redemption  
7 Date. Notice of optional redemption may be conditional upon receipt of funds or other event  
8 specified in the notice of redemption as provided in subsection (j) of this Section 8.

9 The actual receipt by the owner of any Series 2019A Bond of notice of such  
10 redemption shall not be a condition precedent to redemption, and failure to receive such  
11 notice, or any defect in such notice so mailed, shall not affect the validity of the proceedings  
12 for the redemption of such Series 2019A Bonds or the cessation of accrual of interest on such  
13 Series 2019A Bonds on the Redemption Date.

14 Notice of redemption also shall be given, or caused to be given by the City Treasurer,  
15 by (i) registered or certified mail, postage prepaid, (ii) confirmed facsimile transmission, (iii)  
16 overnight delivery service, or (iv) to the extent acceptable to the intended recipient, email or  
17 similar electronic means, to (a) all organizations registered with the Securities and Exchange  
18 Commission as securities depositories and (b) such other services or organizations as may  
19 be required in accordance with the Continuing Disclosure Certificate described in Section 19.

20 The notice or notices required for redemption shall be given by the City Treasurer or  
21 any agent appointed by the City. A certificate of the City Treasurer or such other appointed  
22 agent of the City that notice of redemption has been given to the owner of any Series 2019A  
23 Bond to be redeemed in accordance with this Resolution shall be conclusive against all  
24 parties.

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1 (h) Series 2019A Redemption Account. At the time the Director of Public Finance  
2 determines to optionally call and redeem any of the Series 2019A Bonds, the Controller or his  
3 or her agent shall establish a redemption account to be described or known as the " General  
4 Obligation Bonds, Taxable Series 2019A Redemption Account" (the "Series 2019A  
5 Redemption Account"), and prior to or on the Redemption Date there must be set aside in the  
6 Series 2019A Redemption Account moneys available for the purpose and sufficient to  
7 redeem, as provided in this Resolution, the Series 2019A Bonds designated in said notice of  
8 redemption, subject to the provisions of subsection (j) of this Section. Said moneys must be  
9 set aside in the Series 2019A Redemption Account solely for the purpose of, and shall be  
10 applied on or after the Redemption Date to, payment of the redemption price of the Series  
11 2019A Bonds to be redeemed upon presentation and surrender of such Series 2019A Bonds.  
12 Any interest due on or prior to the Redemption Date may be paid from the Series 2019A Bond  
13 Subaccount as provided in Section 9 or from the Series 2019A Redemption Account. Moneys  
14 held from time to time in the Series 2019A Redemption Account shall be invested by the City  
15 Treasurer pursuant to the City's policies and guidelines for investment of moneys in the  
16 General Fund of the City. If, after all of the Series 2019A Bonds have been redeemed and  
17 canceled or paid and canceled, there are moneys remaining in the Series 2019A Redemption  
18 Account, said moneys shall be transferred to the General Fund of the City or to such other  
19 fund or account as required by applicable law; provided, that if said moneys are part of the  
20 proceeds of refunding bonds, said moneys shall be transferred pursuant to the resolution  
21 authorizing such refunding bonds.

22 (i) Effect of Redemption. When notice of optional redemption has been given  
23 substantially as provided in this Resolution, and when the amount necessary for the  
24 redemption of the Series 2019A Bonds called for redemption (principal, premium, if any, and  
25 accrued interest to such Redemption Date) is set aside for that purpose in the Series 2019A

1 Redemption Account or the Series 2019A Bond Subaccount, the Series 2019A Bonds  
2 designated for redemption shall become due and payable on the Redemption Date, and upon  
3 presentation and surrender of said Series 2019A Bonds at the place specified in the notice of  
4 redemption, such Series 2019A Bonds shall be redeemed and paid at said redemption price  
5 out of said Series 2019A Redemption Account. No interest will accrue on such Series 2019A  
6 Bonds called for redemption after the Redemption Date and the registered owners of such  
7 Series 2019A Bonds shall look for payment of such Series 2019A Bonds only to the Series  
8 2019A Redemption Account. All Series 2019A Bonds redeemed shall be canceled  
9 immediately by the City Treasurer and shall not be reissued.

10 (j) Conditional Notice of Redemption; Rescission of Redemption. Any notice of  
11 optional redemption given as provided in Section 8(g) may provide that such redemption is  
12 conditioned upon: (i) deposit in the Series 2019A Redemption Account of sufficient moneys to  
13 redeem the Series 2019A Bonds called for optional redemption on the anticipated  
14 Redemption Date, or (ii) the occurrence of any other event specified in the notice of  
15 redemption. If conditional notice of redemption has been given substantially as provided in  
16 this subsection (j), and on the scheduled Redemption Date (i) sufficient moneys to redeem the  
17 Series 2019A Bonds called for optional redemption on the Redemption Date have not been  
18 deposited in the Series 2019A Redemption Account, or (ii) any other event specified in the  
19 notice of redemption as a condition to the redemption has not occurred, then (y) the Series  
20 2019A Bonds for which conditional notice of redemption was given shall not be redeemed on  
21 the anticipated Redemption Date and shall remain Outstanding for all purposes of this  
22 Resolution, and (z) the redemption not occurring shall not constitute a default under this  
23 Resolution or the Authorizing Resolution.

24 The City may rescind any optional redemption and notice of it for any reason on any  
25 date prior to any Redemption Date by causing written notice of the rescission to be given to

1 the owners of all Series 2019A Bonds so called for redemption. Notice of any such rescission  
2 of redemption shall be given in the same manner notice of redemption was originally given.  
3 The actual receipt by the owner of any Series 2019A Bond of notice of such rescission shall  
4 not be a condition precedent to rescission, and failure to receive such notice or any defect in  
5 such notice so mailed shall not affect the validity of the rescission.

6 Section 9. Series 2019A Bond Subaccount. There is established with the City  
7 Treasurer a special subaccount in the General Obligations Bonds (Prop A, 1992/Prop C,  
8 2016) Bond Account (the "Bond Account") created pursuant to the Authorizing Resolution to  
9 be designated as the "Taxable General Obligation Bonds, Series 2019A Bond Subaccount"  
10 (the "Series 2019A Bond Subaccount"), to be held separate and apart from all other accounts  
11 of the City. All interest earned on amounts on deposit in the Series 2019A Bond Subaccount  
12 shall be retained in the Series 2019A Bond Subaccount.

13 Amounts deposited in the Series 2019A Bond Subaccount pursuant to clause (a) of  
14 Section 17 hereof, representing capitalized interest on the Bonds, shall be used to make  
15 interest payments on the Bonds through and including December 15, 2019, or such other date  
16 as may be provided in the Official Statement.

17 On or prior to the date on which any payment of principal of or interest on the Series  
18 2019A Bonds is due, including any Series 2019A Bonds subject to mandatory redemption on  
19 said date, the City Treasurer shall allocate to and deposit in the Series 2019A Bond  
20 Subaccount, *first* from amounts held in the Program Revenues Subaccount of the Bond  
21 Account, until such subaccount is exhausted, and *second*, from amounts held in the Tax  
22 Revenues Subaccount of the Bond Account, an aggregate amount which, when added to any  
23 available moneys contained in the Series 2019A Bond Subaccount, is sufficient to pay  
24 principal of and interest on the Series 2019A Bonds on such date.

25 ///

1 On or prior to the date on which any Series 2019A Bonds are to be redeemed at the  
2 option of the City pursuant to this Resolution, the City Treasurer may allocate to and deposit  
3 in the Series 2019A Redemption Account, from amounts held in the Bond Account pursuant  
4 to Section 8 of the Authorizing Resolution, an amount which, when added to any available  
5 moneys contained in the Series 2019A Redemption Account, is sufficient to pay principal,  
6 interest and premium, if any, with respect to such Series 2019A Bonds on such date. The  
7 City Treasurer may make such other provision for the payment of principal of and interest and  
8 any redemption premium on the Series 2019A Bonds as is necessary or convenient to permit  
9 the optional redemption of the Series 2019A Bonds.

10 Amounts in the Series 2019A Bond Subaccount may be invested in any investment of  
11 the City in which moneys in the General Fund of the City are invested. The City Treasurer  
12 may (i) commingle any of the moneys held in the Series 2019A Bond Subaccount with other  
13 City moneys or (ii) deposit amounts credited to the Series 2019A Bond Subaccount into a  
14 separate fund or funds for investment purposes only; provided, that all of the moneys held in  
15 the Series 2019A Bond Subaccount shall be accounted for separately notwithstanding any  
16 such commingling or separate deposit by the City Treasurer.

17 Section 10. Series 2019A Project Subaccount. There is established with the City  
18 Treasurer a special subaccount in the General Obligation Bonds (Prop A, 1992/Prop C, 2016)  
19 Project Account (the "Project Account") created pursuant to the Authorizing Resolution to be  
20 designated the "Taxable General Obligation Bonds, Series 2019A Project Subaccount" (the  
21 "Series 2019A Project Subaccount"), to be held separate and apart from all other accounts of  
22 the City. All interest earned on amounts on deposit in the Series 2019A Project Subaccount  
23 shall be retained in the Series 2019A Project Subaccount. Amounts in the Series 2019A  
24 Project Subaccount shall be expended in accordance with the provisions of the Authorizing  
25 Resolution for the acquisition, construction or reconstruction of the Project (as defined in the



1 Authorizing Resolution).

2           Amounts in the Series 2019A Project Subaccount may be invested in any investment  
3 of the City in which moneys in the General Fund of the City are invested. The City Treasurer  
4 may (i) commingle any of the moneys held in the Series 2019A Project Subaccount with other  
5 City moneys or (ii) deposit amounts credited to the Series 2019A Project Subaccount into a  
6 separate fund or funds for investment purposes only; provided, that all of the moneys held in  
7 the Series 2019A Project Subaccount (including interest earnings) shall be accounted for  
8 separately notwithstanding any such comingling or separate deposit by the City Treasurer.

9           The City Treasurer is authorized to pay or cause to be paid from the proceeds of the  
10 Series 2019A Bonds, on behalf of the City, the costs of issuance associated with the Series  
11 2019A Bonds. Costs of issuance of the Series 2019A Bonds shall include, without limitation,  
12 bond and financial printing expenses, mailing and publication expenses, rating agency fees,  
13 the fees and expenses of paying agents, registrars, financial consultants, disclosure counsel  
14 and co-bond counsel, and the reimbursement of departmental expenses in connection with  
15 the issuance of the Series 2019A Bonds.

16           Section 11. Appointment of Depositories and Other Agents. The City Treasurer is  
17 authorized and directed to appoint one or more depositories as he or she may deem desirable  
18 and the procedures set forth in Section 6, Section 7 and Section 8 relating to registration of  
19 ownership of the Series 2019A Bonds and payments and redemption notices to owners of the  
20 Series 2019A Bonds may be modified to comply with the policies and procedures of such  
21 depository. The City will not have any responsibility or obligation to any purchaser of a  
22 beneficial ownership interest in any Series 2019A Bonds or to any participants in such a  
23 depository with respect to (i) the accuracy of any records maintained by such securities  
24 depository or any participant therein; (ii) any notice that is permitted or required to be given to  
25 the owners of Series 2019A Bonds under this Resolution; (iii) the selection by such securities

1 depository or any participant therein of any person to receive payment in the event of a partial  
2 redemption of Series 2019A Bonds; (iv) the payment by such securities depository or any  
3 participant therein of any amount with respect to the principal or redemption premium, if any,  
4 or interest due with respect to Series 2019A Bonds; (v) any consent given or other action  
5 taken by such securities depository as the owner of Series 2019A Bonds; or (vi) any other  
6 matter.

7 The Depository Trust Company ("DTC") is appointed as depository for the Series  
8 2019A Bonds. The Series 2019A Bonds shall be initially issued in book-entry form. Upon  
9 initial issuance, the ownership of each Series 2019A Bond shall be registered in the bond  
10 register in the name of Cede & Co., as nominee of DTC. So long as each Series 2019A Bond  
11 is registered in book-entry form, each Series 2019A Bond shall be registered in the name of  
12 Cede & Co. or in the name of such successor nominee as may be designated from time to  
13 time by DTC or any successor as depository.

14 The City Treasurer is also authorized and directed to appoint one or more agents as he  
15 or she may deem necessary or desirable. To the extent permitted by applicable law and  
16 under the supervision of the City Treasurer, such agents may serve as paying agent, fiscal  
17 agent, rebate calculation agent, escrow agent or registrar for the Series 2019A Bonds or may  
18 assist the City Treasurer in performing any or all of such functions and such other duties as  
19 the City Treasurer shall determine. Such agents shall serve under such terms and conditions  
20 as the City Treasurer shall determine. The City Treasurer may remove or replace agents  
21 appointed pursuant to this paragraph at any time.

22 Section 12, Defeasance Provisions. Payment of all or any portion of the Series 2019A  
23 Bonds may be provided for prior to such Series 2019A Bonds' respective stated maturities by  
24 irrevocably depositing with the Treasurer (or any commercial bank or trust company  
25 designated by the Treasurer to act as escrow agent with respect thereto), in a separate

1 account not commingled with other moneys or securities held by the Treasurer or such  
2 escrow agent:

3 (a) An amount of cash equal to the principal amount of all of such Series 2019A  
4 Bonds or a portion thereof, and all unpaid interest thereon to maturity, except that in the case  
5 of Series 2019A Bonds which are to be redeemed prior to such Series 2019A Bonds'  
6 respective stated maturities and in respect of which notice of such redemption shall have  
7 been given as provided in Section 8 hereof or an irrevocable election to give such notice shall  
8 have been made by the City, the amount to be deposited shall be the principal amount  
9 thereof, all unpaid interest thereon to the Redemption Date, and any premium due on such  
10 Redemption Date; or

11 (b) Defeasance Securities (as herein defined) not subject to call, except as provided  
12 below in the definition thereof, maturing and paying interest at such times and in such  
13 amounts; together with interest earnings and cash, if required, as will, without reinvestment,  
14 as certified by an independent certified public accountant, be fully sufficient to pay the  
15 principal and all unpaid interest to maturity, or to the Redemption Date, as the case may be,  
16 and any premium due on the Series 2019A Bonds to be paid or redeemed, as such principal  
17 and interest come due; provided, that, in the case of the Series 2019A Bonds which are to be  
18 redeemed prior to maturity, notice of such redemption shall be given as provided in Section 8  
19 hereof or an irrevocable election to give such notice shall have been made by the City; then,  
20 all obligations of the City with respect to said outstanding Series 2019A Bonds shall cease  
21 and terminate, except only the obligation of the City to pay or cause to be paid from the funds  
22 deposited pursuant to paragraphs (a) or (b) of this Section 12, to the owners of said Series  
23 2019A Bonds all sums due with respect thereto; and provided further, that the City shall have  
24 received an opinion of nationally recognized bond counsel, that provision for the payment of  
25 said Series 2019A Bonds has been made in accordance with this Section 12.

1 For purposes of this Section 12, "Defeasance Securities" shall mean any of the  
2 following that at the time are legal investments under the laws of the State of California for the  
3 moneys proposed to be invested:

4 (1) United States Obligations (as defined below); and

5 (2) Pre-refunded fixed interest rate municipal obligations meeting the following  
6 conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the  
7 trustee or paying agent has been given irrevocable instructions concerning their calling and  
8 redemption and the issuer has covenanted not to redeem such obligations other than as set  
9 forth in such instructions; (b) the municipal obligations are secured by cash and/or United  
10 States Obligations; (c) the principal of and interest on the United States Obligations (plus any  
11 cash in the escrow fund or the redemption account) are sufficient to meet the liabilities of the  
12 municipal obligations; (d) the United States Obligations serving as security for the municipal  
13 obligations are held by an escrow agent or trustee; (e) the United States Obligations are not  
14 available to satisfy any other claims, including those against the trustee or escrow agent; and  
15 (f) the municipal obligations are rated (without regard to any numerical modifier, plus or minus  
16 sign or other modifier), at the time of original deposit to the escrow fund, by any two Rating  
17 Agencies (as defined below) not lower than the rating then maintained by such Rating  
18 Agencies on such United States Obligations

19 For purposes of this Section 12, "United States Obligations" means (i) direct and  
20 general obligations of the United States of America, or obligations that are unconditionally  
21 guaranteed as to principal and interest by the United States of America, including without  
22 limitation, the interest component of Resolution Funding Corporation (REFCORP) bonds that  
23 have been stripped by request to the Federal Reserve Bank of New York in book-entry form  
24 or (ii) any security issued by an agency or instrumentality of the United States of America that  
25 is selected by the Director of Public Finance that results in the escrow fund being rated by any

1 two Rating Agencies, at the time of the initial deposit to the escrow fund and upon any  
2 substitution or subsequent deposit to the escrow fund, not lower than the rating then  
3 maintained by the respective Rating Agency on United States Obligations described in clause  
4 (i) above.

5 For purposes of this Section 12, "Rating Agencies" means Moody's Investors Service,  
6 Inc., Fitch Ratings, and S&P Global Ratings, or any other nationally recognized bond rating  
7 agency that is the successor to any of the foregoing rating agencies or that is otherwise  
8 established after the date hereof.

9 Section 13. Sale of Series 2019A Bonds by Competitive or Negotiated Sale. The  
10 Board of Supervisors authorizes the sale of the Series 2019A Bonds by solicitation of  
11 competitive bids or by negotiated sale to one or more underwriters to be appointed in  
12 accordance with City policies, as so determined by the Director of Public Finance pursuant to  
13 Section 16.

14 Section 14. Official Notice of Sale; Receipt of Bids; Bond Award.

15 (a) Official Notice of Sale. The form of proposed Official Notice of Sale ("Official  
16 Notice of Sale") inviting bids for the Series 2019A Bonds submitted to the Board of  
17 Supervisors is approved and adopted as the Official Notice of Sale inviting bids for the Series  
18 2019A Bonds, with such changes, additions and modifications as may be made in accordance  
19 with Section 20. The Director of Public Finance is authorized and directed to cause to be  
20 mailed or otherwise circulated to prospective bidders for the Series 2019A Bonds copies of  
21 the Official Notice of Sale, subject to such corrections, revisions or additions as may be  
22 acceptable to the Director of Public Finance.

23 (b) Receipt of Bids. Bids shall be received on the date designated by the Director  
24 of Public Finance pursuant to Section 4.

25 ///

1 (c) Bond Award. As provided in the Official Notice of Sale, the City may reject any  
2 and all bids received for any reason. The Controller is authorized to award the Series 2019A  
3 Bonds to the responsible bidder whose bid (a) is timely received and conforms to the Official  
4 Notice of Sale, except to the extent informalities and irregularities are waived by the City as  
5 permitted by the Official Notice of Sale, and (b) represents the lowest true interest cost to the  
6 City in accordance with the procedures described in the Official Notice of Sale. The award, if  
7 made, shall be set forth in a certificate signed by the Controller setting forth the terms of the  
8 Series 2019A Bonds and the original purchasers (the "Bond Award"). The Controller shall  
9 provide a copy of the Bond Award as soon as practicable to the Clerk of the Board of  
10 Supervisors and the Director of Public Finance; provided, that failure to provide such copy  
11 shall not affect the validity of the Bond Award.

12 Section 15. Publication of Notice of Intention to Sell Bonds. The form of proposed  
13 Notice of Intention to Sell the Series 2019A Bonds (the "Notice of Intention to Sell Bonds")  
14 submitted to the Board of Supervisors is approved and adopted as the Notice of Intention to  
15 Sell the Series 2019A Bonds, and the Director of Public Finance is authorized and directed to  
16 cause the Notice of Intention to Sell Bonds, subject to such corrections, revisions or additions  
17 as may be made in accordance with Section 20, to be published once in *The Bond Buyer* or  
18 another financial publication generally circulated throughout the State of California.

19 Section 16. Authorization of Negotiated Sale; Authorization to Select Underwriters;  
20 Form of Bond Purchase Contract Approval. The Controller, in consultation with the Director of  
21 Public Finance, is hereby authorized to conduct the sale of the Series 2019A Bonds by  
22 negotiated sale pursuant to one or more Bond Purchase Contracts (each, a "Bond Purchase  
23 Contract"), each by and between the City and the underwriter(s) named therein (the  
24 "Underwriters"), if the Controller determines that such manner of sale is in the best financial  
25 interest of the City, such determination to be conclusively evidenced by the execution and

1 delivery of such Bond Purchase Contract as hereinafter approved. The form of such Bond  
2 Purchase Contract as presented to this Board of Supervisors, a copy of which is on file with  
3 the Clerk of the Board, is hereby approved. The Controller or the Director of Public Finance is  
4 hereby authorized to execute such Bond Purchase Contract with such changes, additions and  
5 modifications as the Controller or the Director of Public Finance may make or approve in  
6 accordance with Section 20 hereof; provided however, that the Underwriters' discount under  
7 any such Bond Purchase Contract shall not exceed 2.00% of the principal amount of the  
8 Series 2019A Bonds.

9 In order to facilitate the sale of the Series 2019A Bonds by negotiated sale, the  
10 Controller or the Director of Public Finance is hereby authorized and directed to appoint one  
11 or more financial institutions to act as underwriter for the Series 2019A Bonds in accordance  
12 with City policies and procedures, including, but not limited to, the City's policy to provide  
13 locally disadvantaged minority business enterprises and women enterprises an equal  
14 opportunity to participate in the performance of all City contracts.

15 For purposes of California Government Code Section 53508.9, the Board hereby finds  
16 the following to be true and correct: (1) a negotiated sale of the Series 2019A Bonds would be  
17 in the best financial interest of the City because the City will be able to obtain market and  
18 structuring advice from the underwriters and flexibility as to timing of sale and ability to  
19 premarket bonds; (2) the co-bond counsel to the City with respect to the Series 2019A Bonds  
20 shall be Jones Hall, A Professional Law Corporation, and Amira Jackmon, Attorney at Law;  
21 (3) the underwriters with respect to a negotiated sale of the Series 2019A Bonds shall be  
22 Citigroup Global Markets Inc., Raymond James & Associates and Loop Capital Markets; (4)  
23 the co-financial advisors with respect to the Series 2019A Bonds shall be Sperry Capital Inc.  
24 and Ross Financial; and (5) the estimated costs of issuance of the Bonds shall be as set forth  
25 in the Staff Report.

1           Section 17. Disposition of Proceeds of Sale. The proceeds of sale of the Series  
2 2019A Bonds shall be applied by the City Treasurer as follows: (a) accrued interest, if any,  
3 shall be deposited into the Series 2019A Bond Subaccount; (b) premium, if any, shall be  
4 deposited into the Series 2019A Bond Subaccount; (c) amounts required to pay interest on  
5 the Series 2019A Bonds through and including December 15, 2019 (or such other date as  
6 may be set forth in the Official Statement), shall be deposited into the Series 2019A Bond  
7 Subaccount, and (d) remaining proceeds of sale shall be deposited into the Series 2019A  
8 Project Subaccount.

9           Section 18. Official Statement. The form of proposed Preliminary Official Statement  
10 describing the Series 2019A Bonds (the "Preliminary Official Statement") submitted to the  
11 Board of Supervisors is approved and adopted as the Preliminary Official Statement  
12 describing the Series 2019A Bonds, with such additions, corrections and revisions as may be  
13 determined to be necessary or desirable made in accordance with Section 20. The Controller  
14 is authorized to cause the distribution of a Preliminary Official Statement deemed final for  
15 purposes of Securities and Exchange Commission Rule 15c2-12 promulgated under the  
16 Securities Exchange Act of 1934, as amended (the "Rule"), and to sign a certificate to that  
17 effect. The Director of Public Finance is authorized and directed to cause to be printed and  
18 mailed or electronically distributed to prospective bidders for the Series 2019A Bonds the  
19 Preliminary Official Statement in substantially the form of the Preliminary Official Statement  
20 approved and adopted by this Resolution, as completed, supplemented, corrected or revised.  
21 The Controller is authorized and directed to approve, execute, and deliver the final Official  
22 Statement with respect to the Series 2019A Bonds (the "Official Statement"), which final  
23 Official Statement shall be in the form of the Preliminary Official Statement, with such  
24 additions, corrections and revisions as may be determined to be necessary or desirable made  
25 in accordance with Section 20 and as are permitted under the Rule. The Director of Public



1 Finance is authorized and directed to cause to be printed and mailed or electronically  
2 distributed the final Official Statement to all actual initial purchasers of the Series 2019A  
3 Bonds.

4 Section 19. Continuing Disclosure Certificate. The form of Continuing Disclosure  
5 Certificate (the "Continuing Disclosure Certificate"), to be signed by the City to permit the  
6 original purchasers of the Series 2019A Bonds to comply with the Rule, submitted to the  
7 Board of Supervisors is approved and adopted as the Continuing Disclosure Certificate, with  
8 such additions, corrections and revisions as may be determined to be necessary or desirable  
9 made in accordance with Section 20. The Controller is authorized and directed to execute the  
10 Continuing Disclosure Certificate on behalf of the City and deliver the Continuing Disclosure  
11 Certificate to the original purchasers of the Series 2019A Bonds.

12 Section 20. Modification to Documents. Any City official authorized by this Resolution  
13 to execute any document is further authorized, in consultation with the City Attorney and co-  
14 bond counsel, to approve and make such changes, additions, amendments or modifications  
15 to the document or documents such official is authorized to execute as may be necessary or  
16 advisable (provided, that such changes, additions, amendments or modifications shall not  
17 authorize an aggregate principal amount of Series 2019A Bonds in excess of \$75,000,000 or  
18 conflict with the provisions of Section 4). The approval of any change, addition, amendment  
19 or modification to any of the aforementioned documents shall be evidenced conclusively by  
20 the execution and delivery of the document in question.

21 Section 21. Ratification. All actions previously taken by officials, employees and  
22 agents of the City with respect to the sale and issuance of the Series 2019A Bonds,  
23 consistent with any documents presented and this Resolution, are approved, confirmed and  
24 ratified.

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1           Section 22. Relationship to Authorizing Resolution. In the event of any conflict  
2 between this Resolution and the Authorizing Resolution, the terms of this Resolution shall  
3 control. Without limiting the foregoing and notwithstanding the provisions of the Authorizing  
4 Resolution, the City is not obligated to transfer money from the General Fund of the City to  
5 the Bond Account to pay the principal of or interest on the Series 2019A Bonds.

6           Section 23. Accountability Reports. The Series 2019A Bonds are subject to  
7 accountability requirements under the City's Administrative Code and the 2016 Bond  
8 Ordinance. The deadline for submission of the Accountability report(s) under Administrative  
9 Code Sections 2.71(a) and 2.71(b) are hereby waived with respect to the Series 2019A  
10 Bonds. Accountability report(s) with respect to the Series 2019A Bonds shall be submitted in  
11 all other respects in the manner required by the Administrative Code and the 2016 Bond  
12 Ordinance.

13           Section 24. Citizens' Oversight Committee. The Series 2019A Bonds are subject to,  
14 and incorporate by reference, the applicable provisions of the San Francisco Administrative  
15 Code Sections 5.30-5.36 (the "Citizens' General Obligation Bond Oversight Committee"), and,  
16 to the extent permitted by law, one tenth of one percent (0.1%) of the gross proceeds of the  
17 Series 2019A Bonds shall be deposited into a fund established by the Controller's Office and  
18 appropriated by the Board of Supervisors at the direction of the Citizens' General Obligation  
19 Bond Oversight Committee to cover the costs of such committee.

20           Section 25. CEQA Determination. The Board of Supervisors hereby reaffirms and  
21 incorporates by reference the CEQA findings and determinations set forth in the 2016 Bond  
22 Ordinance as if set forth in full herein. The use of bond proceeds to finance any project or  
23 portion of any project with Bond proceeds will be subject, as necessary, to approval of the  
24 Board of Supervisors upon completion of any planning and any further required environmental  
25 review under CEQA for the individual facilities and projects.

1 Section 26. General Authority. The Clerk of the Board of Supervisors, the Mayor, the  
2 City Treasurer, the Director of Public Finance, the City Attorney and the Controller are each  
3 authorized and directed in the name and on behalf of the City to take any and all steps and to  
4 issue, deliver or enter into any and all certificates, requisitions, agreements, notices,  
5 consents, and other documents as may be necessary to give effect to the provisions of this  
6 Resolution, including but not limited to letters of representations to any depository or  
7 depositories, which they or any of them might deem necessary or appropriate in order to  
8 consummate the lawful issuance, sale and delivery of the Series 2019A Bonds. Any such  
9 actions are solely intended to further the purposes of this Resolution, and are subject in all  
10 respects to the terms of this Resolution. No such actions shall increase the risk to the City or  
11 require the City to spend any resources not otherwise granted herein. Final versions of any  
12 such documents shall be provided to the Clerk of the Board of Supervisors for inclusion in the  
13 official file within 30 days (or as soon thereafter as final documents are available) of execution  
14 by all parties.

15  
16 APPROVED AS TO FORM:  
17 DENNIS J. HERRERA City Attorney

18  
19 By: 

20 Mark D. Blake  
21 Deputy City Attorney

22 n:\egana\as2019\1600404\01329437.docx  
23  
24  
25

**Exhibit A**

Unless this bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to City or its agent for registration of transfer, exchange, or payment, and any bond issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE OF THIS BOND FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

Number R-\_\_\_\_ UNITED STATES OF AMERICA Amount \$ \_\_\_\_\_  
STATE OF CALIFORNIA

CITY AND COUNTY OF SAN FRANCISCO  
TAXABLE GENERAL OBLIGATION BONDS  
(PROP. A, 1992/PROP. C, 2016),  
SERIES 2019A

Interest Rate	Maturity Date	Dated	CUSIP Number
____%	June 15, 20__	_____, 20__	_____

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: \_\_\_\_\_ Dollars

The City and County of San Francisco, State of California (the "**City**"), acknowledges itself indebted to and promises to pay to the Registered Owner specified above or registered assigns, on the Maturity Date specified above, the Principal Amount of this bond specified above in lawful money of the United States of America, and to pay interest on the Principal Amount in like lawful money from the interest payment date next preceding the date of authentication of this bond (unless this bond is authenticated during the period from the last day of the month next preceding any interest payment date (the "**Record Date**") to such

1 interest payment date, inclusive, in which event it shall bear from such interest payment date,  
2 or unless this bond is authenticated on or before the Record Date preceding the first interest  
3 payment date, in which event it shall bear interest from its dated date) until payment of such  
4 Principal Amount, at the Interest Rate per year specified above calculated on the basis of a  
5 360-day year comprised of twelve 30-day months, payable semiannually on June 15 and  
6 December 15 in each year, commencing June 15, 2019; *provided*, that if any interest payment  
7 date occurs on a day that banks in California or New York are closed for business or the New  
8 York Stock Exchange is closed for business, then such payment shall be made on the next  
9 succeeding day that banks in both California and New York are open for business and the  
10 New York Stock Exchange is open for business (a "**Business Day**"). The principal of this  
11 bond is payable to the Registered Owner of this bond upon the surrender of this bond at the  
12 office of the Treasurer of the City (the "**City Treasurer**"). The interest on this bond is payable  
13 to the person whose name appears on the bond registration books of the City Treasurer as  
14 the Registered Owner of this bond as of the close of business on the Record Date  
15 immediately preceding an interest payment date, whether or not such day is a Business Day,  
16 such interest to be paid by check mailed on the interest payment date to such Registered  
17 Owner at the owner's address as it appears on such registration books; *provided*, that the  
18 Registered Owner of bonds in an aggregate principal amount of at least \$1,000,000 may  
19 submit a written request to the City Treasurer on or before the Record Date preceding any  
20 interest payment date for payment of interest by wire transfer to a commercial bank located in  
21 the United States of America.

22 This bond is one of a duly authorized issue of bonds (the "**Bonds**") of like tenor (except  
23 for such variations, if any, as may be required to designate varying numbers, denominations,  
24 interest rates and maturities), in the aggregate principal amount of \$\_\_\_\_\_, which is  
25 part of a bond authorization in the aggregate original principal amount of \$260,684,550

1 authorized by the affirmative votes of more than two-thirds of the voters voting at a special  
2 election duly and legally called, held and conducted in the City on November 8, 2016 and is  
3 issued and sold by the City pursuant to and in strict conformity with the provisions of the  
4 Constitution and laws of the State of California, the Charter of the City and two resolutions  
5 adopted by the Board of Supervisors of the City (the "**Board of Supervisors**") on \_\_\_\_\_  
6 \_\_, 2019 (collectively, together with the related Certificate of Award,] the "**Resolutions**").

7 The Bonds are issuable as fully registered bonds without coupons in the  
8 denominations of \$5,000 or any integral multiple of such amount, *provided* that no bond shall  
9 have principal maturing on more than one principal maturity date. Subject to the limitations  
10 and conditions and upon payment of the charges, if any, provided in the Resolutions, the  
11 Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized  
12 denominations of the same interest rate and maturity.

13 This bond is transferable by its registered owner, in person or by its attorney duly  
14 authorized in writing, at the office of the City Treasurer, but only in the manner, subject to the  
15 limitations and upon payment of the charges provided in the Resolutions, and upon surrender  
16 and cancellation of this bond. Upon such transfer, a new bond or bonds of authorized  
17 denomination or denominations for the same interest rate and same aggregate principal  
18 amount will be issued to the transferee in exchange for this bond.

19 The City Treasurer will not be required to exchange or register the transfer of this bond  
20 during the period (a) from the Record Date for an interest payment date to the opening of  
21 business on such interest payment date or (b) after notice of redemption of this bond or any  
22 portion of this bond has been mailed.

23 Bonds maturing on and before June 15, 20\_\_\_, are not redeemable prior to their  
24 maturity.

25 Bonds maturing on and after June 15, 20\_\_\_, are subject to optional redemption from

1 any available funds, in whole or in part, on any date on or after \_\_\_\_ 15, 20\_\_, at a price  
2 equal to their principal amount plus in each case accrued interest to the date of redemption,  
3 without redemption premium. If less than all of the outstanding Bonds are to be redeemed,  
4 they may be redeemed in any order of maturity as determined by the City. If less than all of  
5 the outstanding Bonds of a maturity are to be redeemed, the Bonds or portions of Bonds of  
6 such maturity to be redeemed shall be selected by the City Treasurer, in authorized  
7 denominations of \$5,000 or integral multiples of that amount, from among Bonds of that  
8 maturity not previously called for redemption, by lot, in any manner which the City Treasurer  
9 deems fair.

10 Bonds maturing on June 15, 20\_\_, are subject to mandatory sinking fund redemption  
11 on June 15 of each of the years 20\_\_ through 20\_\_, inclusive, and at maturity in the  
12 respective amounts provided in the Resolutions.

13 Bonds maturing on June 15, 20\_\_, are subject to mandatory sinking fund redemption  
14 on June 15 of each of the years 20\_\_ through 20\_\_, inclusive, and at maturity in the  
15 respective amounts provided in the Resolutions.

16 Notice of the redemption of Bonds which by their terms shall have become subject to  
17 redemption shall be given or caused to be given to the registered owner of each bond or  
18 portion of a bond called for redemption not less than 20 or more than 60 days before any date  
19 established for redemption of Bonds, by the City Treasurer on behalf of the City, first class  
20 mail, postage prepaid, sent to the registered owner's last address, if any, appearing on the  
21 registration books kept by the City Treasurer. Official notices of redemption will contain the  
22 information specified in the Resolutions.

23 On or prior to any Redemption Date, the City is required to deposit an amount of  
24 money sufficient to pay the redemption price of all of the Bonds or portions of Bonds which  
25 are to be redeemed on that date or, in the case of optional redemptions only, the optional

1 redemption and notice of it will be rescinded and the City's failure to deposit such amount will  
2 not be a default. In addition, the City may at its option rescind any optional redemption and  
3 notice of it for any reason on any date prior to the applicable Redemption Date. Notice of  
4 rescission of an optional redemption shall be given in the same manner as notice of  
5 redemption was originally given,

6 Official notice of redemption having been given as aforesaid, the Bonds or portions of  
7 Bonds so to be redeemed shall, on the Redemption Date, become due and payable at the  
8 redemption price therein specified, and from and after such date (unless such redemption and  
9 notice of it shall have been rescinded or unless the City shall default in the payment of the  
10 redemption price), such Bonds or portions of Bonds shall cease to bear interest. Neither the  
11 failure to mail such redemption notice, nor any defect in any notice so mailed, to any particular  
12 registered owner, shall affect the sufficiency of such notice with respect to other Bonds.

13 Notice of redemption, or notice of rescission of an optional redemption, having been  
14 properly given, failure of a registered owner to receive such notice shall not be deemed to  
15 invalidate, limit or delay the effect of the notice or redemption action described in the notice.

16 The City and the City Treasurer may treat the registered owner of this bond as the  
17 absolute owner of this bond for all purposes, and the City and the City Treasurer shall not be  
18 affected by any notice to the contrary.

19 The City Treasurer may appoint agents to serve as bond registrar or paying agent, as  
20 provided in the Resolutions.

21 The Board of Supervisors certifies, recites and declares that the total amount of  
22 indebtedness of the City, including the amount of this bond, is within the limit provided by law,  
23 that all acts, conditions and things required by law to be done or performed precedent to and  
24 in the issuance of this bond have been done and performed in strict conformity with the laws  
25 authorizing the issuance of this bond, that this bond is in the form prescribed by order of the



1 Board of Supervisors duly made and entered on its minutes, and the money for the payment  
2 of principal of this bond, and the payment of interest thereon, shall be raised by taxation upon  
3 the taxable property of the City without limitation as to rate or amount as provided in the  
4 Resolutions and applicable law.

5 This bond shall not be entitled to any benefit under the Resolutions, or become valid or  
6 obligatory for any purpose, until the certificate of authentication and registration on this bond  
7 shall have been signed by the City Treasurer.

8 IN WITNESS WHEREOF the Board of Supervisors has caused this bond to be  
9 executed by the Mayor of the City and to be countersigned by the Clerk of the Board of  
10 Supervisors, all as of \_\_\_\_\_, 20\_\_.

11  
12 \_\_\_\_\_  
13 Mayor of the City and  
14 County of San Francisco

15 Countersigned:

16  
17 \_\_\_\_\_  
18 Clerk of the Board of Supervisors

19  
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CERTIFICATE OF REGISTRATION AND AUTHENTICATION

This is one of the bonds described in the within-mentioned Resolutions, which has been authenticated on the date set forth below.

Date of Authentication: \_\_\_\_\_

\_\_\_\_\_  
Treasurer of the  
City and County of San Francisco

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1 ASSIGNMENT

2 The following abbreviations, when used in the inscription on this Bond, shall be construed  
3 as though they were written out in full according to applicable laws or regulations:

4 Unif Gift Min Act - \_\_\_\_\_ Custodian \_\_\_\_\_  
5 (Cust) (Minor)  
6 under Uniform Gifts to Minors Act \_\_\_\_\_  
7 (State)

8 TEN COM - as tenants in common  
9 TEN ENT - as tenants by the entireties  
10 JT TEN - as joint tenants with right of survivorship and not  
as tenants in common

11 \_\_\_\_\_  
12 (Name and Address of Assignee)

13 For value received, the undersigned hereby sells, assigns and transfers unto

14 \_\_\_\_\_ the within Bond and does irrevocably constitute and  
15 appoint \_\_\_\_\_

16 attorney to transfer the said Bond on the books kept for registration thereof with full power of  
17 substitution in the premises.

18 /s/ \_\_\_\_\_

19 Dated:

20 Signature guaranteed:

21 **Notice:** The signature to this assignment must correspond with the name of the  
22 registered owner as it appears upon the face of the within Bond in every  
particular, without alteration or enlargement or any change whatever.

23 **Notice:** The signature(s) should be guaranteed by an eligible guarantor institution  
24 (banks, stockbrokers, savings and loan associations and credit unions with  
membership in approved Signature Guarantee Medallion Program)

<p><b>Items 6, 7 and 8</b>  <b>Files 18-1209, 18-1218 and 18-1219</b></p>	<p><b>Department:</b>                  Office of Public Finance (OPF)                  Mayor’s Office of Housing and Community Development (MOHCD)</p>
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**EXECUTIVE SUMMARY**

**Legislative Objectives**

- File 18-1218: The proposed resolution would authorize the issuance of not to exceed \$260,684,550 aggregate principal in General Obligation Bonds (Proposition A, 1992/Proposition C, 2016), approved by the voters in November 2016, and provide for the levy of a tax to pay the principal and interest of the general obligation bonds.
- File 18-1219: The proposed resolution would authorize the issuance and sale of not to exceed \$75,000,000 aggregate principal Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016), Series 2019A.
- File 18-1209: The proposed ordinance appropriates \$75,000,000 of proceeds from the Series 2019A taxable bonds to the Mayor’s Office of Housing and Community Development to implement loan programs to acquire, improve and rehabilitate at-risk multi-unit residential buildings that need seismic, fire, health or safety upgrades or other major rehabilitation, and convert those buildings to permanent affordable housing and places these funds on Controller’s Reserve pending sale of the bonds.

**Key Points**

- Voters approved Proposition A in 1992, which authorized the sale of up to \$350 million in general obligation bonds for a loan program to support seismic improvements to unreinforced masonry buildings. Of the \$350 million total authorized, \$89,315,450 has been issued to date, and \$260,684,550 remains available for future bond issuance.
- In November 2016, voters approved Proposition C, which amended the 1992 authorization to broaden the scope of the program due to low demand for seismic safety loans funded through the general obligation bond program. Proposition C allowed the bonds to also be used to finance the acquisition, improvement, and rehabilitation of (including seismic and other safety upgrades) at-risk multi-unit residential buildings and to convert those structures to permanent affordable housing.

**Fiscal Impact**

- The Office of Public Finance estimates the average annual debt service over 40 years on the general obligation bonds would be approximately \$4,700,000. The estimated total debt service is \$188,500,000, of which \$113,500,000 is interest and \$75,000,000 is principal.
- If the Board of Supervisors approves the issuance of the general obligation bonds, the debt ratio would increase by 0.03 percent to 0.98 percent—within the 3.00 percent legal debt limit. If all of the City’s authorized and unissued general obligation bonds were issued, the total debt would be 1.40 percent of the net assessed value of property in the City.

**Recommendation**

- Approve the two proposed resolutions and the proposed ordinance.

**MANDATE STATEMENT**

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

Charter Section 9.105 also states that amendments to the Annual Appropriations Ordinance, after the Controller certifies the availability of funds, are subject to Board of Supervisors approval by ordinance.

**BACKGROUND**1992 Seismic Safety Loan Program Bonds

Voters approved Proposition A in 1992, which authorized the sale of up to \$350 million in general obligation bonds for the Seismic Safety Loan Program to support seismic improvements to unreinforced masonry buildings. The \$350 million authorization was allocated to two separate loan programs, including \$150 million for a below-market rate loan program for seismic improvements to affordable housing and \$200 million for improvements to market rate properties. Under the below-market rate loan program, borrowers would pay back principal and one-third of the City's borrowing costs, and the remainder of the City's borrowing cost would be repaid by a property tax levy. In addition, \$60 million of the \$150 million allocation for below-market rate loans was permitted to be deferred for 20 or 55 years. Under the market rate loan program, borrowers would pay back principal, the City's full borrowing cost, and an additional 1 percent interest to cover administrative costs. Of the \$350 million total authorized, \$89,315,450<sup>1</sup> has been issued to date, and \$260,684,550 remains available for future bond issuance, as shown in Table 1 below.

**Table 1: Seismic Safety Loan Program Bond Authorization**

	Authorization	Issued to date	Remaining Authorization
Below-Market Rate Loan Program	\$150,000,000	\$45,315,450	\$104,684,550
<i>with loan deferment</i>	60,000,000	45,315,450	14,684,550
<i>no loan deferment</i>	90,000,000		90,000,000
Market Rate Loan Program	200,000,000	44,000,000	156,000,000
<b>Total</b>	<b>\$350,000,000</b>	<b>\$89,315,450</b>	<b>\$260,684,550</b>

Source: Memorandum dated December 7, 2018 from the Office of Public Finance to the Board of Supervisors

Under Proposition A, no more than \$35 million of the general obligation bond authorization could be sold in any fiscal year (including no more than \$15 million for the Below-Market Rate Loan Program and no more than \$20 million for the Market Rate Loan Program), but the authorized indebtedness accrued in each fiscal year could be carried over to subsequent fiscal years, if it remains unissued.

<sup>1</sup> Includes three bond issuances: (1) \$35 million in April 1994, pursuant to Resolution 160-94; (2) \$30,315,450 in March 2007, pursuant to Resolution 65-07; and (3) \$24 million in March 2016, pursuant to Resolution 284-14.

### Seismic Safety and Affordable Housing Loan Program (PASS Program)

In November 2016, voters approved Proposition C, which amended the 1992 authorization to broaden the scope of the Seismic Safety Loan Program due to low demand for seismic safety loans funded through the general obligation bond program. Proposition C allowed the bonds to also be used to finance the acquisition, improvement, and rehabilitation of (including seismic and other safety upgrades) at-risk multi-unit residential buildings and to convert those structures to permanent affordable housing. In October 2018, the Board of Supervisors approved Ordinance No. 270-18, which amended the Administrative Code to authorize and implement a seismic safety and affordable housing loan program—now called Preservation and Seismic Safety (PASS Program)—to be funded by the sale of the authorized general obligation bonds.

### **DETAILS OF PROPOSED LEGISLATION**

The two proposed resolutions and one proposed ordinance would authorize (a) the issuance of the entire not-to-exceed \$260,684,550 aggregate principal in general obligation bonds, (b) the sale of the first series of the taxable general obligation bonds for up to \$75,000,000, and (c) the appropriation of those funds for seismic safety and affordable housing loans:

- File 18-1218: The proposed resolution would authorize the issuance of not to exceed \$260,684,550 aggregate principal in General Obligation Bonds (Proposition A, 1992/Proposition C, 2016), approved by the voters in November 2016, and provide for the levy of a tax to pay the principal and interest of the general obligation bonds.
- File 18-1219: The proposed resolution would authorize the issuance and sale of not to exceed \$75,000,000 aggregate principal Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016), Series 2019A.<sup>2</sup>
- File 18-1209: The proposed ordinance appropriates \$75,000,000 of proceeds from the Series 2019A taxable bonds to the Mayor's Office of Housing and Community Development (MOHCD) to implement loan programs to acquire, improve and rehabilitate at-risk multi-unit residential buildings that need seismic, fire, health or safety upgrades or other major rehabilitation, and convert those buildings to permanent affordable housing and places these funds on Controller's Reserve pending sale of the bonds.

### **Authorization to issue \$260,684,550 in General Obligation Bonds and Sale of \$75 million Series 2019A Bonds (Files 18-1218 and 18-1219)**

The proposed resolutions would authorize (a) the issuance of \$260,684,550 in general obligation bonds, to be issued in multiple series with no more than \$35 million sold in each

<sup>2</sup> A resolution pending before the Board of Supervisors (File 18-1227) amends the City's debt policy to allow the Controller's Office of Public Finance to consider designating bonds as social bonds, green bonds, or sustainable bonds (for projects designated as both "social" and "green"). Appendix B states that "in considering the designation of such bonds, the Office of Public Finance shall evaluate costs and benefits...around such designation".

fiscal year (unless authorized indebtedness is carried over from previous fiscal years), and (b) the sale of up to \$75 million<sup>3</sup> Series 2019A taxable bonds, which would be the first series to be issued from the total \$260,684,550 authorized by the 2016 Proposition C, as described above. The sale of the \$75 million Series 2019A taxable bonds would occur in approximately February 2019 if approved. The sale of the remaining \$185,684,550 of the \$260,684,550 total authorized would be subject to future Board of Supervisors approval.

#### Financing Parameters

Of the first series of not to exceed \$75 million of the total \$260,684,550, the Office of Public Finance expects to sell \$72.5 million under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount of \$2.5 million above the expected issuance amount of \$72.5 million allows for fluctuations in interest rate market conditions from the date of authorization by the Board of Supervisors to the time of the sale of the bonds. Table 2 below outlines anticipated sources and uses for the bonds.

**Table 2: MOHCD Allocation for Series 2019A General Obligation Bonds**

<b>Sources</b>	
Par Amount	\$72,500,000
Reserve Proceeds for Interest Rate Fluctuations	2,500,000
<b>Total Not-to-Exceed Amount</b>	<b>\$75,000,000</b>
<b>Uses</b>	
<b>MOHCD Project</b>	
Below-Market Rate Loan Program	\$30,626,096
<i>with loan deferment</i>	4,296,243
<i>no loan deferment</i>	26,329,853
Market Rate Loan Program	40,835,032
<i>Amount Available for Loans Subtotal</i>	<i>71,461,128</i>
CSA Audit fund	142,922
<i>MOHCD Projects Subtotal</i>	<i>71,604,050</i>
Citizens' GO Bond Oversight Committee	75,000
Costs of Bond Issuance	600,000
Underwriter's Discount	220,950
<i>Costs of Issuance Subtotal</i>	<i>895,950</i>
Reserve for Market Uncertainty	2,500,000
<b>Total Uses with Reserve</b>	<b>\$75,000,000</b>

Source: Memorandum dated December 7, 2018 from the Office of Public Finance to the Board of Supervisors

<sup>3</sup> The proposed \$75 million issuance is within the \$105 million maximum that could be issued in FY 2018-19 based on the \$35 million annual issuance limit that has carried over since FY 2016-17, as stipulated in 1992 Proposition A and maintained under 2016 Proposition C.

**Appropriation of \$75,000,000 in Bond Proceeds (File 18-1209)**

As shown in Table 2 above, the proposed ordinance would appropriate \$75,000,000 in Series 2019A taxable general obligation bond proceeds for seismic safety and affordable housing projects to the Mayor's Office of Housing and Community Development.

According to Mr. Vishal Trivedi, a Financial Analyst in the Office of Public Finance, the below-market rate loans and market rate loans would be issued in combination to non-profit developers<sup>4</sup> for affordable housing to achieve a low-cost blended interest rate, and the terms of repayment of those loans to the City would depend on the share that is below-market rate and the share that is market rate. Seismic safety loans under the 1992 Proposition A authorization would still be available for seismic improvements to unreinforced masonry buildings, but as noted above, demand for these loans has been low historically.

**FISCAL IMPACT****Annual Debt Service**

Based on a conservative estimate of 5.53 percent total borrowing cost (which assumes the issuance of the Bonds on a federally taxable basis), the Office of Public Finance estimates the average annual debt service over 40 years on the general obligation bonds would be approximately \$4,700,000. A par value of \$75,000,000 is estimated to result in approximately \$113,500,000 in interest payments over the 40-year life of the Series 2019A bonds.<sup>5</sup> The estimated total principal and interest payment over the approximate 40-year life of the general obligation bonds is \$188,500,000, of which \$113,500,000 is interest and \$75,000,000 is principal.

The Office of Public Finance intends to sell the general obligation bonds through a negotiated sale with three underwriters selected competitively based on their responses to a Request for Proposals that was distributed to the City's Underwriter Pool. Citigroup would serve as Senior Underwriter, and Raymond James and Loop Capital Markets would serve as Co-underwriters. The Bonds would be structured as taxable<sup>6</sup> bonds with a final maturity of 35 to 40 years to meet the needs of an affordable housing loan program. The Bonds would mature on or before June 15, 2059.

<sup>4</sup> Affordable housing general obligation bonds are somewhat different than typical City general obligation bonds. Under typical City general obligation bonds, the City hires private contractors to undertake improvements on specific City-owned properties, such that the improvements are also owned by the City. However, under these affordable housing general obligation bonds, the City will not directly engage contractors nor generally own the properties or improvements. Rather, the City will primarily provide the general obligation bond proceeds as loans to developers who will hire contractors and own the improvements through limited liability corporations, which enables leveraging of additional revenues for the projects through federal tax credits.

<sup>5</sup> A resolution pending before the Board of Supervisors (File 18-1227) amends the City's debt policy to allow the issuance of bonds up to a maximum of 40 years (rather than the current maximum of 30 years).

<sup>6</sup> The Series 2019A bonds would be sold as taxable due to IRS restrictions on financing projects that involve private use, such as housing, with tax-exempt bonds.



### Debt Limit

Section 9.106 of the City Charter limits the amount of general obligation bonds the City can have outstanding at any given time to three percent of the total assessed value of property in San Francisco. The City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's gross general obligation debt limit for FY 2018-19 is approximately \$7.78 billion, based on a net assessed valuation of approximately \$259.3 billion. This net assessed valuation is dated as of August 1, 2018, which is the date of the Controller's Certificate of Assessed Valuation for the fiscal year. As of December 1, 2018, the City had outstanding approximately \$2.46 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.95 percent of the net assessed valuation for FY 2018-19. If the Board of Supervisors approves the issuance of the general obligation bonds, the debt ratio would increase by 0.03 percent to 0.98 percent—within the 3.00 percent legal debt limit. If all of the City's authorized and unissued general obligation bonds were issued, the total debt would be 1.40 percent of the net assessed value of property in the City.

### Property Tax Rates

For the Series 2019A bonds, repayment of the annual debt service would be recovered through increases in the annual property tax rate, which, according to the Controller's Office, would range from \$0.03 up to \$1.72 per \$100,000 of assessed valuation over the anticipated 40-year term of the bonds based on current assumptions. The owner of a residence with an assessed value of \$600,000, assuming a homeowner's exemption of \$7,000, would pay additional property taxes to the City ranging from \$0.19 up to \$10.19 per year if the \$75,000,000 Series 2019A bonds are sold. As noted above, under the below-market rate loan program, borrowers would pay back principal and one-third of the City's borrowing costs, and the remainder of the City's borrowing cost would be repaid by a property tax levy.

### Capital Plan

Under financial constraints adopted by the City's Capital Planning Committee, debt service on approved and issued general obligation bonds may not increase property owners' long-term property tax rates above FY 2005-06 levels. The FY 2005-06 property tax rate for the general obligation bond fund was \$120.10 per \$100,000 of assessed value. If the Board of Supervisors approves the issuance of the general obligation bonds, the property tax rate for general obligation bonds for FY 2018-19 would be maintained below the FY 2005-06 rate and within the Capital Planning Committee's approved financial constraint.

### RECOMMENDATION

Approve the proposed resolutions (Files 18-1218 and 18-1219) and the proposed ordinance (File 18-1209).

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

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY \_\_, 2019

**NEW ISSUE – BOOK-ENTRY ONLY**

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

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



**[\$[PARAMOUNT]]\***  
**CITY AND COUNTY OF SAN FRANCISCO**  
**TAXABLE GENERAL OBLIGATION BONDS**  
**(SOCIAL BONDS – AFFORDABLE HOUSING, 2016)**  
**SERIES 2019A**

**Dated: Date of Delivery**

**Due: June 15, as shown in the inside cover**

The City and County of San Francisco Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016), Series 2019A (the "Bonds") are being issued under the Government Code of the State of California and the Charter of the City and County of San Francisco (the "City"). The Bonds are being issued pursuant to certain resolutions adopted by the Board of Supervisors of the City and duly approved by the Mayor of the City. The issuance of the Bonds has been authorized at elections of the registered voters of the City on November 3, 1992 and November 8, 2016, at which more than two-thirds of the persons voting on Proposition A and Proposition C, respectively, voted to authorize the issuance and sale of the Bonds, as further described under "THE BONDS – Authority for Issuance; Purposes." The proceeds of the Bonds are expected to be used to (i) finance the acquisition, improvement and rehabilitation of at-risk multi-unit residential buildings and to convert such structures to permanent affordable housing, (ii) pay capitalized interest on the Bonds through [December 15, 2019], and (iii) pay certain costs related to the issuance of the Bonds. See "THE BONDS – Authority for Issuance; Purposes" and "SOURCES AND USES OF FUNDS." The City is designating the Bonds as Social Bonds.

The Bonds will be dated and bear interest from their date of delivery until paid in full at the rates shown in the maturity schedule on the inside cover hereof. Interest on the Bonds will be payable on June 15 and December 15 of each year, commencing [June 15, 2019]. Principal will be paid at maturity as shown on the inside cover. See "THE BONDS – Payment of Interest and Principal." The Bonds will be issued only in fully registered form without coupons, and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Individual purchases of the Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Payments of principal of and interest on the Bonds will be made by the City Treasurer, as paying agent, to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Form and Registration."

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

The Board of Supervisors at the time of fixing the general tax levy will fix, and in the manner provided for such general tax levy, levy and collect annually until the Bonds are paid, an ad valorem tax upon the taxable property of the City, without limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds as they become due. See "SECURITY FOR THE BONDS."

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

**MATURITY SCHEDULE**  
(See Inside Cover)

The Bonds are offered when, as and if issued by the City and accepted by the Underwriters, subject to the approval of legality by Jones Hall, A Professional Law Corporation, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by its City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Stradling, Yocca, Carlson & Rauth, Newport Beach, California. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about February \_\_, 2019.

Dated: February \_\_, 2019.

**Citigroup**

**Raymond James**

**Loop Capital Markets**

\* Preliminary, subject to change.

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

Hawkins Delafield & Wood LLP  
Draft of 12/6/2018

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY \_\_, 2019

\$[Par Amount]\*  
**CITY AND COUNTY OF SAN FRANCISCO**  
**TAXABLE GENERAL OBLIGATION BONDS**  
**(SOCIAL BONDS – AFFORDABLE HOUSING, 2016),**  
**SERIES 2019A**

**MATURITY SCHEDULE**  
 (Base CUSIP† Number: \_\_\_\_\_)

\$ \_\_\_\_\_ Serial Bonds

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

\* Preliminary, subject to change.

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

## **NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA (“EEA”)**

THIS OFFICIAL STATEMENT IS NOT A PROSPECTUS FOR THE PURPOSES OF EUROPEAN COMMISSION REGULATION 809/2004 OR EUROPEAN COMMISSION DIRECTIVE 2003/71/EC (AS AMENDED, INCLUDING BY EUROPEAN COMMISSION DIRECTIVE 2010/73/EU, AS APPLICABLE) (THE “PROSPECTUS DIRECTIVE”). IT HAS BEEN PREPARED ON THE BASIS THAT ALL OFFERS OF THE BONDS WILL BE MADE PURSUANT TO AN EXEMPTION UNDER ARTICLE 3 OF THE PROSPECTUS DIRECTIVE, AS IMPLEMENTED IN MEMBER STATES OF THE EEA, FROM THE REQUIREMENT TO PRODUCE A PROSPECTUS FOR SUCH OFFERS. THIS OFFICIAL STATEMENT IS ONLY ADDRESSED TO AND DIRECTED AT PERSONS IN MEMBER STATES OF THE EEA WHO ARE “QUALIFIED INVESTORS” WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE AND ANY RELEVANT IMPLEMENTING MEASURE IN EACH MEMBER STATE OF THE EEA (“QUALIFIED INVESTORS”). THIS OFFICIAL STATEMENT MUST NOT BE ACTED ON OR RELIED ON IN ANY SUCH MEMBER STATE OF THE EEA BY PERSONS WHO ARE NOT QUALIFIED INVESTORS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO QUALIFIED INVESTORS IN ANY MEMBER STATE OF THE EEA AND WILL NOT BE ENGAGED IN WITH ANY OTHER PERSONS.

## **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

THIS OFFICIAL STATEMENT HAS NOT BEEN APPROVED FOR THE PURPOSES OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (“FSMA”) AND DOES NOT CONSTITUTE AN OFFER TO THE PUBLIC IN ACCORDANCE WITH THE PROVISIONS OF SECTION 85 OF THE FSMA. THIS OFFICIAL STATEMENT IS FOR DISTRIBUTION ONLY TO, AND IS DIRECTED SOLELY AT, PERSONS IN THE UNITED KINGDOM THAT ARE QUALIFIED INVESTORS WITHIN THE MEANING OF ARTICLE 2(1)(E) OF THE PROSPECTUS DIRECTIVE WHO ARE ALSO (I) INVESTMENT PROFESSIONALS, AS SUCH TERM IS DEFINED IN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, AS AMENDED (THE “FINANCIAL PROMOTION ORDER”) OR (II) HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE FINANCIAL PROMOTION ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THIS OFFICIAL STATEMENT IS DIRECTED ONLY AT RELEVANT PERSONS AND MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS, INCLUDING IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA APPLIES TO THE ISSUER. THIS OFFICIAL STATEMENT AND ITS CONTENTS ARE CONFIDENTIAL AND SHOULD NOT BE DISTRIBUTED, PUBLISHED OR REPRODUCED (IN WHOLE OR IN PART) OR DISCLOSED BY RECIPIENTS TO ANY OTHER PERSONS IN THE UNITED KINGDOM. IN THE UNITED KINGDOM, ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFICIAL STATEMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS OFFICIAL STATEMENT OR ANY OF ITS CONTENTS.

## **NOTICE TO INVESTORS IN SWITZERLAND**

THE BONDS MAY NOT BE PUBLICLY OFFERED IN SWITZERLAND AND WILL NOT BE LISTED ON THE SIX SWISS EXCHANGE (“SIX”) OR ON ANY OTHER STOCK EXCHANGE OR REGULATED TRADING FACILITY IN SWITZERLAND. THIS OFFICIAL STATEMENT HAS BEEN PREPARED WITHOUT REGARD TO THE DISCLOSURE STANDARDS FOR ISSUANCE PROSPECTUSES UNDER ART. 652A OR ART. 1156 OF THE SWISS CODE OF OBLIGATIONS OR THE DISCLOSURE STANDARDS FOR LISTING PROSPECTUSES UNDER ART. 27 FF. OF THE SIX

LISTING RULES OR THE LISTING RULES OF ANY OTHER STOCK EXCHANGE OR REGULATED TRADING FACILITY IN SWITZERLAND. NEITHER THIS OFFICIAL STATEMENT NOR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE BONDS OR THE OFFERING MAY BE PUBLICLY DISTRIBUTED OR OTHERWISE MADE PUBLICLY AVAILABLE IN SWITZERLAND.

NONE OF THIS OFFICIAL STATEMENT OR ANY OTHER OFFERING OR MARKETING MATERIAL RELATING TO THE OFFERING, THE ISSUER OR THE BONDS HAVE BEEN OR WILL BE FILED WITH OR APPROVED BY ANY SWISS REGULATORY AUTHORITY. IN PARTICULAR, THIS OFFICIAL STATEMENT WILL NOT BE FILED WITH, AND THE OFFER OF THE BONDS WILL NOT BE SUPERVISED BY, THE SWISS FINANCIAL MARKET SUPERVISORY AUTHORITY ("FINMA"), AND THE OFFER OF BONDS HAS NOT BEEN AND WILL NOT BE AUTHORIZED UNDER THE SWISS FEDERAL ACT ON COLLECTIVE INVESTMENT SCHEMES ("CISA"). ACCORDINGLY, INVESTORS DO NOT HAVE THE BENEFIT OF THE SPECIFIC INVESTOR PROTECTION PROVIDED UNDER THE CISA.

No dealer, broker, salesperson or other person has been authorized by the City to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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

The information set forth herein, other than that provided by the City, has been obtained from sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

The Underwriters (as defined in "UNDERWRITING" herein) have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

In connection with the offering of the Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain dealers and dealer banks at prices lower than the initial public offering prices stated on the inside cover hereof. Such initial public offering prices may be changed from time to time by the Underwriters.

This Official Statement contains forecasts, projections, estimates and other forward-looking statements that are based on current expectations. The words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results. Any such forward-looking statements inherently are 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. Such risks and uncertainties include, among others, changes in social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, population changes, seismic events and various other events, conditions and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date of this Official Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the expectations of the City with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

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





**CITY AND COUNTY OF SAN FRANCISCO**

**MAYOR**

London N. Breed

**BOARD OF SUPERVISORS**

\_\_\_\_\_, *Board President, District* \_\_\_\_

Sandra Lee Fewer, *District 1*

Catherine Stefani, *District 2*

Aaron Peskin, *District 3*

Gordon Mar, *District 4*

Vallie Brown, *District 5*

Matt Haney, *District 6*

Norman Yee, *District 7*

Rafael Mandelman, *District 8*

Hillary Ronen, *District 9*

Shamann Walton, *District 10*

Ahsha Safai, *District 11*

**CITY ATTORNEY**

Dennis J. Herrera

**CITY TREASURER**

José Cisneros

**OTHER CITY AND COUNTY OFFICIALS**

Naomi M. Kelly, *City Administrator*

Benjamin Rosenfield, *Controller*

Anna Van Degna, *Director of Public Finance*

**PROFESSIONAL SERVICES**

**Paying Agent and Registrar**

Treasurer of the City and County of San Francisco

**Co-Bond Counsel**

Jones Hall, A Professional Law Corporation  
*San Francisco, California*

Amira Jackmon, Attorney at Law  
*Berkeley, California*

**Co-Municipal Advisors**

Ross Financial  
*San Francisco, California*

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*Sausalito, California*

**Disclosure Counsel**

Hawkins Delafield & Wood LLP  
*San Francisco, California*



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## OFFICIAL STATEMENT

**\$(PAR AMOUNT)\***  
**CITY AND COUNTY OF SAN FRANCISCO**  
**TAXABLE GENERAL OBLIGATION BONDS**  
**(SOCIAL BONDS – AFFORDABLE HOUSING, 2016)**  
**SERIES 2019A**

### INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the public offering by the City and County of San Francisco (the “City”) of its City and County of San Francisco Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016), Series 2019A (the “Bonds”). The Board of Supervisors at the time of fixing the general tax levy will fix, and in the manner provided for such general tax levy, levy and collect annually until the Bonds are paid, an ad valorem tax upon the taxable property of the City, without limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds as they become due. See “SECURITY FOR THE BONDS.”

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

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

### THE CITY AND COUNTY OF SAN FRANCISCO

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the “Bay”). The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay and the San Francisco-Oakland Bay Bridge to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour’s drive to the north. According to the State Department of Finance, the City’s population as of January 1, 2018 was 883,963.

The San Francisco Bay Area consists of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the

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\* Preliminary, subject to change.

“Bay Area”). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include technology, retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising and higher education. The California State Supreme Court is also based in San Francisco.

The City is a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2017, approximately 25.5 million people visited the City, with total direct spending amounting to an estimated \$9.1 billion. Direct spending from conventions, trade shows and group meetings generated approximately \$687.4 million in 2017.

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

The City benefits from a highly skilled, educated and professional labor force. [The per-capita personal income of the City for fiscal year 2016-17 was \$109,048, and the average unemployment rate was 3.1%.] *[To be updated.]* The San Francisco Unified School District, which is a separate legal entity from the City, operates 16 transitional kindergarten schools, 64 elementary schools serving grades K-5, 8 schools serving grades K-8, 13 middle schools serving grades 6-8, 19 high schools serving grades 9-12, 5 continuation/alternative schools, and 9 County and Court schools. Higher education institutions located in the City include the University of San Francisco, California State University – San Francisco, University of California – San Francisco (a medical school and health science campus), the University of California Hastings College of the Law, the University of the Pacific’s School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy, and the Academy of Art University.

San Francisco International Airport (“SFO”), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County and owned and operated by the City, is the principal commercial service airport for the Bay Area and one of the nation’s principal gateways for Pacific traffic. In fiscal year 2017-18, SFO serviced approximately 58 million passengers and handled 561,150 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (electric rail commuter service linking the City with the East Bay and the San Francisco Peninsula, including SFO), Caltrain (a conventional commuter rail line linking the City with the San Francisco Peninsula), and bus and ferry services between the City and residential areas to the north, east and south of the City. San Francisco Municipal Railway (“Muni”), operated by the City, provides bus and streetcar service within the City. The Port of San Francisco (the “Port”), which administers 7.5 miles of Bay waterfront held in “public trust” by the Port on behalf of the people of the State, promotes a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities, and natural resource protection.

The City is governed by a Board of Supervisors elected from 11 districts to serve 4-year terms, and a Mayor who serves as chief executive officer, elected citywide to a 4-year term. The City’s original budget for fiscal years 2018-19 and 2019-20 totals \$11.04 billion and \$11.10 billion, respectively. The General Fund portion of each year’s original budget is \$5.51 billion in fiscal year 2018-19 and \$5.52 billion in fiscal year 2019-20, with the balance being allocated to all other funds, including enterprise fund departments, such as SFO, the San Francisco Municipal Transportation Agency, the Port Commission and the San Francisco Public Utilities Commission. The City employed 32,749 full-time-equivalent employees at the end of fiscal year 2016-17, of which 2,124 positions were funded from sources other than the City’s General Fund. According to the Controller of the City (the “Controller”), the fiscal year 2018-19 net total assessed valuation of taxable property in the City is approximately \$259.3 billion.

More detailed information about the City’s governance, organization and finances may be found in APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES” and

**THE BONDS**

**Authority for Issuance; Purposes**

The Bonds will be issued under the Government Code of the State and the Charter. The City authorized the issuance of the Bonds by Resolution No. \_\_\_\_\_ (the “Master Resolution”) and Resolution No. \_\_\_\_\_ (the “Sale Resolution,” and together with the Master Resolution, the “Resolutions”), both adopted by the Board of Supervisors of the City on \_\_\_\_\_, and duly approved by the Mayor of the City on \_\_\_\_\_.

*Proposition A (1992) and Proposition C (2016).* On November 3, 1992, more than two-thirds of the voters of the City who voted at such election approved Proposition A (“Proposition A (1992)”), establishing the City’s Earthquake Loan Bond Program. Proposition A (1992) authorized the City to incur bonded indebtedness of \$350,000,000 to provide loans for the seismic strengthening of unreinforced masonry buildings devoted to affordable housing and market-rate residential, commercial and institutional uses, and to pay necessary administrative costs incidental thereto. Of the \$350,000,000 of general obligation bond authorization, Proposition A (1992) allocated (i) \$150,000,000 to make loans for seismic improvements to affordable housing buildings (as amended, the “Affordable Housing Loan Program”); and (ii) \$200,000,000 to make loans for seismic improvements to market-rate residential, commercial and institutional buildings (as amended, the “Market Rate Loan Program,” and together with the Affordable Housing Loan Program, the “Programs”).

Proposition A (1992) also provided that all loan repayments received by the City (the “Loan Repayments”) will be used to pay debt service on such general obligation bonds, except for Loan Repayments received after the retirement of all general obligation bonds issued under Proposition A (1992) which may be used for any lawful purpose.

To date, the City, through the Mayor’s Office of Housing and Community Development (“MOHCD”), has originated \$45,315,450 in loans to private parties under the Affordable Housing Loan Program and \$44,000,000 in loans to private parties under the Market Rate Loan Program through the issuance of the following general obligation bonds authorized under Proposition A (1992):

Name of Bond Issue	Original Principal Amount Issued	Principal Amount Outstanding
City and County of San Francisco General Obligation Bonds (Seismic Safety Loan Program 1992), Series 1994A	\$35,000,000	
City and County of San Francisco Taxable General Obligation Bonds (Seismic Safety Loan Program 1992), Series 2007A	30,315,450	
City and County of San Francisco Taxable General Obligation Bonds (Seismic Safety Loan Program 1992), Series 2015A	24,000,000	
Subtotal:	\$89,315,450	

Of the original \$350,000,000 of general bond authorization provided by Proposition A (1992), \$260,684,550 remains unissued and available to be issued by the City.

On November 8, 2016, more than two-thirds of the voters of the City who voted at such election approved Proposition C (“Proposition C (2016),” and collectively with Proposition A (1992), the “Propositions”), which amended Proposition A (1992) by allowing as an additional purpose the incurrence of bonded indebtedness to finance the acquisition, improvement, and rehabilitation of at-risk multi-unit residential buildings (defined as a building with three or more units) and to convert such structures to permanent affordable housing, and to perform needed seismic, fire, health, and safety upgrades or other major rehabilitation for habitability. Proposition C (2016) did not amend the requirement that all Loan Repayments received by the City will be used to pay debt service on general obligation bonds, except for Loan Repayments received after the retirement of all general obligation bonds issued under the Propositions, which may be used for any lawful purpose; however, the Resolutions also provide that the City is obligated to levy ad valorem taxes sufficient to pay debt service on the Bonds.

The Bonds will constitute the first series of bonds to be issued from the remaining authorized amount of \$260,684,550 under the Propositions. Upon the issuance of the Bonds, \$ \_\_\_\_\_\* in general bond authorization provided by the Propositions will remain unissued and available to be issued by the City. The City currently plans to utilize the bond authorization under the Propositions by 2029, to preserve approximately 1,400 total units of affordable housing. The City cannot guarantee that it will issue any or all such bonds in the future, nor does the City guarantee the timing of such bond issuances and the number of affordable housing units that would benefit from the issuance of such bonds. See “– Projects to be Financed or Refinanced with Bond Proceeds” below.

**Designation as Social Bonds.** The City is designating the Bonds as “Social Bonds.” The projects planned to be funded with proceeds of the Bonds in accordance with the requirements of the Propositions address the need within the City to provide affordable housing. The City has determined that the projects to be financed with the proceeds of the Bonds are “Social Projects” based on the social benefits of addressing affordable housing within the City. The designation of the Bonds as “Social Bonds” is designed to generally comport with The Social Bond Principles promulgated by the International Capital Market Association (“ICMA”), updated as of June 2018. The term “Social Bonds” is neither defined in nor related to provisions in the Resolutions. Owners of the Bonds do not have any security other than as provided in the Resolutions and described under “SECURITY FOR THE BONDS,” nor do such owners of the Social Bonds assume any specific project risk related to any of the projects funded thereby. “Social Projects” and “Social Bonds” are entirely self-designating labels lacking any objective guidelines or criteria. ICMA is a European-based entity with some members from the United States. The City assumes no obligation to ensure that the projects financed with proceeds of the Social Bonds comply with any legal or other standards or principles that may relate to “Social Projects” or that the Bonds comply with any legal or other standards or principles that may relate to “Social Bonds.” [*Social Bonds reporting requirements on Bonds TBD.*]

**Projects to be Financed or Refinanced with Bond Proceeds.** In furtherance of the purposes authorized under the Propositions, the City plans to use the proceeds of bonds to provide loans to finance or refinance the acquisition and rehabilitation of affordable housing units, and the seismic retrofitting and preservation of affordable housing units. Eligible projects to be funded include smaller sites (generally buildings with 5-25 apartments), larger multi-unit and mixed-use residential buildings, and single-room occupancy hotels. The City does not plan to use proceeds of bonds issued under the Propositions to fund new construction projects or the acquisition without rehabilitation of affordable housing units.

Projects funded through below-market loans will have permanent affordability restrictions, and projects funded through market-rate loans will prohibit landlords from passing on to tenants the costs of certain capital improvements to the property (i.e., capital improvement pass-throughs). Further, in order for a project to be financed or refinanced through bond proceeds, MOHCD has established maximum average monthly rent and annual household income levels for tenants, at 80% of the Area Median Income (“AMI”), and capped at 120% of AMI.

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\* Preliminary, subject to change.



The City currently has identified 30 projects, with a total of 325 affordable housing units, eligible for funding using proceeds of the Bonds. These projects are intended to benefit priority and at-risk populations consisting of seniors, persons with disabilities, low-income households, and those who are at risk of being evicted pursuant to the Ellis Act. The City may substitute other authorized projects eligible for funding under the Propositions.

**Project Evaluation.** The Programs will be administered by the MOHCD, and the projects to be financed or refinanced with Bond proceeds will be evaluated and monitored by the MOHCD. The mission of the MOHCD is to provide financing for the development, rehabilitation and purchase of affordable housing in San Francisco. MOHCD also guides and coordinates the City's housing policy. MOHCD administers a variety of programs to finance the development of affordable housing by non-profit and for profit developers, provides financial and educational assistance to first-time homebuyers, and finances housing rehabilitation costs for low-income homeowners. MOHCD is also responsible for monitoring and ensuring the long-term affordability and physical viability of the City's stock of affordable housing. The MOHCD's funding decisions are based on priorities and strategies outlined in a Consolidated Plan, which is a planning document for San Francisco's community development and affordable housing activities, developed through city-wide public input, especially from residents and stakeholders of low-income communities.

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

### **Form and Registration**

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

### **Payment of Interest and Principal**

Interest on the Bonds will be payable on each June 15 and December 15 to maturity or prior redemption, commencing [June 15, 2019], at the interest rates shown on the inside cover hereof. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The City Treasurer will act as paying agent and registrar with respect to the Bonds. The interest on the Bonds will be payable in lawful money of the United States to the person whose name appears on the Bond registration books of the City Treasurer as the owner thereof as of the close of business on the last day of the month immediately preceding an interest payment date (the "Record Date"), whether or not such day is a business day. Each Bond authenticated on or before [May 31, 2019] will bear interest from the date of delivery. Every other Bond will bear interest from the interest payment date next preceding its date of authentication unless it is authenticated as of a day during the period from the Record Date next preceding any interest payment date to the interest payment date, inclusive, in which event it will bear interest from such interest payment date; provided, that if, at the time of authentication of any Bond, interest is then in default on the Bonds, such Bond will bear interest from the interest payment date to which interest has previously been paid or made available for payment on the Bonds.

The Bonds will mature on the dates shown on the inside cover page hereof. The Bonds will be subject to redemption prior to maturity, as described below. See "-- Redemption" below. The principal of the Bonds

will be payable in lawful money of the United States to the owner thereof upon the surrender thereof at maturity or earlier redemption at the office of the City Treasurer.

**Redemption**

*Optional Redemption of the Bonds*

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

*Mandatory Redemption*

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

Mandatory Sinking Fund Redemption Date (June 15)	Sinking Fund Payment Principal Amount
--	--

† Maturity

The principal amount of each mandatory sinking fund payment of any maturity will be reduced as specified by the City Treasurer, in \$5,000 increments, by the amount of any Bond of that maturity optionally redeemed prior to the mandatory sinking fund payment date.

*Selection of Bonds for Redemption*

[Whenever less than all of the outstanding Bonds are called for redemption on any one date, the Director of Public Finance will select the maturities of Bonds or any given portion thereof to be redeemed from the Bonds outstanding or such given portion thereof not previously called for redemption, pro rata.

If the Bonds are registered in book-entry only form and so long as DTC or a successor securities depository is the sole registered owner of the Bonds, if less than all of the Bonds of a maturity are called for redemption, the particular Bonds or portions thereof to be redeemed will be selected on a pro rata pass-through distribution of principal basis in accordance with DTC procedures, provided that, so long as the Bonds are held in book-entry form, the selection for redemption of such Bonds will be made in accordance with the operational arrangements of DTC then in effect.

It is the City's intent that redemption allocations made by DTC be made on a pro rata pass-through distribution of principal basis as described above. However, the City can provide no assurance that DTC, DTC's direct and indirect participants or any other intermediary will allocate the redemption of Bonds on such basis. If the DTC operational arrangements do not allow for the redemption of the Bonds on a pro rata pass-

through distribution of principal basis as discussed above, then the Bonds will be selected for redemption, in accordance with DTC procedures, by lot. The City can provide no assurance as to how DTC or any other parties will allocate redemption payments.]

### *Notice of Redemption*

The date on which Bonds that are called for redemption are to be presented for redemption is called the "Redemption Date." The City Treasurer will mail, or cause to be mailed, notice of any redemption of Bonds, postage prepaid, to the respective registered owners at the addresses appearing on the bond registration books not less than twenty (20) nor more than sixty (60) days prior to the Redemption Date. The notice of redemption will (a) state the Redemption Date; (b) state the redemption price; (c) state the maturity dates of the Bonds to be redeemed and, if less than all of any such maturity is called for redemption, the distinctive numbers of the Bonds of such maturity to be redeemed, and in the case of any Bonds to be redeemed in part only, the respective portions of the principal amount to be redeemed; (d) state the CUSIP number, if any, of each Bond to be redeemed; (e) require that such Bonds be surrendered by the owners at the office of the City Treasurer or his or her agent; and (f) give notice that interest on such Bond or portion of Bond to be redeemed will cease to accrue after the Redemption Date. Notice of optional redemption may be conditional upon receipt of funds or other event specified in the notice of redemption as further described under "- Conditional Notice; Right to Rescind Notice of Optional Redemption."

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

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

The notice or notices required for redemption will be given by the City Treasurer or any agent appointed by the City. A certificate of the City Treasurer or such other appointed agent of the City that notice of redemption has been given to the owner of any Bond to be redeemed in accordance with the Resolutions will be conclusive against all parties.

### *Effect of Notice of Redemption*

When notice of optional redemption has been given as described above, and when the amount necessary for the redemption of the Bonds called for redemption (principal, premium, if any and accrued interest to the Redemption Date) is set aside for that purpose in the redemption account for the Bonds (the "Series 2019A Redemption Account") or the Series 2019A Bond Subaccount (as defined under "SECURITY FOR THE BONDS - Flow of Funds Under the Resolutions") established under the Resolutions, the Bonds designated for redemption will become due and payable on the Redemption Date, and upon presentation and surrender of said Bonds at the place specified in the notice of redemption, those Bonds will be redeemed and paid at said redemption price out of the Series 2019A Redemption Account. No interest will accrue on such Bonds called for redemption after the Redemption Date and the registered owners of such Bonds will look for payment of such Bonds only to the Series 2019A Redemption Account. All Bonds redeemed will be cancelled immediately by the City Treasurer and will not be reissued. Moneys held in the Series 2019A Redemption Account will be invested by the City Treasurer pursuant to the City's policies and guidelines for investment of

moneys in the General Fund of the City. See APPENDIX C – “CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE TREASURER – INVESTMENT POLICY.”

***Conditional Notice; Right to Rescind Notice of Optional Redemption***

Any notice of optional redemption may provide that such redemption is conditioned upon: (i) deposit in the Series 2019A Redemption Account of sufficient moneys to redeem the Bonds called for optional redemption on the anticipated Redemption Date, or (ii) the occurrence of any other event specified in the notice of redemption. In the event that such conditional notice of optional redemption has been given and on the scheduled Redemption Date (i) sufficient moneys to redeem the Bonds called for optional redemption have not been deposited in the Series 2019A Redemption Account, or (ii) any other event specified in the notice of redemption did not occur, then such Bonds for which notice of conditional optional redemption was given will not be redeemed and will remain Outstanding for all purposes and the redemption not occurring will not constitute a default under the Resolutions.

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

**Project Account**

***Project Account.*** The Master Resolution establishes a project account designated as the “General Obligation Bonds (Prop A, 1992/Prop C, 2016) Project Account” (the “Project Account”). The Project Account will be maintained by the City Treasurer, as a separate account, segregated and distinct from all other accounts. The City Treasurer may establish such accounts and subaccounts within the Project Account as may be necessary or convenient in connection with the administration of the Programs or the bonds issued under the Master Resolution.

All of the proceeds of the sale of bonds issued under the Master Resolution (excluding any premium and accrued interest received thereon, unless otherwise determined by the Director of Public Finance) will be deposited by the City Treasurer to the credit of the Project Account and will be applied exclusively to the objects and purposes specified in the Propositions. When such objects and purposes have been accomplished, any moneys remaining in such account will be transferred to the Bond Account (as defined in “SECURITY FOR THE BONDS – Flow of Funds Under the Resolutions”) and applied to the payment of the principal of and interest on any series of bonds issued under the Master Resolution. Amounts in the Project Account may be applied to the payment of costs of issuance of bonds issued under the Master Resolution, including, without limitation, bond and financial printing expenses, mailing and publication expenses, rating agency fees, and the fees and expenses of paying agents, registrars, financial consultants, bond counsel and disclosure counsel.

***Series 2019A Project Subaccount.*** The Sale Resolution provides that there will be established with the City Treasurer a special subaccount in the Project Account to be designated the “General Obligation Bonds, Taxable Series 2019A Project Subaccount” (the “Series 2019A Project Subaccount”), to be held separate and apart from all other accounts of the City. All interest earned on amounts on deposit in the Series 2019A Project Subaccount will be retained in the Series 2019A Project Subaccount. Amounts in the Series 2019A Project Subaccount will be expended for the purposes approved by the voters in the Proposition.

Amounts in the Series 2019A Project Subaccount may be invested in any investment of the City in which moneys in the General Fund of the City are invested. The City Treasurer may (i) commingle any of the moneys held in the Series 2019A Project Subaccount with other City moneys or (ii) deposit amounts credited to the Series 2019A Project Subaccount into a separate fund or funds for investment purposes only; provided,

that all of the moneys held in the Series 2019A Project Subaccount (including interest earnings) will be accounted for separately notwithstanding any such comingling or separate deposit by the City Treasurer. See APPENDIX C – “CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE TREASURER – INVESTMENT POLICY.”

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

### **Defeasance**

Payment of all or any portion of the Bonds may be provided for prior to such Bonds’ respective stated maturities by irrevocably depositing with the City Treasurer (or any commercial bank or trust company designated by the City Treasurer to act as escrow agent with respect thereto), in a separate account not commingled with other moneys or securities held by the Treasurer or such escrow agent:

(a) an amount of cash equal to the principal amount of all of such Bonds or a portion thereof, and all unpaid interest thereon to maturity, except that in the case of Bonds which are to be redeemed prior to such Bonds’ respective stated maturities and in respect of which notice of such redemption will have been given as described above or an irrevocable election to give such notice will have been made by the City, the amount to be deposited will be the principal amount thereof, all unpaid interest thereon to the Redemption Date, and any premium due on such Redemption Date; or

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

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

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

“United States Obligations” means (i) direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including without limitation, the interest component of Resolution Funding Corporation (REFCORP) bonds that have been stripped by request to the Federal Reserve Bank of New York in book-entry form or (ii) any security issued by an agency or instrumentality of the United States of America that is selected by the Director of Public Finance that results in the escrow fund being rated by any two Rating Agencies, at the time of the initial deposit to the escrow fund and upon any substitution or subsequent deposit to the escrow fund, not lower than the rating then maintained by the respective Rating Agency on United States Obligations described in (i) herein.

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

### SOURCES AND USES OF FUNDS

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

#### Sources

Principal Amount of Bonds  
Net Original Issue Premium/Discount  
**Total Sources of Funds**

#### Uses

Deposit to Series 2019A Project Subaccount  
Deposit to Series 2019A Bond Subaccount<sup>(1)</sup>  
Underwriter’s Discount  
Oversight Committee  
Costs of Issuance<sup>(2)</sup>  
**Total Uses of Funds**

<sup>(1)</sup> Includes amounts required to pay capitalized interest on the Bonds through [December 15, 2019].

<sup>(2)</sup> Includes fees for services of rating agencies, Co-Municipal Advisors, Co-Bond Counsel, Disclosure Counsel, costs to the City, printing costs, and other miscellaneous costs associated with the issuance of the Bonds.

**DEBT SERVICE SCHEDULE**

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

**City and County of San Francisco  
General Obligation Bonds  
Series 2019A<sup>(1)</sup>**

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>	<u>Fiscal Year Total<sup>(2)</sup></u>
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**Total<sup>(3)</sup>**

<sup>(1)</sup> Amounts are rounded off to the nearest dollar.

<sup>(2)</sup> Totals may not add due to independent rounding of individual components.

## SECURITY FOR THE BONDS

### General

Pursuant to the Resolutions, for the purpose of paying the principal of and interest on the Bonds, the Board of Supervisors annually will fix, levy and collect until the Bonds are paid, or until there is a sum set apart for that purpose in the Treasury of the City sufficient to meet all sums coming due for payment of principal of and interest on the Bonds, an ad valorem tax sufficient to pay the annual principal of and interest on the Bonds as the same become due. In fixing such tax levy for each fiscal year, the Board of Supervisors will take into account amounts then on deposit in the Program Revenues Subaccount (as defined under "Flow of Funds Under the Resolutions") and amounts then on deposit in the Tax Revenues Subaccount (as defined under "Flow of Funds Under the Resolutions"), if such amounts will be available to pay debt service on the Bonds. Said tax will be in addition to all other taxes levied for City purposes, will be collected at the time and in the same manner as other taxes of the City are collected, and will be used only for the payment of the Bonds and the interest thereon. Under the framework of the constitutional provisions and statutes applicable to California general obligation bonds, including the Bonds, taxes levied to pay debt service on the Bonds may not be used for any other purpose and are not available to support general City operations. See "Property Taxation" below.

Pursuant to Section 53515 of the California Government Code, the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the ad valorem taxes levied for the Bonds. See "Statutory Lien on Taxes (Senate Bill 222)" below.

The Propositions require that all Loan Repayments received by the City will be used to pay debt service on general obligation bonds issued under the Propositions (including the Bonds), except for Loan Repayments received after the retirement of all general obligation bonds issued under the Propositions which may be used for any lawful purpose. See "THE BONDS – Authority for Issuance; Purposes" and "Flow of Funds Under the Resolutions – Loan Repayments" below.

Pursuant to the Resolutions, the City will pledge the Bond Account (as defined under "Flow of Funds Under the Resolutions") and all subaccounts and amounts on deposit therein for the payment of the principal of and interest on bonds issued under the Master Resolution (including the Bonds) when and as the same become due. See "Pledge" below.

### Flow of Funds Under the Resolutions

**Bond Account.** The Master Resolution provides that there will be established with the City Treasurer a special account to be designated as the "General Obligation Bonds (Prop A, 1992/Prop C, 2016) Bond Account" (the "Bond Account"). The Bond Account and all subaccounts therein will be administered by the City Treasurer with all disbursements of funds therefrom subject to authorization of the Controller. The Bond Account will be kept separate and apart from all other accounts, and each subaccount therein will be kept separate and apart from all other subaccounts. Pursuant to the applicable sale resolution, the Controller may establish such additional accounts and subaccounts within the Bond Account or with any agent, including but not limited to any paying agent or fiscal agent, as may be necessary or convenient in connection with the administration of any series of bonds issued under the Master Resolution, to provide for the payment of principal and interest on such series of bonds.

The City Treasurer will deposit in the Bond Account from the proceeds of sale of bonds issued pursuant to the Master Resolution, any moneys received on account of original issue premium and interest accrued on bonds issued under the Master Resolution to the date of payment of the purchase price thereof, and such other moneys, if any, as may be specified in the applicable sale resolution. So long as any of the bonds issued under the Master Resolution are outstanding, moneys in the Bond Account will be used and applied by the City Treasurer solely for the purpose of paying the principal of and interest on such bonds as such principal



and interest become due and payable, or for purchase of such bonds if permitted by the applicable sale resolution; provided, however, that when all of the principal of and interest on such bonds have been paid, any moneys then remaining in said Bond Account will be transferred to the City for any legally permitted purpose. The Board of Supervisors will take such actions annually as are necessary or appropriate to cause the debt service on the bonds issued under the Master Resolution due in any fiscal year to be included in the budget for such fiscal year and to make the necessary appropriations therefor.

Pursuant to the Master Resolution, all ad valorem taxes collected by the City for the payment of debt service on the Bonds as described herein will be deposited in a special subaccount within the Bond Account to be designated as the "Tax Revenues Subaccount."

Series 2019A Bond Subaccount. The Sale Resolution provides that there will be established with the City Treasurer a special subaccount in the Bond Account to be designated as the "General Obligation Bonds, Taxable Series 2019A Bond Subaccount" (the "Series 2019A Bond Subaccount"), to be held separate and apart from all other accounts of the City.

The Sale Resolution provides that (i) on or prior to the date on which any payment of principal of or interest on the Bonds is due, including any Bonds subject to mandatory redemption on said date, the City Treasurer will allocate to and deposit in the Series 2019A Bond Subaccount, first from amounts held in the Program Revenues Subaccount of the Bond Account, until such subaccount is exhausted, and second, from amounts held in the Tax Revenues Subaccount of the Bond Account, an aggregate amount which, when added to any available moneys contained in the Series 2019A Bond Subaccount, is sufficient to pay principal of and interest on the Bonds on such date, and (ii) on or prior to the date on which any Bonds are to be redeemed at the option of the City, the City Treasurer may allocate to and deposit in the Series 2019A Redemption Account, from amounts held in the Bond Account, an amount which, when added to any available moneys contained in the Series 2019A Redemption Account, is sufficient to pay principal, interest and premium, if any, with respect to such Bonds on such date. The City Treasurer may make such other provision for the payment of principal of and interest and any redemption premium on the Bonds as is necessary or convenient to permit the optional redemption of the Bonds.

Amounts in the Series 2019A Bond Subaccount may be invested in any investment of the City in which moneys in the General Fund of the City are invested. The City Treasurer may (i) commingle any of the moneys held in the Series 2019A Bond Subaccount with other City moneys or (ii) deposit amounts credited to the Series 2019A Bond Subaccount into a separate fund or funds for investment purposes only; provided, that all of the moneys held in the Series 2019A Bond Subaccount will be accounted for separately notwithstanding any such commingling or separate deposit by the City Treasurer. See APPENDIX C – "CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE TREASURER – INVESTMENT POLICY." All interest earned on amounts on deposit in the Series 2019A Bond Subaccount will be retained in the Series 2019A Bond Subaccount.

On the date of delivery of the Bonds, a portion of the proceeds of the Bonds will be deposited in the Series 2019A Bond Subaccount for the payment of capitalized interest on the Bonds will be used to make interest payments on the Bonds through and including [December 15, 2019]. See "SOURCES AND USES OF FUNDS" herein.

Loan Repayments. For the purpose of paying the principal of and interest on bonds issued under the Master Resolution (including the Bonds), the City will collect, until all such bonds are paid, or until there is a sum set apart for that purpose in the treasury of the City sufficient to meet all sums coming due for payment of principal of and interest on such bonds, all Loan Repayments. All Loan Repayments collected by the City will be deposited in a special subaccount to be designated as the "Program Revenues Subaccount," which will be a subaccount within the Bond Account.

**So long as any bonds issued under the Master Resolution are outstanding, moneys in the Program Revenues Subaccount will be used and applied by the City Treasurer solely for the purpose of paying the principal of and interest on such bonds as such principal and interest will become due and payable, or for purchase of bonds if permitted by the applicable sale resolution;** provided, however, that when all of the principal of and interest on such bonds have been paid, any moneys then remaining in said Program Revenues Subaccount will be transferred to the City for any legally permitted purpose. The City Treasurer will utilize available moneys on deposit in the Program Revenues Subaccount to pay principal and interest on bonds issued under the Master Resolution (including the Bonds) before using moneys on deposit in the Tax Revenues Subaccount for such purpose.

*Interest.* On or before June 15 and December 15 in each year that any of the bonds issued under the Master Resolution are outstanding (or, for any series of bonds bearing interest at variable rates, on such other dates as may be provided by the applicable sale resolution), the City Treasurer will set aside in the Bond Account and the appropriate subaccounts therein relating to each series of the bonds an amount which, when added to the amount contained in the Bond Account and subaccounts therein on that date, if any, will be equal to the aggregate amount of the interest becoming due and payable on each series of such bonds outstanding on such interest payment date.

*Principal.* On or before June 15 in each year that any of the bonds issued under the Master Resolution are outstanding, the City Treasurer will set aside in the Bond Account and the appropriate subaccounts therein relating to each series of such bonds an amount which will be equal to the principal on each series of such bonds outstanding that will become due and payable on said June 15, including those bonds subject to mandatory redemption on such date pursuant to the provisions of the applicable sale resolution.

All moneys in the Bond Account will be used and withdrawn by the City Treasurer solely for the purpose of paying the principal of and interest on each series of bonds issued under the Master Resolution as the same become due and payable. On June 15 and December 15 in each year that any such bond is outstanding, the City Treasurer will allocate, transfer and apply to the various subaccounts in the Bond Account created pursuant to the applicable sale resolution, on such date on which payment of principal or interest on any series of bonds is due, from moneys on deposit in the Bond Account, an amount equal to the amount of principal of, premium, if any, or interest due on said date with respect to each series of the bonds then outstanding. Unless other provision is made pursuant to the Master Resolution for the payment of any bond, all amounts held in the various subaccounts of the Bond Account created pursuant to a sale resolution will be used and applied by the City Treasurer to pay principal of, premium, if any, and interest due on the series of the bonds to which such subaccount relates, as and when due.

### **Pledge**

Pursuant to the Resolutions, the City will pledge the Bond Account and all subaccounts and amounts on deposit therein for the payment of the principal of and interest on bonds issued under the Master Resolution (including the Bonds) when and as the same become due, including the principal of any term bonds required to be paid upon the mandatory sinking fund redemption thereof. In addition, the payment of such principal and interest will be secured by the statutory lien of California Government Code Section 53515, to the extent applicable to the amounts of ad valorem taxes on deposit in the Bond Account. Each and every series of bonds issued under the Master Resolution will be equally and ratably secured by this pledge, the foregoing statutory lien, and the taxes collected as described above.

### **Statutory Lien on Taxes (Senate Bill 222)**

Pursuant to Section 53515 of the California Government Code, the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the ad valorem taxes levied for the Bonds. Section 53515 of the California Government Code provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board, and will be valid

and binding from the time such bonds are executed and delivered. Section 53515 of the California Government Code further provides that the revenues received pursuant to the levy and collection of the tax will be immediately subject to the lien, and the lien will immediately attach to the revenues and be effective, binding and enforceable against the local agency, its successor, transferees and creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for physical delivery, recordation, filing or further act. See "CERTAIN RISK FACTORS – Limitation on Remedies; Bankruptcy."

In addition to the ad valorem taxes levied for the Bonds, the Bonds are payable from Loan Repayments collected by the City.

### **Property Taxation**

*General.* The City levies property taxes for general operating purposes as well as for the payment of voter-approved general obligation bonds. Taxes levied to pay debt service for general obligation bonds may only be applied for that purpose. 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. Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the City. At the start of fiscal year 2018-19, the total net assessed valuation of taxable property within the City was approximately \$259.3 billion. For additional information on the property taxation system, assessed values and appeals to assessed values, see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – PROPERTY TAXATION."

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<sup>th</sup>, the City Controller issues a Certificate of Assessed Valuation in August which certifies the taxable assessed value for that fiscal year. The Controller also compiles a schedule of tax rates including the 1.0% tax authorized by Article XIII A of the State Constitution (and mandated by statute), tax surcharges needed to repay voter-approved general obligation bonds, and tax surcharges imposed by overlapping jurisdictions that have been authorized to levy taxes on property located in the City. The Board of Supervisors approves the schedule of tax rates each year by ordinance adopted no later than the last working day of September. The Treasurer and Tax Collector prepare and mail tax bills to taxpayers and collect the taxes on behalf of the City and other overlapping taxing agencies that levy taxes on taxable property located in the City. The Treasurer holds and invests City tax funds, including taxes collected for payment of general obligation bonds, and is charged with payment of principal and interest on such bonds when due.

Of the \$259.3 billion total net assessed valuation of taxable property within the City, \$244.9 billion (94.4%) represents secured valuations and \$14.4 billion (5.6%) represents unsecured valuations. Proposition 13 limits to 2% per year any increase in the assessed value of property, unless it is sold or the structure is improved. The total net assessed valuation of taxable property therefore does not generally reflect the current market value of taxable property within the City and is in the aggregate substantially less than current market value. For this same reason, the total net assessed valuation of taxable property lags behind changes in market value and may continue to increase even without an increase in aggregate market values of property.

Under Article XIII A of the State Constitution added by Proposition 13 in 1978, property 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. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year.

In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Historical information on refunds of prior years' property taxes from the discretionary General Fund appeals reserve fund are listed in Table A-6 of Appendix A attached hereto.

**Tax Levy and Collection Process.** Generally, property taxes levied by the City on real property becomes 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.

**Teeter Plan.** In October 1993, the Board of Supervisors of the City passed a resolution that adopted the Alternative Method of Tax Apportionment (the "Teeter Plan"). 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. 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. Information on this Reserve is as shown on Table A-7 in Appendix A attached hereto.

**Taxation of 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 2018-19 valuation of property assessed by the State Board of Equalization is \$3.7 billion.

## CERTAIN RISK FACTORS

### Factors Affecting Property Tax Security for the Bonds

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

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

**Total Assessed Value of Taxable Property in the City.** The greater the assessed value of taxable property in the City, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on bonds. The net total assessed valuation of taxable property in the City in fiscal year 2018-19 is approximately \$259.3 billion. During economic downturns, declining market values of real estate, increased foreclosures, and increases in requests submitted to the Assessor and the Assessment Appeals Board for reductions in assessed value have generally caused a reduction in the assessed value of some properties in the City. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – PROPERTY TAXATION – Assessed Valuations, Tax Rates and Tax Delinquencies."

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

**Concentration of Taxable Property Ownership.** The more property (by assessed value) owned by any single assessee, the more exposure of tax collections to weakness in that taxpayer's financial situation and ability or willingness to pay property taxes. As of July 1, 2018, no single assessee owned more than \_\_\_\_\_% of the total taxable assessed value in the City. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – PROPERTY TAXATION – Tax Levy and Collection."

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

**Debt Burden on Owners of Taxable Property in the City.** Another measure of the debt burden on local taxpayers is total debt as a percentage of taxable property value. Issuance of general obligation bonds by the City is limited under Section 9.106 of the Charter to 3.00% of the assessed value of all taxable real and personal property located within the City's boundaries. For purposes of this provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner

exemptions. On this basis, the City's gross general obligation debt limit for fiscal year 2018-19 is approximately \$7.8 billion, based on a net total assessed valuation of approximately \$259.3 billion. As of \_\_\_\_\_, the City had outstanding approximately \$\_\_\_\_\_ billion in aggregate principal amount of general obligation bonds, which equals approximately \_\_\_\_\_% of the net assessed valuation for fiscal year 2018-19. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS."

**Additional Debt; Authorized but Unissued Bonds.** Issuance of additional authorized bonds can cause the overall property tax rate to increase. As of \_\_\_\_\_, the City had voter approval to issue up to \$\_\_\_\_\_ billion in additional aggregate principal amount of new bonds payable from *ad valorem* property taxes. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – General Obligation Bonds." In addition, the City expects that it will propose further bond measures to the voters from time to time to help meet its capital needs. The City's most recent adopted 10-year capital plan sets forth \$[35.2] billion of capital needs for all City departments. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – Capital Plan."

### City Long-Term Financial Challenges

The following discussion highlights certain long-term challenges facing the City and is not meant to be an exhaustive discussion of challenges facing the City. Notwithstanding the City's strong economic and financial performance during the recent recovery and despite significant City initiatives to improve public transportation systems, expand access to healthcare and modernize parks and libraries, the City faces several long-term financial challenges and risks described below.

Significant capital investments are proposed in the City's adopted 10-year capital plan. However identified funding resources are below those necessary to maintain and enhance the City's physical infrastructure. As a result, over \$[11] billion in capital needs are deferred from the capital plan's 10-year horizon. Over two-thirds of these unfunded needs relate to the City's transportation and waterfront infrastructure, where state of good repair investment has lagged for decades.

In addition, the City faces long term challenges with respect to the management of pension and post-employment retirement obligations. The City has taken significant steps to address long-term unfunded liabilities for employee pension and other post-employment benefits, including retiree health obligations, yet significant liabilities remain. In recent years, the City and voters have adopted significant changes that should mitigate these unfunded liabilities over time, including adoption of lower-cost benefit tiers, increases to employee and employer contribution requirements, and establishment of a trust fund to set-aside funding for future retiree health costs. The financial benefit from these changes will phase in over time, however, leaving ongoing financial challenges for the City in the shorter term. Further, the size of these liabilities is based on a number of assumptions, including but not limited to assumed investment returns and actuarial assumptions. It is possible that actual results will differ materially from current assumptions, and such changes in investment returns or other actuarial assumptions could increase budgetary pressures on the City.

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

There is no assurance that other challenges not discussed in this Official Statement may become material to investors in the future. For more information, see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017."

## Seismic Risks

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

In March 2015, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (U.S.G.S.), the California Geological Survey, and the Southern California Earthquake Center) reported that there is a 72% chance that one or more quakes of about magnitude 6.7 (the magnitude of the 1994 Northridge earthquake) or larger will occur in the San Francisco Bay Area before the year 2045. Such earthquakes may be very destructive. In addition to the potential damage to City-owned buildings and facilities (on which the City does not generally carry earthquake insurance), due to the importance of San Francisco as a tourist destination and regional hub of commercial, retail and entertainment activity, a major earthquake anywhere in the Bay Area may cause significant temporary and possibly long-term harm to the City's economy, tax receipts, and residential and business real property values.

In early 2016, the Port Commission of the City and County of San Francisco commissioned an earthquake vulnerability study of the Northern Waterfront Seawall. The three-mile Seawall was constructed over 100 years ago and sits on reclaimed land, rendering it vulnerable to seismic risk. The Seawall provides flood and wave protection to downtown San Francisco, and stabilizes hundreds of acres of filled land. Preliminary findings of the study indicate that a strong earthquake may cause most of the Seawall to settle and move outward toward the Bay, which would significantly increase earthquake damage and disruption along the waterfront. The Port Commission estimates that seismic retrofitting of the Seawall could cost as much as \$3 billion, with another \$2 billion or more needed to prepare the Seawall for rising sea levels. The study estimates that approximately \$1.6 billion in Port assets and \$2.1 billion of rents, business income, and wages are at risk from major damage to the Seawall.

*[To be updated – Tall Buildings Safety Strategy disclosure; other recent developments?]*

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

Numerous scientific studies on global climate change show that sea levels will rise given the increasing temperature of the oceans and growing ocean volume, as land ice melts and runs off into the ocean. Over the past century, the sea level has risen about eight inches around the San Francisco Bay and along the Pacific coast. Such scientific studies also project accelerating sea level rise due to climate change over the coming century. As a result, coastal areas like San Francisco are at risk of substantial flood damage over time and this will affect private development as well as public infrastructure, including roads, utilities, emergency services, schools and parks. The City could lose considerable tax revenues and many residents, businesses and governmental operations along the waterfront could be displaced.

The City, including its Port, Department of the Environment and various other departments and agencies, have been preparing for these impacts for many years and have issued a number of public reports. For example, in March 2016, the City released a report entitled "Sea Level Rise Action Plan," identifying geographic zones at risk of sea level rise and providing a framework for adaption strategies to confront these risks. That study shows an upper range of end-of-century projections for permanent sea level rise plus

temporary flooding due to 100-year storm of up to 108 inches above 2015 average high tide. [The City is working on a citywide adaption plan that will likely be finalized and released in the summer 2018. The goal of the adaption plan is to establish a long-term comprehensive planning framework, identify funding sources and prioritize investments.] *[Update?]*

In April 2017, the Working Group of the California Ocean Protection Council Science Advisory Team (in collaboration with several state agencies, including the California Natural Resource Agency, the Governor's Office of Planning and Research, and the California Energy Commission) published a report entitled "Rising Seas in California: An Update on Sea Level Rise Science" (the "Sea Level Rise Report") to provide a new synthesis of the state of science regarding sea level rise. The Sea Level Rise Report will provide the basis for State guidance to state and local agencies for incorporating sea-level rise into design, planning, permitting, construction, investment and other decisions. Among many findings, the Sea Level Rise Report indicates that the effects of sea level rise are already being felt in coastal California with more extensive coastal flooding during storms, period tidal flooding, and increased coastal erosion. In addition, the report notes that the rate of ice sheet loss from Greenland and Antarctic ice sheets pose a particular risk of sea level rise for the California coastline.

The City has already incorporated site specific adaption plans in the conditions of approval for certain large waterfront development projects, such as the Candlestick/Hunters Point Shipyard, Treasure Island, Pier 70 and Mission Rock projects. Also, the City has started the process of planning to fortify the Port's seawall from sea level rise, including an initial investment of about \$8 million during 2017-2018 and consideration of financing options. The City expects short term upgrades to cost over \$500 million and long term upgrades to cost more than \$5 billion.

A scientific report issued in March 2018 by professors at UC Berkeley and the University of Arizona suggests that flooding risk from climate change could be exacerbated in the San Francisco Bay Area due to the sinking of soil, known as subsidence. The risk of subsidence affects certain parts of San Francisco built on landfill as well as the San Francisco International Airport. Under the new projections in this report, damage due to flooding could be worse than estimated under earlier climate change studies.

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

[The City has filed a lawsuit against the five largest investor-owned oil companies that is pending in the United States District Court, Northern District of California, Case No. 3:17-cv-06012-WHA, entitled The People of the State of California, acting by and through the San Francisco City Attorney, Dennis J. Herrera, v. BP P.L.C, et al. In that lawsuit, the City Attorney is seeking to have the companies pay into an equitable abatement fund to help fund investment in sea level rise adaptation infrastructure. While the City believes that its claims are meritorious, the City can give no assurance regarding whether it will be successful and obtain the requested relief from the courts or contributions to the abatement fund from the defendant oil companies.] *[To be updated.]*



[On November 23, 2018, 13 federal departments and agencies and overseen by the U.S. Global Change Research Program released a report on climate change and its impact on, among others, the country's finances, infrastructure and natural resources.] *[Additional disclosure to come.]*

In November 2018, the voters of the City approved Proposition A, authorizing the City to issue \$425 million in bonds for the purpose of funding repairs and improvements to the Embarcadero Seawall and Embarcadero infrastructure and utilities for earthquake and flood safety. Proposition A is intended to fund the first of three repair and construction phases for the Embarcadero Seawall, which spans the northern shoreline of San Francisco from Fisherman's Wharf to China Basin. See [APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – General Obligation Bonds."]

### **Cybersecurity**

The City, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, "Systems Technology"). As a recipient and provider of personal, private, or sensitive information, the City has been the subject of cybersecurity incidents that have resulted in or could have resulted in adverse consequences to the City's Systems Technology and that required a response action to mitigate the consequences. For example, in November 2016, the San Francisco Metropolitan Transportation Agency (the "SFMTA") was subject to a ransomware attack which disrupted some of the SFMTA's internal computer systems. Although the attack did not interrupt Muni train services nor compromise customer privacy or transaction information, SFMTA took the precaution of turning off the ticket machines and fare gates in the Muni Metro subway stations from Friday, November 25 until the morning of Sunday, November 27.

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

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

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

## **Limitation on Remedies; Bankruptcy**

*General.* The rights of the owners of the Bonds are subject to limitations on legal remedies against the City, including applicable bankruptcy or similar laws affecting the enforcement of creditors' rights generally, now or hereafter in effect. Bankruptcy proceedings, if initiated, could subject the owners of the Bonds to judicial discretion and interpretation of their rights in bankruptcy proceedings or otherwise, and consequently may entail risks of delay, limitation or modification of the rights of the owners of the Bonds.

Bankruptcy courts are courts of equity and as such have broad discretionary powers. If the City were to become the debtor in a proceeding under Chapter 9 of the Bankruptcy Code, the parties to the proceedings may be prohibited from taking any action to collect any amount from the City (including ad valorem tax revenues or Loan Repayments) or to enforce any obligation of the City, without the bankruptcy court's permission. In such a proceeding, as part of its plan of adjustment in bankruptcy, the City may be able to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Bonds and other transaction documents related to the Bonds, as long as the bankruptcy court determines that the alterations are fair and equitable. In addition, in such a proceeding, as part of such a plan, the City may be able to eliminate the obligation of the City to raise taxes if necessary to pay the Bonds. There also may be other possible effects of a bankruptcy of the City that could result in delays or reductions in payments on the Bonds. Moreover, regardless of any specific adverse determinations in any City bankruptcy proceeding, the fact of a City bankruptcy proceeding, could have an adverse effect on the liquidity and market price of the Bonds.

As stated above, if the City were to go into bankruptcy, the bankruptcy petition would be filed under Chapter 9 of the Bankruptcy Code. Chapter 9 provides that it does not limit or impair the power of a state to control, by legislation or otherwise, a municipality or in such state in the exercise of the political or governmental powers of such municipality, including expenditures for such exercise. For purposes of the language of Chapter 9, the City is a municipality. State law provides that the ad valorem taxes levied to pay the principal and interest on the Bonds shall be used for the payment of principal and interest of the City's general obligation bonds and for no other purpose. If this restriction on the expenditure of such ad valorem taxes is respected in a bankruptcy case, then the ad valorem tax revenue could not be used by the City for any purpose other than to make payments on the Bonds. It is possible, however, that a bankruptcy court could conclude that the restriction should not be respected.

*Statutory Lien.* Pursuant to Section 53515 of the California Government Code (which became effective on January 1, 2016, as part of Senate Bill 222), the Bonds will be secured by a statutory lien on all revenues received pursuant to the levy and collection of the ad valorem taxes levied for the Bonds. Section 53515 provides that the lien will automatically arise, without the need for any action or authorization by the local agency or its governing board, and will be valid and binding from the time the bonds are executed and delivered. See "SECURITY FOR THE BONDS." Although a statutory lien would not be automatically terminated by the filing of a Chapter 9 bankruptcy petition by the City, the automatic stay provisions of the Bankruptcy Code would apply and payments that become due and owing on the Bonds during the pendency of the Chapter 9 proceeding could be delayed (unless the Bonds are determined to be secured by a pledge of "special revenues" within the meaning of the Bankruptcy Code and the pledged taxes are applied to pay the Bonds in a manner consistent with the Bankruptcy Code).

*Special Revenues.* If the tax revenues or the Loan Repayments that are pledged to the payment of the Bonds (see "SECURITY FOR THE BONDS") are determined to be "special revenues" within the meaning of the Bankruptcy Code, then the application in a manner consistent with the Bankruptcy Code of the pledged ad valorem revenues or Loan Repayments that are collected after the date of the bankruptcy filing should not be subject to the automatic stay. "Special revenues" are defined to include, among others, taxes specifically levied to finance one or more projects or systems of the debtor, but excluding receipts from general property, sales, or income taxes levied to finance the general purposes of the debtor. The City has specifically pledged the taxes and Loan Repayments for payment of the Bonds. Additionally, the ad valorem taxes levied for

payment of the Bonds are permitted under the State Constitution only where the applicable bond proposition is approved by at least two-thirds of the votes cast. State law prohibits the use of the tax proceeds for any purpose other than payment of the bonds and the bond proceeds can only be used to fund the acquisition or improvement of real property and other capital expenditures included in the proposition so such tax revenues appear to fit the definition of special revenues. However, there is no binding judicial precedent dealing with the treatment in bankruptcy proceedings of ad valorem tax revenues collected for the payments of bonds in California, so no assurance can be given that a bankruptcy court would not hold otherwise.

In addition, even if the ad valorem tax revenues or the Loan Repayments are determined to be “special revenues,” the Bankruptcy Code provides that special revenues can be applied to necessary operating expenses of the project or system, before they are applied to other obligations. This rule applies regardless of the provisions of the transaction documents. Thus, a bankruptcy court could determine that the City is entitled to use the ad valorem tax revenues or Loan Repayments to pay necessary operating expenses of the City before the remaining revenues are paid to the owners of the Bonds.

**Possession of Revenues; Remedies.** If the City goes into bankruptcy and has possession of tax revenues or Loan Repayments (whether collected before or after commencement of the bankruptcy), and if the City does not voluntarily pay such tax revenues or Loan Repayments to the owners of the Bonds, it is not entirely clear what procedures the owners of the Bonds would have to follow to attempt to obtain possession of such tax revenues or Loan Repayments, how much time it would take for such procedures to be completed, or whether such procedures would ultimately be successful.

#### **Other Events**

Seismic events, wildfires, tsunamis, and other natural or man-made events may adversely impact persons and property within San Francisco, and damage City infrastructure and adversely impact the City’s ability to provide municipal services. For example, in August 2013, a massive wildfire in Tuolumne County and the Stanislaus National Forest burned over 257,135 acres (the “Rim Fire”), which area included portions of the City’s Hetch Hetchy Project. The Hetch Hetchy Project is comprised of dams (including O’Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir which supplies 85% of San Francisco’s drinking water), hydroelectric generator and transmission facilities and water transmission facilities. *[RJ Comment: Describe condition of dams?]* Hetch Hetchy facilities affected by the Rim Fire included two power generating stations and the southern edge of the Hetch Hetchy Reservoir. There was no impact to drinking water quality. The City’s hydroelectric power generation system was interrupted by the fire, forcing the San Francisco Public Utilities Commission to spend approximately \$1.6 million buying power on the open market and using existing banked energy with PG&E. The Rim Fire inflicted approximately \$40 million in damage to parts of the City’s water and power infrastructure located in the region. In September 2010, a Pacific Gas and Electric Company (“PG&E”) high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. There are numerous gas transmission and distribution pipelines owned, operated and maintained by PG&E throughout the City.

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

#### **TAX MATTERS**

The interest on the Bonds is not intended by the City to be excluded from gross income for federal income tax purposes. However, in the opinion of Jones Hall, A Professional Law Corporation (“Co-Bond Counsel”), San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, interest on

the Bonds is exempt from California personal income taxes. The proposed form of opinion of Co-Bond Counsel with respect to the Bonds to be delivered on the date of issuance of the Bonds is set forth in APPENDIX F.

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

#### OTHER LEGAL MATTERS

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

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

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

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

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

Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling, Yocca, Carlson & Rauth, Newport Beach, California.

## PROFESSIONALS INVOLVED IN THE OFFERING

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

## ABSENCE OF LITIGATION

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

## CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for fiscal year 2018-19, which is due not later than March 26, 2020, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB"). The notices of enumerated events will be filed by the City with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the purchaser of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

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

## RATINGS

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

**UNDERWRITING**

The City has entered into a purchase contract with Citigroup Global Markets Inc., on behalf of itself and Loop Capital Markets and Raymond James & Associates (collectively, the "Underwriters") pursuant to which the Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City at the purchase price of \$\_\_\_\_\_ (being the principal amount of the Bonds of \$\_\_\_\_\_, plus net original issue premium of \$\_\_\_\_\_, and less an Underwriters' discount of \$\_\_\_\_\_). The Underwriters are obligated under the purchase contract to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold by the Underwriters to certain dealers and others at yields lower than the public offering yield indicated on the inside cover page hereof, and such public offering yield may be changed, from time to time, by the Underwriters.

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a Division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

**MISCELLANEOUS**

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

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

**CITY AND COUNTY OF SAN FRANCISCO**

By: \_\_\_\_\_  
Benjamin Rosenfield  
Controller

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO  
ORGANIZATION AND FINANCES

**APPENDIX B**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
OF THE CITY AND COUNTY OF SAN FRANCISCO  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**



APPENDIX C

CITY AND COUNTY OF SAN FRANCISCO  
OFFICE OF THE TREASURER  
INVESTMENT POLICY

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

§ \_\_\_\_\_  
CITY AND COUNTY OF SAN FRANCISCO  
GENERAL OBLIGATION BONDS  
(SOCIAL BONDS – AFFORDABLE HOUSING, 2016)  
SERIES 2019A

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

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

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

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

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

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

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

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

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

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

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

### **SECTION 3. Provision of Annual Reports.**

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s fiscal year (which is June 30), commencing with the report for the [2017-18] Fiscal Year (which is due not later than [March 27, 2019]), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the City, the City shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

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

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

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

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

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

**SECTION 5. Reporting of Significant Events.** *[NOTE: This list will be amended if the financing closes on or after February 27, 2019.]*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**SECTION 9. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual

Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

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

Date: February \_\_, 2019.

CITY AND COUNTY OF SAN FRANCISCO

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Benjamin Rosenfield  
Controller

Approved as to form:

DENNIS J. HERRERA  
CITY ATTORNEY

By: \_\_\_\_\_  
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

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

Name of City: CITY AND COUNTY OF SAN FRANCISCO

Name of Bond Issue: CITY AND COUNTY OF SAN FRANCISCO TAXABLE GENERAL  
OBLIGATION BONDS (SOCIAL BONDS – AFFORDABLE HOUSING, 2016)  
SERIES 2019A

Date of Issuance: February \_\_, 2019

NOTICE IS HEREBY GIVEN to the Municipal Securities Rulemaking Board that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated February \_\_, 2019. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

CITY AND COUNTY OF SAN FRANCISCO

By: \_\_\_\_\_ [to be signed only if filed]  
Title: \_\_\_\_\_

## APPENDIX E

### DTC AND THE BOOK ENTRY ONLY SYSTEM

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

#### **Information Furnished by DTC Regarding its Book-Entry Only System**

1. The Depository Trust Company ("DTC") will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial



Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX F

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

*[To come.]*

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**OFFICIAL NOTICE OF SALE**

and

**OFFICIAL BID FORM**

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

**CITY AND COUNTY OF SAN FRANCISCO  
TAXABLE GENERAL OBLIGATION BONDS (SOCIAL BONDS - AFFORDABLE  
HOUSING, 2016)  
SERIES 2019A**

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

SALE DATE:

\_\_\_\_\_, \_\_\_\_\_, 2019  
(Subject to postponement, cancellation, modification or amendment in accordance with this Official Notice of Sale)

TIME:

\_\_ : \_\_ a.m., California time

PLACE:

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

DELIVERY DATE:

\_\_\_\_\_, 2019\*

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\* Preliminary, subject to change.

OFFICIAL NOTICE OF SALE

§ \_\_\_\_\_ \*

CITY AND COUNTY OF SAN FRANCISCO  
TAXABLE GENERAL OBLIGATION BONDS (SOCIAL BONDS – AFFORDABLE  
HOUSING, 2016)  
SERIES 2019A

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

- Issue:** The Bonds are described in the City's Preliminary Official Statement for the Bonds dated \_\_\_\_\_, 2019 (the "Preliminary Official Statement").
- Time:** Bids for the Bonds must be received by the City by \_\_\_:\_\_\_ a.m., California time, on \_\_\_\_\_, 2019.
- Place:** Sealed, hand-delivered bids for the Bonds must be delivered to Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102. Instead of sealed, hand-delivered bids, bidders may submit electronic bids in the manner and subject to the terms and conditions described under "TERMS OF SALE—Form of Bids; Delivery of Bids" below, but no bid will be received after the time for receiving bids specified above.

THE RECEIPT OF BIDS ON \_\_\_\_\_, 2019, MAY BE POSTPONED OR CANCELLED AT OR PRIOR TO THE TIME BIDS ARE TO BE RECEIVED. NOTICE OF SUCH POSTPONEMENT OR CANCELLATION WILL BE COMMUNICATED BY THE CITY THROUGH THOMSON REUTERS AND BLOOMBERG BUSINESS NEWS (COLLECTIVELY, THE "NEWS SERVICES") AND/OR PARITY (AS DESCRIBED IN "TERMS OF SALE—FORM OF BIDS; DELIVERY OF BIDS" BELOW) AS SOON AS PRACTICABLE FOLLOWING SUCH POSTPONEMENT OR CANCELLATION. Notice of the new date and time for receipt of bids shall be given through Parity and/or the News Services as soon as practicable following a postponement and no later than 1:00 p.m., California time, on the business day preceding the new date for receiving bids.

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

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

(ii)  
Three Harbor Drive, Suite 101  
Sausalito, CA 94965  
Telephone: 650-996-5075  
Attention: Bryant Jenkins (email: [bjenkins@sperrycapital.com](mailto:bjenkins@sperrycapital.com))

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

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

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

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

#### **TERMS RELATING TO THE BONDS**

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

**TERMS OF SALE, BIDDING, AWARD AND CLOSING PROCEDURES FOR THE BONDS. THE DESCRIPTION OF THE BONDS CONTAINED IN THIS OFFICIAL NOTICE OF SALE IS QUALIFIED IN ALL RESPECTS BY THE DESCRIPTION OF THE BONDS CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT.**

Issue. The Bonds will be issued as fully registered bonds without coupons in book-entry form in denominations of \$5,000 or any integral multiple of that amount, as designated by the successful bidder (the “**Purchaser**”), all dated the date of delivery, which is expected to be \_\_\_\_\_, 2019. If the sale is postponed, notice of the new date of the sale will also set forth the new expected date of delivery of the Bonds.

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

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

- (i) each interest rate specified in any bid for the Bonds must be a multiple of 0.001% per annum;
- (ii) the maximum interest rate bid for any maturity shall not exceed 10% per annum;
- (iii) no Bond shall bear a zero rate of interest;
- (iv) each Bond shall bear interest from its dated date to its stated maturity date at the single rate of interest specified in the bid; and
- (v) all Bonds maturing at any one time shall bear the same rate of interest.

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

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

Principal Payments. The Bonds shall be serial and/or term Bonds, as specified by each bidder, and principal shall be payable on [June 15] of each year, commencing on [June 15, 2019], as shown below. Subject to the City’s right to modify or amend this Notice of Sale (see “**TERMS OF SALE—Right to Modify or Amend**”), the final maturity of the Bonds shall be [June 15, 20\_\_]. The principal amount of the Bonds maturing or subject to mandatory sinking

fund redemption in any year shall be in integral multiples of \$5,000. For any term Bonds specified, the principal amount for a given year may be allocated only to a single term Bond and must be part of an uninterrupted annual sequence from the first mandatory sinking fund payment to the term Bond maturity. The aggregate amount of the principal amount of the serial maturity or mandatory sinking fund payment for the Bonds is shown below for information purposes only. **Bidders for the Bonds will provide bids for all of the Bonds Principal Amounts.**

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

<u>Maturity</u> <u>Date</u> <u>(June 15)</u>	<u>Principal Amount*</u>
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TOTAL	\$ _____
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Adjustment of Principal Payments. The principal amounts set forth in this Official Notice of Sale reflect certain estimates of the City with respect to the likely interest rates of the winning bid and the premium contained in the winning bid. **The City reserves the right to change the principal payment schedule set forth above after the determination of the successful bidder, by adjusting one or more of the principal payments of the Bonds, in increments of \$5,000, as determined in the sole discretion of the City. Any such adjustment of principal payments with respect to the Bonds shall be based on the schedule of principal payments provided by the City to be used as the basis of bids for the Bonds. Any such adjustment will not change the average per Bond dollar amount of the underwriter's**

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\* Preliminary, subject to change.



discount. In the event of any such adjustment, no rebidding or recalculation of the bids submitted will be required or permitted and no successful bid may be withdrawn.

See also "TERMS OF SALE—Right to Modify or Amend," regarding the City's right to modify or amend this Official Notice of Sale in any respect including, without limitation, increasing or decreasing the principal amount of any serial maturity or mandatory sinking fund payment for the Bonds and adding or deleting serial or term maturity and mandatory sinking fund payment dates, along with corresponding principal amounts with respect thereto.

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

Redemption.

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

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

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

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

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

See the Preliminary Official Statement – “TAX MATTERS.”

#### TERMS OF SALE

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

Form of Bids; Delivery of Bids. Each bid for the Bonds must be: (1) for not less than all of the Bonds offered for sale, (2) unconditional, and (3) either submitted (i) on the Official Bid Form attached hereto as Exhibit A and signed by the bidder, or (ii) via Parity, along with a facsimile transmission by the winning bidder, after the verbal award, of the completed and signed applicable Official Bid Form conforming to the Parity bid, with any adjustments made by the City pursuant hereto, by not later than 11:00 a.m., California time, on the sale date. Electronic bids must conform to the procedures established by Parity. Sealed bids must be enclosed in a sealed envelope, delivered to the City at the address set forth on the cover and clearly marked “Bid for the City and County of San Francisco General Obligation Bonds” or words of similar import, as hereinafter described and received by 8:30 a.m., California time, on October 19, 2016, at the offices of the Office of Public Finance, c/o Ana Van Degna, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102; telephone: (415) 554-5956. No bid submitted to the City shall be subject to withdrawal or modification by the bidder.

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

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

Warnings Regarding Electronic Bids. Bids for the Bonds may be submitted electronically via Parity. The City will attempt to accommodate bids submitted electronically via Parity. However, the City does not endorse or encourage the use of such electronic bidding service. None of the City, the City Attorney, the Co-Municipal Advisors or Co-Bond Counsel assumes any responsibility for any error contained in any bid submitted electronically or for failure of any bid to be transmitted, received or opened by

the time for receiving bids, and each bidder expressly assumes the risk of any incomplete, illegible, untimely or nonconforming bid submitted by electronic transmission by such bidder, including, without limitation, by reason of garbled transmissions, mechanical failure, engaged telecommunications lines, or any other cause arising from submission by electronic transmission. The time for receiving bids will be determined by the City at the place of bid opening, and the City will not be required to accept the time kept by Parity.

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

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

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

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

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

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

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

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

Reoffering Prices and Certificate. The Purchaser of the Bonds must actually reoffer all of the Bonds to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers). As soon as is practicable, but not later than one hour after the award of the Bonds, the successful bidder shall provide to the City a completed certificate in the form attached hereto as Exhibit B (a "Reoffering Price

**Certificate**”), which will state the initial offering prices at which it has offered all of the Bonds of each maturity to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers), in a bona fide public offering. In addition, on the day prior to delivery of the Bonds, the Purchaser shall provide a Reoffering Price Certificate, which shall be dated the date of the closing and in a form and substance acceptable to and include such additional information as may be requested by Co-Bond Counsel, to the following:

- the City
  
- Jones Hall, A Professional Law Corporation  
475 Sansome Street, Suite 1700  
San Francisco, California 94111  
Fax: (415) 276-2088  
Attention: Scott R. Ferguson, Esq.  
Email: sferguson@joneshall.com
  
- Amira Jackmon, Attorney at Law  
2342 Shattuck Avenue, #816  
Berkeley, California 94704  
Fax: (510) 981-1646  
Attention: Amira Jackmon, Esq.  
Email: amira@jackmonlaw.com

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

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

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

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

for receiving bids. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice or the legality of the sale.

Postponement or Cancellation of Sale. The City may postpone or cancel the sale of the Bonds at or prior to the time for receiving bids. Notice of such postponement or cancellation shall be given through Parity and/or the News Services as soon as practicable following such postponement or cancellation. If a sale is postponed, notice of a new sale date will be given through Parity and/or the News Services as soon as practicable following a postponement and no later than 1:00 p.m., California time, on the business day preceding the new date for receiving bids. Failure of any potential bidder to receive notice of postponement or cancellation will not affect the sufficiency of any such notice.

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

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

#### CLOSING PROCEDURES AND DOCUMENTS

Delivery and Payment. **Delivery of the Bonds will be made through the facilities of DTC in New York, New York, and is presently expected to take place on or about \_\_\_\_\_, 2019\*.** Payment for the Bonds (including any premium) must be made at the time of delivery in immediately available funds to the City Treasurer. Any expense for making payment in immediately available funds shall be borne by the Purchaser. The City will deliver to the Purchaser, dated as of the delivery date, the legal opinions with respect to the Bonds described in APPENDIX F – "PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL" to the Preliminary Official Statement.

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

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\* Preliminary; subject to change.

jurisdiction in which such sale, offer or solicitation would be unlawful under the securities laws of the jurisdiction.

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

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

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

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

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

comply with applicable regulations. The cost for such additional copies will be paid by the Purchaser requesting such copies.

By submitting a bid for the Bonds, the Purchaser of the Bonds agrees: (1) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any supplements, (2) to promptly file a copy of the final Official Statement, including any supplements, with the Municipal Securities Rulemaking Board, and (3) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to the Purchaser, including, without limitation, the delivery of a final Official Statement, including any supplements, to each investor who purchases Bonds.

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

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

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

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

Continuing Disclosure. In order to assist bidders in complying with Rule 15c2-12, the City will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual



financial information, operating data and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

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

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

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

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

Dated: \_\_\_\_\_, 2019.

**EXHIBIT A**

BID TIME: \_\_\_ a.m. (California time) \_\_\_\_\_, \_\_\_\_\_, 2019

**OFFICIAL BID FORM FOR THE PURCHASE OF**  
**\$\_\_\_\_\_\***  
**CITY AND COUNTY OF SAN FRANCISCO**  
**TAXABLE GENERAL OBLIGATION BONDS (SOCIAL BONDS - AFFORDABLE HOUSING, 2016)**  
**SERIES 2019A**

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

BIDDING FIRM'S NAME: \_\_\_\_\_

Subject to the provisions and in accordance with the terms of the Official Notice of Sale, dated \_\_\_\_\_, 2019, which is incorporated herein and made a part of this proposal, we have reviewed the Preliminary Official Statement relating to, among other things, the above-referenced Bonds (the "Bonds") and hereby offer to purchase all of the \$\_\_\_\_\_ \* aggregate principal amount of the Bonds dated the date of their delivery on the following terms, including the submission of the required Good Faith Deposit in the amount of \$\_\_\_\_\_ by wire transfer; and to pay therefor the price of \$\_\_\_\_\_ (such amount being the "Purchase Price"), which is equal to the aggregate principal amount of the Bonds, plus a net original issue premium of \$\_\_\_\_\_. The Bonds shall mature and be subject to mandatory sinking fund redemption (if term bonds are specified below) in the amounts and years and bear interest at the rates per annum (in multiples of 1/8 or 1/20 of 1%), as set forth in the schedule below.

(Check one) <sup>(1)</sup>					(Check one) <sup>(1)</sup>				
Maturity Date (June 15)	Principal Payment†	Serial Maturity	Mandatory Sinking Fund Redemption	Interest Rate	Maturity Date (June 15)	Principal Payment†	Serial Maturity	Mandatory Sinking Fund Redemption	Interest Rate
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____

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

\_\_\_\_\_  
 Authorized Signatory  
 Title: \_\_\_\_\_  
 Phone Number: \_\_\_\_\_ True Interest Cost (optional and not binding): \_\_\_\_\_  
 Fax Number: \_\_\_\_\_

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

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

EXHIBIT B

CITY AND COUNTY OF SAN FRANCISCO  
TAXABLE GENERAL OBLIGATION BONDS (SOCIAL BONDS - AFFORDABLE  
HOUSING, 2016)  
SERIES 2019A

FORM OF REOFFERING PRICE CERTIFICATE

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

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

**A. Issue Price.**

1. All the Bonds of all maturities were actually offered by the Purchaser to the public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide offering at prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, those set forth in Schedule I attached hereto, which the Purchaser believes is not more than the fair market value of each maturity as of \_\_\_\_\_, 2019, the date of sale of the Bonds.

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

**B. Compensation.**

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

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

Dated: \_\_\_\_\_

[Sale Date]

By: \_\_\_\_\_  
(Name of Purchaser)

Execution by: \_\_\_\_\_

Type Name: \_\_\_\_\_

Title: \_\_\_\_\_

**SCHEDULE I**  
**CERTIFICATE OF PURCHASER**

<b>Maturity Dates (June 15)*</b>	<b>Principal Amount*</b>	<b>Interest Rate†</b>	<b>Offering Price or Yield†</b>
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\* Subject to adjustment in accordance with the Official Notice of Sale.

† To be completed by Purchaser.

**NOTICE OF INTENTION TO SELL**

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

**CITY AND COUNTY OF SAN FRANCISCO  
TAXABLE GENERAL OBLIGATION BONDS (SOCIAL BONDS – AFFORDABLE HOUSING,  
2016)  
SERIES 2019A**

NOTICE IS HEREBY GIVEN that the City and County of San Francisco (the “City”) intends to offer for public sale on \_\_\_\_\_, 2019, at \_\_\_\_\_ a.m. (California time), the general obligation bonds captioned above (the “Bonds”) by sealed bids at the Controller’s Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, City Hall, Room 336, San Francisco, California 94102, and by electronic bids through Ipreo LLC’s BiDCOMP™/PARITY® System (“Parity”).

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

The Bonds will be offered for public sale subject to the terms and conditions of the Official Notice of Sale, dated on or around \_\_\_\_\_, 2019 (the “Official Notice of Sale”) relating to the Bonds. Additional information regarding the proposed sale of the Bonds, including copies of the Preliminary Official Statement for the Bonds, dated on or around \_\_\_\_\_, 2019 (the “Preliminary Official Statement”), and the Official Notice of Sale, are expected to be available electronically at <http://www.clsprinting.com/preliminary-official/> on or around \_\_\_\_\_, 2019, and may also be obtained from either of the City’s Co-Municipal Advisors: (i) Ross Financial, 1736 Stockton Street, Suite 1, San Francisco, California 94133, telephone 415-912-5612, attention: Peter J. Ross (email: [rossfinancial@smkc.com](mailto:rossfinancial@smkc.com)); or (ii) Sperry Capital, Three Harbor Drive, Suite 101, Sausalito, CA 94965, telephone 650-996-5075, attention: Bryant Jenkins (email: [bjenkins@sperrycapital.com](mailto:bjenkins@sperrycapital.com)). Failure of any bidder to receive such notice shall not affect the legality of the sale.

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

Dated: \_\_\_\_\_, 2019

\* Preliminary, subject to change.

\$ \_\_\_\_\_  
CITY AND COUNTY OF SAN FRANCISCO  
GENERAL OBLIGATION BONDS  
(SOCIAL BONDS – AFFORDABLE HOUSING, 2016),  
SÉRIES 2019A

PURCHASE CONTRACT

\_\_\_\_\_, 2019

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

Ladies and Gentlemen:

The undersigned Citigroup Global Markets Inc. (the “Representative”), on its own behalf and as representative of Loop Capital Markets LLC and Raymond James & Associates, Inc. (together with the Representative, the “Underwriters”), offers to enter into the following agreement with the City and County of San Francisco (the “City”). Upon the acceptance of this offer by the City, this Purchase Contract will be binding upon the City and the Underwriters. This offer is made subject to the acceptance of this Purchase Contract by the City on or before 5:00 P.M. California time on the date hereof and, if not so accepted, will be subject to withdrawal by the Underwriters upon written notice (by facsimile transmission or otherwise) from the Representative delivered to the City at any time prior to the acceptance of this Purchase Contract by the City. If the Underwriters withdraw this offer, or the Underwriters’ obligation to purchase the general obligation bonds captioned above (the “Bonds”) is otherwise terminated pursuant to Section 8(c) hereof, then and in such case the City shall be without any further obligation to the Underwriters, including the payment of any costs set forth under Section 10(b) hereof, and the City shall be free to sell the Bonds to any other party.

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

Section 1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements set forth in this Purchase Contract, the Underwriters hereby jointly and severally agree to purchase from the City, and the City agrees to sell and deliver to the Underwriters, all (but not less than all) of the \$ \_\_\_\_\_ aggregate principal amount of Bonds.

The Bonds shall be dated the date of delivery thereof and shall have the maturities, subject to the right of prior prepayment, and bear interest at the rates per annum and have the yields all as set forth on Schedule I attached hereto. The purchase price for the Bonds shall be \$ \_\_\_\_\_, calculated as the aggregate principal amount of the Bonds in the amount of \$ \_\_\_\_\_, [plus/less] a net aggregate original issue [premium/discount] in the amount of \$ \_\_\_\_\_ and less

an aggregate underwriters' discount in the amount of \$ \_\_\_\_\_). The net purchase price due at Closing shall be \$ \_\_\_\_\_, which is the purchase price[ less the amount of the Good Faith Deposit of \$ \_\_\_\_\_ per Section 9 hereof].

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

Section 2. Official Statement. The City ratifies, approves and confirms the distribution of the Preliminary Official Statement with respect to the Bonds, dated \_\_\_\_\_, 2019 (together with the appendices thereto, any documents incorporated therein by reference, and any supplements or amendments thereto, the "Preliminary Official Statement"), in connection with the offering and sale of the Bonds by the Underwriters prior to the availability of the Official Statement. The City represents that the Preliminary Official Statement was deemed final as of its date for purposes of Rule 15c2-12 promulgated by the Securities and Exchange Corporation under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for the omission of offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery date, ratings and other terms of the Bonds depending on such matters.

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

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

- A resolution entitled "Resolution providing for the issuance of not to exceed \$[260,684,550] aggregate principal amount of City and County of San Francisco General Obligation Bonds (Proposition A, 1992/Proposition C, 2016); authorizing the issuance and sale of said bonds; providing for the levy of a tax to pay the principal and interest thereof; providing for the appointment of depositories and other agents for said bonds; providing for the establishment of accounts related thereto; adopting findings under the California Environmental Quality Act ("CEQA"), the CEQA Guidelines and San Francisco Administrative Code Chapter 31; finding that the proposed project is in conformity with the priority policies of Planning Code Section 101.1(8) and with the general plan consistency requirement of Charter Section 4.105 and Administrative Code



Section 2A.53; ratifying certain actions previously taken; and granting general authority to city officials to take necessary actions in connection with the issuance and sale of said bonds” adopted by the Board of Supervisors of the City (the “Board of Supervisors”) on \_\_\_\_\_, 2019 (the “Master Resolution”), and

- A resolution entitled “Resolution authorizing and directing the sale of not to exceed \$[75,000,000] aggregate principal amount of City and County of San Francisco General Obligation Bonds (Social Bonds - Affordable Housing, 2016), Series 2019A; prescribing the form and terms of said bonds; authorizing the issuance and delivery of said bonds; providing for the appointment of depositories and other agents for said bonds; providing for the establishment of accounts related to said bonds; authorizing the sale of said bonds by competitive or negotiated sale; approving the forms of Official Notice of Sale and Notice of Intention to Sell Bonds and directing the publication of the Notice of Intention to Sell Bonds; approving the form of Bond Purchase Contract; approving the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of said bonds; approving the form of the Continuing Disclosure Certificate; authorizing and approving modifications to documents; ratifying certain actions previously taken; and granting general authority to City officials to take necessary actions in connection with the authorization, issuance, sale, and delivery of said bonds” adopted by the Board of Supervisors on \_\_\_\_\_, 2019 (the “Sale Resolution”).

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

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

This Purchase Contract and the Continuing Disclosure Certificate are sometimes referred to in this Purchase Contract as the “City Documents.”

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

(a) The City has full legal right, power and authority to enter into the City Documents, to approve the Resolutions, and to observe, perform and consummate the covenants, agreements and transactions contemplated by the City Documents and the Resolutions; by all necessary official action of the City, the City has duly adopted the Resolutions prior to or concurrently with the acceptance hereof and has approved the Preliminary Official Statement and the Official Statement; the Resolutions are in full

force and effect and have not been amended, modified, rescinded or challenged by referendum; the City has duly authorized and approved the execution and delivery of, and the performance by the City of its obligations contained in, the Resolutions and the City Documents; the City has duly authorized and approved the execution and delivery of the Official Statement; and the City is in compliance in all material respects with the obligations in connection with the execution and delivery of the Bonds on its part contained in the Resolutions and the City Documents.

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

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

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

(e) If between the date of delivery of the Official Statement and the date that is twenty-five days after the end of the underwriting period (i) any event occurs or any fact or condition becomes known to the City that might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading, the City shall notify the Representative thereof, and (ii) if in the reasonable opinion of the City or the Representative such event, fact or condition requires the preparation and publication of a supplement or amendment to the Official Statement, the City will at its expense supplement or amend the Official Statement in a form and in a manner approved by the Representative, which approval shall not be unreasonably withheld.

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

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

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

required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

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

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

(k) The financial statements of the City for the fiscal year ended June 30, 2017, set forth as an Appendix to the Official Statement fairly present the financial position of the City as of the dates indicated and the results of its operations, the sources and uses of its cash and the changes in its fund balances for the periods therein specified to the extent included therein and, other than as set forth in the Official Statement, were prepared in conformity with generally accepted accounting principles applied on a consistent basis.

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

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

(n) Between the date hereof and the Closing Date, the City will not supplement or amend the City Documents, the Resolutions or the Official Statement in any respect that is material to the obligations of the City under this Purchase Contract without the prior written consent of the Representative, which consent shall not be unreasonably withheld.

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

(a) The Representative has been duly authorized to enter into this Purchase Contract and to act hereunder by and on behalf of the Underwriters. Any authority, discretion or other power conferred upon the Underwriters by this Purchase Contract may be exercised jointly by all of the Underwriters or by the Representative on their behalf.

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

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

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

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

Section 9. Closing. At [8:30] a.m., California time, on \_\_\_\_\_, 2019, or at such other time as shall have been mutually agreed upon by the City and the Representative (the "Closing Date" or the "Closing"), the City will deliver or cause to be delivered to the account of the Representative (through DTC) the Bonds duly executed on behalf of the City, together with the other certificates, opinions and documents set forth in Section 8(d); and the Representative will accept such delivery (through DTC) and pay by wire transfer the purchase price of the Bonds set forth in Section 1.

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

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

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

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

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

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

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

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

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

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

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

(i) there shall have occurred any materially adverse change in the affairs or financial condition of the City, except for changes which the Official Statement discloses are expected to occur;

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

(iii) any proceeding shall have been commenced or be threatened in writing by the SEC against the City;

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

(8) a letter of Stradling, Yocca, Carlson & Rauth, Underwriters' Counsel ("Underwriters' Counsel"), dated the Closing Date and addressed to the Underwriters in form and substance acceptable to the Underwriters;

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

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

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

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

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

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

from such failure are less than the amount of such liquidated damages and the City waives any right to claim actual damages resulting from such failure are greater than the amount of such liquidated damages.]

Section 12. Expenses.

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

(b) The Underwriters shall pay (from the expense component of the underwriting discount) all expenses incurred by the Underwriters in connection with the offering and distribution of the Bonds, including but not limited to: (i) all advertising expenses in connection with the offering of the Bonds; (ii) the costs of printing the Blue Sky memorandum used by the Underwriters, (iii) all out-of-pocket disbursements and expenses incurred by the Underwriters in connection with the offering and distribution of the Bonds, including the fees of the CUSIP Service Bureau for the assignment of CUSIP numbers; and (iv) all other expenses incurred by the Underwriters in connection with the offering and distribution of the Bonds, including the fees and disbursements of Underwriters' Counsel and the fees of Digital Assurance Certification, L.L.C. for a continuing disclosure compliance review. The Underwriters are required to pay fees to the California Debt and Investment Advisory Commission in connection with the offering of the Bonds. Notwithstanding that such fees are solely the legal obligation of the Underwriters, the City agrees to reimburse the Underwriters [(from the expense component of the underwriting discount)] for such fees.

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

Citigroup Global Markets Inc.  
One Sansome Street, 27th Floor  
San Francisco, CA 94104  
Attn: \_\_\_\_\_

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

Section 15. Mandatory City Contracting Provisions. The provisions set forth in Appendix A, attached hereto, are incorporated herein by this reference.

Section 16. Invalid or Unenforceable Provisions. In the event that any provision of this Purchase Contract shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Purchase Contract.

Section 17. Counterparts. This Purchase Contract may be executed by facsimile transmission and in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute the Purchase Contract by signing any such counterpart.

Section 18. Governing Law; Venue. This Purchase Contract shall be governed by and interpreted under the laws of the State of California. Venue for all litigation relative to the formation, interpretation and performance of this Purchase Contract shall be in the City and County of San Francisco.

Section 19. Arm's Length Transaction. The City acknowledges that (i) the purchase and sale of the Bonds pursuant to this Purchase Contract are arm's-length, commercial transactions between the City and the Underwriters, (ii) in connection with such transaction, each Underwriter is acting solely as a principal and not as a municipal advisor, financial advisor, agent or fiduciary of the City and may have financial and other interests that differ from those of the City, (iii) the Underwriters have not assumed any advisory or fiduciary responsibility to the City with respect to the transactions contemplated hereby and the discussions, undertakings and procedures leading thereto; and (iv) the City has consulted with its own legal and financial advisors in connection with the offering of the Bonds.

Section 20. Entire Agreement. This Purchase Contract is the sole agreement of the parties relating to the subject matter hereof and supersedes all prior understandings, writings, proposals, representations or communications, oral or written. This Purchase Contract may only be amended by a writing executed by the authorized representatives of the parties.

Section 21. Headings. The section headings in this Purchase Contract are inserted for convenience only and shall not be deemed to be a part hereof.

Section 22. This Purchase Contract shall become effective upon execution of the acceptance of this Purchase Contract by the City and shall be valid and enforceable as of the time of such acceptance.

Very truly yours,

CITIGROUP GLOBAL MARKETS INC., LOOP  
CAPITAL MARKETS LLC AND RAYMOND  
JAMES & ASSOCIATES, INC.

By: CITIGROUP GLOBAL MARKETS INC., as  
Representative

By: \_\_\_\_\_  
[Title]

CITY AND COUNTY OF SAN FRANCISCO

By: \_\_\_\_\_  
Deputy Controller

ACCEPTED at [\_\_\_\_\_] [a.m./p.m.] Pacific Time this \_\_\_ day of \_\_\_\_\_, 2019

APPROVED AS TO FORM:

DENNIS J. HERRERA,  
CITY ATTORNEY

By: \_\_\_\_\_  
MARK D. BLAKE  
Deputy City Attorney

**SCHEDULE 1**

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

**REDEMPTION PROVISIONS**

[TO COME]

## EXHIBIT A

### CITY CONTRACTING REQUIREMENTS

Each underwriter shall comply with the following provisions of this Purchase Contract as if set forth in the text thereof. Capitalized terms used but not defined in this exhibit shall have the meanings given in the Purchase Contract.

1. Nondiscrimination; Penalties.

(a) *Non Discrimination in Contracts.* Each Underwriter shall comply with the provisions of Chapters 12B and 12C of the San Francisco Administrative Code. Each Underwriter shall incorporate by reference in any subcontracts the provisions of Sections 12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code and shall require any subcontractors to comply with such provisions. Each Underwriter is subject to the enforcement and penalty provisions in Chapters 12B and 12C.

(b) *Nondiscrimination in the Provision of Employee Benefits. San Francisco Administrative Code 12B.2.* Each Underwriter does not as of the date of this Purchase Contract, and will not during the term of this Purchase Contract, in any of its operations in San Francisco, on real property owned by San Francisco, or where work is being performed for the City elsewhere in the United States, discriminate in the provision of employee benefits between employees with domestic partners and employees with spouses and/or between the domestic partners and spouses of such employees, subject to the conditions set forth in San Francisco Administrative Code Section 12B.2.

(c) *Condition to Contract.* As a condition to the Purchase Contract, each Underwriter shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (form HRC-12B-101) with supporting documentation and secure the approval of the form by the San Francisco Human Rights Commission.

2. MacBride Principles—Northern Ireland. The provisions of San Francisco Administrative Code §12F are incorporated by this reference and made part of this Purchase Contract. By entering into this Purchase Contract, each Underwriter confirms that it has read and understood that the City urges companies doing business in Northern Ireland to resolve employment inequities and to abide by the MacBride Principles, and urges San Francisco companies to do business with corporations that abide by the MacBride Principles.

3. Tropical Hardwood and Virgin Redwood Ban. Under San Francisco Environment Code Section 804(b), the City urges each Underwriter not to import, purchase, obtain, or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood or virgin redwood wood product.

4. Alcohol and Drug-Free Workplace. The City reserves the right to deny access to, or require each Underwriter to remove from, City facilities personnel of such Underwriter who the City has reasonable grounds to believe has engaged in alcohol abuse or illegal drug activity which in any way impairs the City's ability to maintain safe work facilities or to protect the health and well-being of City employees and the general public. The City shall have the right of

final approval for the entry or re-entry of any such person previously denied access to, or removed from, City facilities. Illegal drug activity means possessing, furnishing, selling, offering, purchasing, using or being under the influence of illegal drugs or other controlled substances for which the individual lacks a valid prescription. Alcohol abuse means possessing, furnishing, selling, offering, or using alcoholic beverages, or being under the influence of alcohol.

5. Compliance with Americans with Disabilities Act. Each Underwriter shall provide the services specified in the Purchase Contract in a manner that complies with the Americans with Disabilities Act (ADA), including but not limited to Title II's program access requirements, and all other applicable federal, state and local disability rights legislation.

6. Sunshine Ordinance. Each Underwriter acknowledges that this Purchase Contract and all records related to its formation, such Underwriter's performance of services provided under the Purchase Contract, and the City's payment are subject to the California Public Records Act, (California Government Code §6250 et. seq.), and the San Francisco Sunshine Ordinance, (San Francisco Administrative Code Chapter 67). Such records are subject to public inspection and copying unless exempt from disclosure under federal, state or local law.

7. Limitations on Contributions. By executing this Purchase Contract, each Underwriter acknowledges that it is familiar with section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or the board of a state agency on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. The prohibition on contributions applies to each prospective party to the contract; each member of each Underwriter's board of directors; each Underwriter's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in such Underwriter; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by such Underwriter. Each Underwriter must inform each such person of the limitation on contributions imposed by Section 1.126 and provide the names of the persons required to be informed to City.

8. Requiring Minimum Compensation for Covered Employees. Each Underwriter shall pay covered employees no less than the minimum compensation required by San Francisco Administrative Code Chapter 12P. Each Underwriter is subject to the enforcement and penalty provisions in Chapter 12P. By entering into this Purchase Contract, each Underwriter certifies that it is in compliance with Chapter 12P.

9. Requiring Health Benefits for Covered Employees. Each Underwriter shall comply with San Francisco Administrative Code Chapter 12Q. Each Underwriter shall choose and perform one of the Health Care Accountability options set forth in San Francisco



Administrative Code Chapter 12Q.3. Each Underwriter is subject to the enforcement and penalty provisions in Chapter 12Q.

10. Prohibition on Political Activity with City Funds. In performing the services provided under the Purchase Contract, each Underwriter shall comply with San Francisco Administrative Code Chapter 12G, which prohibits funds appropriated by the City for this Purchase Contract from being expended to participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure. Each Underwriter is subject to the enforcement and penalty provisions in Chapter 12G.

11. Nondisclosure of Private, Proprietary or Confidential Information. If this Purchase Contract requires the City to disclose "Private Information" to an Underwriter within the meaning of San Francisco Administrative Code Chapter 12M, each Underwriter shall use such information consistent with the restrictions stated in Chapter 12M and in this Purchase Contract and only as necessary in performing the services provided under the Purchase Contract. Each Underwriter is subject to the enforcement and penalty provisions in Chapter 12M.

In the performance of services provided under the Purchase Contract, each Underwriter may have access to the City's proprietary or confidential information, the disclosure of which to third parties may damage the City. If the City discloses proprietary or confidential information to an Underwriter, such information must be held by such Underwriter in confidence and used only in performing the Purchase Contract. Each Underwriter shall exercise the same standard of care to protect such information as a reasonably prudent contractor would use to protect its own proprietary or confidential information.

12. Consideration of Criminal History in Hiring and Employment Decisions. Each Underwriter agrees to comply fully with and be bound by all of the provisions of Chapter 12T, "City Contractor/Subcontractor Consideration of Criminal History in Hiring and Employment Decisions," of the San Francisco Administrative Code ("Chapter 12T"), including the remedies provided, and implementing regulations, as may be amended from time to time. The provisions of Chapter 12T are incorporated by reference and made a part of this Purchase Contract. The text of Chapter 12T is available on the web at <http://sfgov.org/olse/fco>. A partial listing of some of the Underwriters' obligations under Chapter 12T is set forth in this Section. Each Underwriter is required to comply with all of the applicable provisions of Chapter 12T, irrespective of the listing of obligations in this Section. Capitalized terms used in this Section and not defined in this Purchase Contract shall have the meanings assigned to such terms in Chapter 12T:

The requirements of Chapter 12T shall only apply to an Underwriter's operations to the extent those operations are in furtherance of the performance of this Purchase Contract, shall apply only to applicants and employees who would be or are performing work in furtherance of this Purchase Contract, and shall apply when the physical location of the employment or prospective employment of an individual is wholly or substantially within the City of San Francisco. Chapter 12T shall not apply when the application in a particular context would conflict with federal or state law or with a requirement of a government agency implementing federal or state law.

13. Submitting False Claims; Monetary Penalties. The full text of San Francisco Administrative Code §§ 21.35, including the enforcement and penalty provisions, is incorporated into this Purchase Contract. Under San Francisco Administrative Code §21.35, any contractor, subcontractor or consultant who submits a false claim shall be liable to the City for the statutory penalties set forth in that section. A contractor, subcontractor or consultant will be deemed to have submitted a false claim to the City if the contractor, subcontractor or consultant: (a) knowingly presents or causes to be presented to an officer or employee of the City a false claim or request for payment or approval; (b) knowingly makes, uses, or causes to be made or used a false record or statement to get a false claim paid or approved by the City; (c) conspires to defraud the City by getting a false claim allowed or paid by the City; (d) knowingly makes, uses, or causes to be made or used a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the City; or (e) is a beneficiary of an inadvertent submission of a false claim to the City, subsequently discovers the falsity of the claim, and fails to disclose the false claim to the City within a reasonable time after discovery of the false claim.

15. Conflict of Interest. By entering into the Purchase Contract, each Underwriter certifies that it does not know of any fact which constitutes a violation of Section 15.103 of the City's Charter; Article III, Chapter 2 of City's Campaign and Governmental Conduct Code; Title 9, Chapter 7 of the California Government Code (Section 87100 et seq.), or Title 1, Division 4, Chapter 1, Article 4 of the California Government Code (Section 1090 et seq.), and further agrees promptly to notify the City if it becomes aware of any such fact during the term of this Purchase Contract.

16. Assignment. The services provided under the Purchase Contract to be performed by each Underwriter are personal in character and neither this Purchase Contract nor any duties or obligations may be assigned or delegated by an Underwriter unless first approved by the City by written instrument executed and approved in the same manner as this Purchase Contract. Any purported assignment made in violation of this provision shall be null and void.

17. Food Service Waste Reduction Requirements. Each Underwriter shall comply with the Food Service Waste Reduction Ordinance, as set forth in San Francisco Environment Code Chapter 16, including but not limited to the provided remedies for noncompliance.

18. Cooperative Drafting. This Purchase Contract has been drafted through a cooperative effort of the City and the Underwriters, and all parties have had an opportunity to have the Purchase Contract reviewed and revised by legal counsel. No party shall be considered the drafter of this Purchase Contract, and no presumption or rule that an ambiguity shall be construed against the party drafting the clause shall apply to the interpretation or enforcement of this Purchase Contract.

19. Sugar-Sweetened Beverage Prohibition. Each Underwriter agrees that it will not sell, provide, or otherwise distribute Sugar-Sweetened Beverages, as defined by San Francisco Administrative Code Chapter 101, as part of its performance of this Purchase Contract.

20. First Source Hiring Program. Each Underwriter must comply with all of the provisions of the First Source Hiring Program, Chapter 83 of the San Francisco Administrative

Code, that apply to this Purchase Contract, and each Underwriter is subject to the enforcement and penalty provisions in Chapter 83.

21. Laws Incorporated by Reference. The full text of the laws listed in this Exhibit A, including enforcement and penalty provisions, are incorporated into this Purchase Contract by reference. The full text of the San Francisco Municipal Code provisions incorporated by reference in this Exhibit A are available at [www.sfgov.org](http://www.sfgov.org) under "Open Gov."

**EXHIBIT B**

**FORM OF CERTIFICATE OF THE CITY**

**§ \_\_\_\_\_  
CITY AND COUNTY OF SAN FRANCISCO  
GENERAL OBLIGATION BONDS  
(SOCIAL BONDS – AFFORDABLE HOUSING, 2016),  
SERIES 2019A**

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

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

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

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

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

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

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

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

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

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

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

Dated: \_\_\_\_\_, 2019.

Name

Office

Signature

EXHIBIT C

FORM OF OPINION OF CITY ATTORNEY

[to come]

**EXHIBIT D**

**FORM OF SUPPLEMENTAL OPINION OF CO-BOND COUNSEL**

[Closing Date]

City and County of San Francisco  
San Francisco, California

Citigroup Global Markets Inc.  
San Francisco, California

Re: City and County of San Francisco General Obligation Bonds (Social Bonds - Affordable Housing, 2016), Series 2019A

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance and delivery by the City and County of San Francisco (the "City") of \$ \_\_\_\_\_ aggregate principal amount of bonds of the City designated the "City and County of San Francisco General Obligation Bonds (Social Bonds - Affordable Housing, 2016), Series 2019A" (the "Bonds"), issued pursuant to the under the Constitution and laws of the State of California; Ordinance No. 217-92, adopted by the Board of Supervisors on July 13, 1992; a special election held on November 3, 1992, in which the requisite two-thirds of all voters voting on the proposition approved the issuance of the Bonds; Title 5, Division 2, Part 1, Chapter 3, Article 4.5 of the California Government Code; the City Charter; and Resolution No. \_\_\_\_-\_\_ and Resolution No. \_\_\_\_-\_\_, both adopted by the Board of Supervisors on \_\_\_\_\_, 20\_\_, and approved by the Mayor on \_\_\_\_\_, 20\_\_ (together, the "Resolutions"). The Bonds provide funds to (i) finance the construction, acquisition, improvement, rehabilitation, preservation and repair of affordable housing improvements, and (ii) pay costs incurred in connection with the issuance, sale and delivery of the Bonds.

We have examined the Resolutions, the Official Statement relating to the Bonds dated \_\_\_\_\_, 20\_\_ (the "Official Statement"), and such other certified proceedings, certificates and other papers as we deem necessary to render this opinion. We have assumed the genuineness of signatures on all documents and instruments, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies.

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

1. The delivery of the Official Statement has been duly authorized and approved by the City.



2. The statements set forth in the Official Statement under the captions "THE BONDS," "SECURITY FOR THE BONDS – General," and "TAX MATTERS," insofar as such statements purport to summarize certain provisions of the Bonds, are accurate in all material respects.

3. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended.

We express no view herein with respect to the laws of any jurisdiction other than the State of California and the Federal law of the United States of America (other than tax laws, as to which no view is expressed).

We are furnishing this letter in our capacity as co-bond counsel at the request of the City. This letter is for its benefit as such and is not to be used, circulated, published, quoted or otherwise referred to or relied upon by any person other than the City without our prior written consent. This letter is not intended to, and may not, be relied upon by owners of the Bonds.

This opinion is given as of the date hereof, is based upon the laws in effect on the date hereof and is subject to any change in such laws, including judicial and administrative interpretations thereof, which may occur or be reported subsequent to the date hereof. The only opinions rendered hereby shall be those expressly stated as such herein, and no opinion shall be implied or inferred as a result of anything contained herein or omitted herefrom. We assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO  
ORGANIZATION AND FINANCES

This Appendix contains information that is current as of August 1, 2018.

This Appendix A to the Official Statement of the City and County of San Francisco (the "City" or "San Francisco") 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. The information contained in this Official Statement, including this Appendix A, speaks only as of its date, and the information herein is subject to change. Prospective investors are advised to read the entire Official Statement to obtain information essential to make an informed investment decision.

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## 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, the voters of the City approved the current charter, which went into effect in most respects on July 1, 1996 (the "Charter").

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

Under its original charter, the City committed to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. In 1927, the City dedicated Mill's Field Municipal Airport at a site in what is now San Mateo County 14 miles south of downtown San Francisco, which would grow to become today's San Francisco International Airport (the "Airport"). In 1969, the City acquired the Port of San Francisco (the "Port") in trust from the State. Substantial expansions and improvements have been made to these enterprises since their original acquisition. The Airport, the Port, the Public Utilities Commission ("Public Utilities Commission") (which now includes the Water Enterprise, the Wastewater Enterprise and the Hetch Hetchy Water and Power Project), the Municipal Transportation Agency ("MTA") (which operates the San Francisco Municipal Railway or "Muni" and the Department of Parking and Traffic ("DPT"), including the Parking Authority and its five public parking garages), and the City-owned hospitals (San Francisco General and Laguna Honda), are collectively referred to herein as the "enterprise fund departments," as they are not integrated into the City's General Fund operating budget. However, certain of the enterprise fund departments, including San Francisco General Hospital, Laguna Honda Hospital and the MTA receive annually 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. Compared to the governance of the City prior to 1995, the

Charter concentrates relatively more power in the Mayor and Board of Supervisors. The Mayor appoints most commissioners subject to a two-thirds vote of the Board of Supervisors, unless otherwise provided in the Charter. The Mayor appoints each department head from among persons nominated to the position by the appropriate commission, and may remove department heads.

### Mayor

Mayor London Breed is the 45th Mayor of San Francisco and the first African-American woman to serve in such capacity. Mayor Breed won the June 4, 2018 special election to fulfill the remaining term of the late Mayor Edwin Lee, which ends on January 2020. Prior to her election, Mayor Breed served as Acting Mayor, leading San Francisco following the sudden passing of Mayor Lee. Mayor Breed has committed to addressing the most critical issues facing San Francisco residents. She intends to focus on providing care and shelter for the City's homeless population, creating more affordable housing opportunities for residents, improving public safety and supporting the San Francisco's education and public transportation systems. Mayor Breed served as a member of the Board of Supervisors for six years, including the last three years as President of the Board. During her time on the Board, Mayor Breed passed legislation to create more housing along transit corridors and prioritized residents for affordable housing opportunities in their communities. She helped to reform the City's emergency response systems, fought for funding for San Francisco's homelessness support network and enacted the strongest Styrofoam ban in the country.

### 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.

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO		
Board of Supervisors		
Name	First Elected or Appointed	Current Term Expires
Sandra Lee Fewer, <i>District 1</i>	2016	2021
Catherine Stefani, <i>District 2</i>	2018	2019
Aaron Peskin, <i>District 3</i>	2015	2021
Katy Tang, <i>District 4</i>	2013	2019
Vallie Brown, <i>District 5</i>	2018	2020
Jane Kim, <i>District 6</i>	2010	2019
Norman Yee, <i>District 7</i>	2012	2021
Rafael Mandelman, <i>District 8</i>	2018	2021
Hillary Rohen, <i>District 9</i>	2016	2021
Malia Cohen, Board President, <i>District 10</i>	2010	2019
Ahsha Safai, <i>District 11</i>	2016	2021

## Other Elected and Appointed City Officers

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

Carmen Chu was elected to a four-year term as Assessor-Recorder of the City in November 2014. The Assessor-Recorder administers the property tax assessment system of the City. Before becoming Assessor-Recorder, Ms. Chu was elected in November 2008 and November 2010 to the Board of Supervisors, representing the Sunset/Parkside District 4 after being appointed by then-Mayor Gavin Newsom in September 2007.

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

Benjamin Rosenfield was appointed to a ten-year term as Controller of the City by then-Mayor Newsom in March 2008, and was confirmed by the Board of Supervisors in accordance with the Charter. Mr. Rosenfield was recently reappointed by then-Mayor Mark Farrell to a new 10-year term as Controller, and his nomination was confirmed by the Board of Supervisors on May 1, 2018.

The City Controller is responsible for timely accounting, disbursement, and other disposition of City moneys, certifies the accuracy of budgets, estimates the cost of ballot measures, provides payroll services for the City's employees, and, as the Auditor for the City, directs performance and financial audits of City activities. Before becoming Controller, Mr. Rosenfield served as the Deputy City Administrator under former City Administrator Edwin Lee from 2005 to 2008. He was responsible for the preparation and monitoring of the City's ten-year capital plan, oversight of a number of internal service offices under the City Administrator, and implementing the City's 311 non-emergency customer service center. From 2001 to 2005, Mr. Rosenfield worked as the Budget Director for then-Mayor Willie L. Brown, Jr. and then-Mayor Newsom. As Budget Director, Mr. Rosenfield prepared the City's proposed budget for each fiscal year and worked on behalf of the Mayor to manage City spending during the course of each year. From 1997 to 2001, Mr. Rosenfield worked as an analyst in the Mayor's Budget Office and a project manager in the Controller's Office.

Naomi M. Kelly was appointed to a five-year term as City Administrator by then-Mayor Lee in February of 2012; following her brief role as Acting City Administrator. Ms. Kelly was re-appointed for a second five-year term on February 8, 2017. As City Administrator, Ms. Kelly has overall responsibility for the management and implementation of policies, rules and regulations promulgated by the Mayor, the Board of Supervisors and the voters. Ms. Kelly 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. Prior to her City Administrator position, Ms. Kelly was appointed City Purchaser and Director of the Office of Contract

Administration by Mayor Newsom. She previously served as Special Assistant in the Mayor's Office of Neighborhood Services, and the Office of Policy and Legislative Affairs, under Mayor Brown. She also served as the City's Executive Director of the Taxicab Commission. Ms. Kelly, a native San Franciscan, is the first woman and African American to serve as City Administrator of the City. She received her undergraduate and law degrees, respectively, from New York University and the University of San Francisco. Ms. Kelly is a member of the California State Bar.

## **CITY BUDGET**

### **Overview**

This section discusses the City's budget procedures.

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, and funds such departments and enterprise through its annual budget process. On July 24, 2018, the City adopted its two-year budget. The City's fiscal year 2018-19 adopted budget appropriates annual revenues, fund balance, transfers and reserves of approximately \$11.04 billion, of which the City's General Fund accounts for approximately \$5.51 billion. In fiscal year 2019-20 appropriated revenues, fund balance, transfers and reserves total approximately \$11.10 billion, of which \$5.52 billion represents the General Fund budget. For a further discussion of the fiscal years 2018-19 and 2019-20 adopted budgets, see "City Budget Adopted for Fiscal Years 2018-19 and 2019-20" herein.

Each year the Mayor prepares budget legislation for the City departments, which must be approved by the Board of Supervisors. Revenues consist largely of local property taxes, business taxes, sales taxes, other local taxes and charges for services. A significant portion of the City's revenues 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 of these factors are almost wholly outside the control of the Mayor, the Board of Supervisors and other City officials. In addition, the State Constitution limits the City's ability to raise taxes and property-based fees without a two-thirds 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.

### **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 City Controller's current Revenue Letter can be viewed online at [www.sfcontroller.org](http://www.sfcontroller.org). The Revenue Letter and other information from said website are not incorporated herein by reference. The City's Capital Planning Committee also reviews the proposed budget and provides recommendations based on the budget's conformance with the City's adopted ten-year capital plan. For a further discussion of the Capital Planning Committee and the City's ten-year capital plan, see "CAPITAL FINANCING AND BONDS – Capital Plan" herein.

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

The Annual 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 ordinance, the Charter directs the Mayor to promptly return the ordinance to the Board of Supervisors, accompanied by a statement indicating the reasons for disapproval and any recommendations which the Mayor may have. Any Annual Appropriation Ordinance so disapproved by the Mayor shall become effective only if, subsequent to its return, it is passed by a two-thirds vote of the Board of Supervisors.

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

### **Two-Year Budgetary Cycle**

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 five departments: the Airport, Child Support Services, the Port, the Public Utilities Commission and MTA. All other departments prepared balanced, rolling two-year budgets.
2. Five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The most recent five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the then-Mayor, Budget Analyst for the Board of Supervisors and Controller's Office on March 21, 2018, for fiscal year 2018-19 through fiscal year 2021-22. See "Five Year Financial Plan" 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 requires the City to adopt budgets consistent with these policies once approved. The Controller's Office may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent fiscal year.

4. The City is required to submit labor agreements for all public employee unions by May 15.

#### **Role of Controller; Budgetary Analysis and Projections**

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

In addition to the five year planning responsibilities discussed above, Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued the most recent of these reports, the fiscal year 2017-18 Nine Month Report (the "Nine Month Report"), on May 11, 2018. The City Charter also directs the Controller to annually report on the accuracy of economic assumptions underlying the revenue estimates in the Mayor's proposed budget. On June 12, 2018 the Controller released the Discussion of the Mayor's fiscal year 2018-19 and fiscal year 2019-20 Proposed Budget (the "Revenue Letter" as described in "Budget Process" above). All of these reports are available from the Controller's website: [www.sfcontroller.org](http://www.sfcontroller.org). The information from said website is not incorporated herein by reference.

#### **General Fund Results: Audited Financial Statements**

The General Fund portions of the fiscal year 2018-19 and 2019-20 Original Budgets total \$5.51 billion and \$5.52 billion, respectively, including appropriations, reserves, and transfers out. These amounts do not include expenditures of the enterprise fund departments such as the Airport, the MTA, the Public Utilities Commission, the Port and the City-owned hospitals (San Francisco General and Laguna Honda). Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2015-16 through 2016-17 and the Original Budgets for fiscal years 2017-18, 2018-19, and 2019-20. See "PROPERTY TAXATION –Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

The City's most recently completed Comprehensive Annual Financial Report (the "CAFR," which includes the City's audited financial statements) for fiscal year 2016-17 was issued on December 29, 2017. The fiscal year 2016-17 CAFR reported that as of June 30, 2017, the General Fund balance available for appropriation in subsequent years was \$545.9 million (see Table A-4), of which \$183.3 million was

assumed in the fiscal year 2017-18 Original Budget and \$288.2 million was assumed in the fiscal year 2018-19 Original Budget. This represents a \$110.7 million increase in available fund balance over the \$435 million available as of June 30, 2016 and resulted primarily from greater-than-budgeted additional tax revenue, particularly property, business and transfer tax revenues, partially offset by under performance in sales, hotel and parking tax revenues in fiscal year 2016-17.

TABLE A-2

CITY AND COUNTY OF SAN FRANCISCO  
Budgeted General Fund Revenues and Appropriations for  
Fiscal Years 2015-16 through 2019-20  
(000s)

	2015-16 Final Revised Budget	2016-17 Final Revised Budget	2017-18 Original Budget <sup>2</sup>	2018-19 Original Budget <sup>3</sup>	2019-20 Original Budget
Prior-Year Budgetary Fund Balance & Reserves	\$1,236,090	\$178,109	\$187,182	\$249,007	\$224,247
<u>Budgeted Revenues</u>					
Property Taxes	\$1,291,000	\$1,412,000	\$1,557,000	\$1,728,000	\$1,743,000
Business Taxes	634,460	669,450	750,820	879,380	914,710
Other Local Taxes	1,062,535	1,117,245	1,112,570	1,053,390	1,058,420
Licenses, Permits and Franchises	27,163	28,876	29,964	30,833	31,015
Fines, Forfeitures and Penalties	4,550	4,580	4,579	3,125	3,156
Interest and Investment Earnings	10,680	13,970	18,180	27,270	27,540
Rents and Concessions	15,432	16,140	14,088	14,769	15,016
Grants and Subventions	900,997	959,099	1,019,167	1,051,643	1,062,592
Charges for Services	219,628	236,102	242,817	261,294	247,781
Other	31,084	61,334	39,959	41,050	41,356
Total Budgeted Revenues	\$4,197,529	\$4,518,796	\$4,789,144	\$5,090,754	\$5,144,586
Bond Proceeds & Repayment of Loans	\$918	\$881	\$110	\$87	-
<u>Expenditure Appropriations</u>					
Public Protection	\$1,211,007	\$1,266,148	\$1,331,196	\$1,403,620	\$1,453,652
Public Works, Transportation & Commerce	138,288	166,295	170,949	183,703	170,150
Human Welfare & Neighborhood Development	892,069	978,126	995,230	1,053,814	1,083,329
Community Health	751,416	763,496	884,393	943,631	893,763
Culture and Recreation	125,253	139,473	162,622	165,784	166,575
General Administration & Finance	235,647	252,998	358,588	391,900	418,497
General City Responsibilities <sup>1</sup>	113,672	134,153	152,390	183,159	188,171
Total Expenditure Appropriations	\$3,467,352	\$3,700,689	\$4,055,368	\$4,325,611	\$4,374,137
Budgetary reserves and designations, net	\$9,907	\$9,868	\$58,730	\$21,410	\$14,200
Transfers In	\$235,416	\$246,779	\$171,122	\$170,671	\$153,213
Transfers Out	(962,511)	(857,528)	(1,033,460)	(1,164,612)	(1,134,320)
Net Transfers In/Out	(\$727,095)	(\$610,749)	(\$862,338)	(\$993,941)	(\$981,107)
Budgeted Excess (Deficiency) of Sources Over (Under) Uses	\$1,230,182	\$376,480	\$0	(1,113,075)	(\$611)
Variance of Actual vs. Budget	296,673	249,475			
Total Actual Budgetary Fund Balance <sup>3</sup>	\$1,526,855	\$625,955	\$0	(1,113,075)	(\$611)

<sup>1</sup> 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.

<sup>2</sup> Fiscal year 2017-18 Final Revised Budget will be available upon release of the fiscal year 2017-18 CAFR.

<sup>3</sup> Fiscal year 2018-19 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the previous year's Final Revised Budget.

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2017 was \$1.9 billion (as shown in Table A-3 and Table A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of \$4.5 billion. Audited General Fund balances are shown in Table A-3 on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2013 through June 30, 2017.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO  
Summary of Audited General Fund Balances  
Fiscal Years 2012-13 through 2016-17  
(000s)

	2012-13	2013-14	2014-15	2015-16	2016-17 <sup>1</sup>
Restricted for rainy day (Economic Stabilization account)	\$23,329	\$60,289	\$71,904	\$74,986	\$78,336
Restricted for rainy day (One-time Spending account)	3,010	22,905	43,065	45,120	47,353
Committed for budget stabilization (citywide)	121,580	132,264	132,264	178,434	323,204
Committed for Recreation & Parks expenditure savings reserve	15,907	12,862	10,551	8,736	4,403
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	\$74,815	\$92,269	\$137,641	\$190,965	\$244,158
Assigned for appropriation carryforward	112,327	159,345	201,192	293,921	434,223
Assigned for budget savings incentive program (Citywide)	24,819	32,088	33,939	58,907	67,450
Assigned for salaries and benefits	6,338	10,040	20,155	18,203	23,051
Total Fund Balance Not Available for Appropriation	\$382,125	\$522,062	\$650,711	\$869,272	\$1,222,178
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies	\$30,254	79,223	131,970	\$145,443	\$136,080
Assigned for General reserve	21,818	-	-	-	-
Assigned for subsequent year's budget	122,689	135,938	180,179	172,128	183,326
Unassigned for General Reserve	-	45,748	62,579	76,913	95,156
Unassigned - Budgeted for use second budget year	111,604	137,075	194,082	191,202	288,185
Unassigned - Contingency for second budget year	-	-	-	60,000	60,000
Unassigned - Available for future appropriation	6,147	21,656	16,569	11,872	14,409
Total Fund Balance Available for Appropriation	\$292,512	\$419,640	\$585,379	\$657,558	\$777,156
Total Fund Balance, Budget Basis	\$674,637	\$941,702	\$1,236,090	\$1,526,830	\$1,999,334
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$674,637	\$941,702	\$1,236,090	\$1,526,830	\$1,999,334
Unrealized gain or loss on investments	(1,140)	935	1,141	343	(1,197)
Nonspendable fund balance	23,854	24,022	24,786	522	525
Cumulative Excess Property Tax Revenues Recognized	(38,210)	(37,303)	(37,303)	(36,008)	(38,469)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(93,910)	(66,415)	(50,406)	(56,709)	(83,757)
Deferred Amounts on Loan Receivables	(20,067)	(21,670)	(23,212)	-	-
Pre-paid lease revenue	(4,293)	(5,709)	(5,900)	(5,816)	(5,733)
Total Fund Balance, GAAP Basis	\$540,871	\$835,562	\$1,145,196	\$1,429,162	\$1,870,703

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

<sup>1</sup> Fiscal year 2017-18 will be available upon release of the fiscal year 2017-18 CAFR.

Table A-4, entitled "Audited Statement of Revenues, Expenditures and Changes in General Fund Balances," is extracted from information in the City's CAFR for the five most recent fiscal years. Audited financial statements for the fiscal year ended June 30, 2017 are included herein as Appendix B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2017." Prior years' audited financial statements can be obtained from the City Controller's website. Information from the City Controller's website is not incorporated herein by reference. Excluded from this Statement of General Fund Revenues and Expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

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TABLE A-4

**CITY AND COUNTY OF SAN FRANCISCO**  
**Audited Statement of Revenues, Expenditures and Changes in General Fund Balances**  
**Fiscal Years 2012-13 through 2016-17<sup>1</sup>**  
**(000s)**

	2012-13	2013-14	2014-15	2015-16	2016-17 <sup>2</sup>
<b>Revenues:</b>					
Property Taxes	\$1,122,008	\$1,178,277	\$1,272,623	\$1,393,574	\$1,478,671
Business Taxes <sup>3</sup>	479,627	562,896	609,614	659,086	700,536
Other Local Taxes	756,346	922,205	1,085,381	1,054,109	1,203,587
Licenses, Permits and Franchises	26,273	26,975	27,789	27,909	29,336
Fines, Forfeitures and Penalties	6,226	5,281	6,369	8,985	2,734
Interest and Investment Income	2,125	7,866	7,867	9,613	14,439
Rents and Concessions	35,273	25,501	24,339	46,553	15,352
Intergovernmental	720,625	827,750	854,464	900,820	932,576
Charges for Services	164,391	180,850	215,036	233,976	220,877
Other	14,142	9,760	9,162	22,291	38,679
<b>Total Revenues</b>	<b>\$3,327,036</b>	<b>\$3,747,361</b>	<b>\$4,112,644</b>	<b>\$4,356,916</b>	<b>\$4,636,787</b>
<b>Expenditures:</b>					
Public Protection	\$1,057,451	\$1,096,839	\$1,148,405	\$1,204,666	\$1,257,948
Public Works, Transportation & Commerce	68,014	78,249	87,452	136,762	166,285
Human Welfare and Neighborhood Development	660,657	720,787	786,362	853,924	956,478
Community Health	634,701	668,701	650,741	666,138	600,067
Culture and Recreation	105,870	113,019	119,278	124,515	139,368
General Administration & Finance	186,342	190,335	208,695	223,844	238,064
General City Responsibilities	81,657	86,968	98,620	114,663	121,444
<b>Total Expenditures</b>	<b>\$2,794,692</b>	<b>\$2,954,898</b>	<b>\$3,099,553</b>	<b>\$3,324,512</b>	<b>\$3,479,654</b>
Excess of Revenues over Expenditures	\$532,344	\$792,463	\$1,013,091	\$1,032,404	\$1,157,133
<b>Other Financing Sources (Uses):</b>					
Transfers In	\$195,272	\$216,449	\$164,712	\$209,494	\$140,272
Transfers Out	(646,912)	(720,806)	(873,741)	(962,343)	(857,629)
Other Financing Sources	4,442	6,585	5,572	4,411	1,765
Other Financing Uses	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(\$447,198)</b>	<b>(\$497,772)</b>	<b>(\$703,457)</b>	<b>(\$748,438)</b>	<b>(\$715,592)</b>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$85,146	\$294,691	\$309,634	\$283,966	\$441,541
<b>Total Fund Balance at Beginning of Year</b>	<b>\$455,725</b>	<b>\$540,871</b>	<b>\$835,562</b>	<b>\$1,145,196</b>	<b>\$1,429,162</b>
<b>Total Fund Balance at End of Year – GAAP Basis<sup>4</sup></b>	<b>\$540,871</b>	<b>\$835,562</b>	<b>\$1,145,196</b>	<b>\$1,429,162</b>	<b>\$1,870,703</b>
<b>Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End</b>					
– GAAP Basis	\$135,795	\$178,066	\$234,273	\$249,238	\$273,827
– Budget Basis	\$240,410	\$294,669	\$390,830	\$435,202	\$545,920

## Five-Year Financial Plan

The Five-Year Financial Plan ("Plan") is required under Proposition A. 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. The City currently updates the Plan annually.

On March 21, 2018 (the "March 2018 Update"), the Mayor, Budget Analyst for the Board of Supervisors, and the Controller's Office issued an update to the Plan, which projects annual shortfalls of \$37.9 million, \$99.0 million, \$521.0 million, and \$651.9 million cumulative for fiscal years 2018-19 through 2021-22, respectively.

The updated Plan projects growth over a four-year period in General Fund revenues of 9%, primarily composed of growth in local tax sources. The revenue growth is offset by projected expenditure increases of 22% over the same period, primarily composed of growth in employee wages and health care costs, citywide operating expenses, and Charter mandated baselines and reserves. The City currently projects growth in General Fund sources of \$488.7 million over the Plan period, and expenditure growth of \$1.14 billion. Growth in salaries and benefits accounts for 47% or \$531.2 million of the cumulative four year shortfall. Growth in citywide operating costs accounts for 25% or \$283 million of the cumulative four year shortfall. Growth in Charter mandated baselines and reserves accounts for 17% or \$190.7 million of the cumulative four year shortfall. Growth in individual department costs account for 12% or \$135.6 million of the cumulative four year shortfall. These figures incorporate the key assumptions from the March 2018 Update, including:

- **Continued Increases in Employer Contribution Rates to City Retirement System:** Consistent with the prior plan, the March 2018 Update anticipates increased retirement costs. The increase in employer contribution rates is due to three main factors: lower than expected actual fiscal year 2016-17 investment earnings; updated demographic assumptions, which show that retirees are living longer and collecting pensions longer than previously expected; and an appellate court ruling against the City which found that voter-adopted changes to the conditions under which retirees could receive a supplemental COLA violated retirees' vested rights.
- **Continued Increases in Wages and Health Care Costs:** The March 2018 Update incorporates the cost of contract extensions for most miscellaneous employees, as negotiated for fiscal years 2017-18 and 2018-19, with most labor unions. The parties agreed to a wage increase schedule of 3% on July 1, 2017 and 3% on July 1, 2018, with a provision to delay the fiscal year 2018-19 adjustment by six months if the City's deficit, as projected in the March 2018 Update to the Five-Year Financial Plan, exceeds \$200 million.

The March 2018 Update assumes employer share of health and dental insurance costs for active employees will increase by 6% in fiscal year 2018-19 and 8% in each subsequent fiscal year. This is a significant increase from the proposed Plan projection in December 2014, which anticipated approximately 5% growth in the employer share of health and dental rates. The March 2018 Update also assumes retiree health costs, to increase by 9% in each year of projection:

- **Voter Adopted Revenue and Spending Requirements:** The March 2018 Update continues to assume several new revenue and expenditure requirements adopted by voters in 2016: a Recreation and Parks baseline (June 2016 Proposition B), a Dignity Fund baseline (November

2016 Proposition I), and a Street Tree Maintenance Fund baseline (November 2016 Proposition E). In addition to these spending requirements, the voters adopted an increase to the Real Property Transfer Tax rate (November 2016 Proposition W) and a tax on the distribution of sugar-sweetened beverages (November 2016 Proposition V).

- **In-Home Supportive Services (IHSS) Cost Shift:** IHSS is an entitlement program which provides homecare services to 22,000 elderly and disabled San Franciscans, allowing them to stay in their homes rather than move into more costly nursing facilities or other programs. It is funded by federal, state, and county sources. Due to changes in the fiscal year 2017-18 Enacted State budget, significant costs for this program were shifted from the state to counties. The City's fiscal year 2017-18 and 2018-19 adopted budgets, assumed cost increases of \$11.1 million in fiscal year 2017-18 and \$16.9 million in fiscal year 2018-19, as compared to prior budget projections. As more detail has been released by the State, the March 2018 Update adds an additional cost of \$11.1 million in fiscal year 2017-18, bringing the total cost growth in that year to \$22.3 million above prior projections. The cost shift continues to grow in fiscal year 2018-19 to \$37.9 million, \$60.8 million in fiscal year 2019-20, \$74.2 million in fiscal year 2020-21, and \$84.8 million in fiscal year 2021-22.

Beyond the IHSS Cost Shift, the March 2018 Update does not assume any losses of federal or state revenues, except for formula-driven reductions. Although proposals that would have significant negative impact on the City budget are pending at the state and federal level, it is unclear which will ultimately be adopted and what the specific impacts will be.

While the projected shortfalls in the March 2018 Update reflect the difference in projected revenues and expenditures over the next four years if current service levels and policies continue, the Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and/or additional revenues. These projections assume no ongoing solutions are implemented. To the extent budgets are balanced with ongoing solutions, future shortfalls will decrease.

The March 2018 Update does not assume an economic downturn due to the difficulty of predicting recessions; however, the City has historically not experienced more than six consecutive years of economic expansion, and the current economic expansion began over eight years ago.

The recently adopted fiscal year 2018-19 and 2019-20 budget closes the deficits identified in the projections.

#### **City Budget Adopted for Fiscal Years 2018-19 and 2019-20**

On July 31, 2018, Mayor Breed signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for the fiscal years ending June 30, 2019 and June 30, 2020. This is the seventh two-year budget for the entire City. The adopted budget closed the \$38 million and \$99 million General Fund shortfalls for fiscal years 2018-19 and 2019-20 identified in the City's March 31, 2018 update to the Five-Year Financial Plan through a combination of increased revenues and expenditures savings.

The Original Budget for fiscal year 2018-19 and fiscal year 2019-20 totals \$11.04 billion and \$11.10 billion respectively, representing a year over year increase of \$920 million in fiscal year 2018-19 and year over year increase of \$59 million in fiscal year 2019-20. The General Fund portion of each year's budget is \$5.52 billion in fiscal year 2018-19 and \$5.51 billion in fiscal year 2019-20 representing year over year increases of \$364 million and \$11 million. There are 31,220 funded full time positions in the



fiscal year 2018-19 Original Budget and 31,579 in the fiscal year 2019-20 Original Budget representing year-over-year increases of 385 and 359 positions, respectively.

### **Other Budget Updates**

On June 12, 2018, the Controller's Office issued the Controller's Discussion of the Mayor's fiscal year 2018-19 and fiscal year 2019-20 Proposed Budget ("Revenue Letter"). The report found that the revenue assumptions in the proposed and now-adopted budget are reasonable, voter-required baseline and set-aside requirements are met or exceeded, and that code-mandated reserves and funded and maintained at required levels.

The letter also certified that the Original Budget for fiscal years 2018-19 and 2019-20 adheres to the City's policy limiting the use of certain nonrecurring revenues to nonrecurring expenses. The policy can only be suspended for a given fiscal year by a two-thirds vote of the Board. Specifically, this policy limited the Mayor and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance (defined as General Fund prior year unassigned fund balance before deposits to the Rainy Day Reserve or Budget Stabilization Reserve in excess of the average of the previous five years), the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves, acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long term obligations.

### **Impact of June 5, 2018 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) 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 ("Proposition C") and a Parcel Tax for the San Francisco Unified School District ("Proposition G" and, together with Proposition C, the "Propositions"). The estimated annual values of Propositions C and G are approximately \$146 million and \$50 million, respectively. Proceeds of both measures would need to be appropriated by the Board of Supervisors to be spent. The adopted fiscal year 2018-19 and 2019-20 budget does not appropriate any of these sources. There is a risk that a court in the future could invalidate the levy and collection of the taxes approved by the Propositions on the grounds that they were not approved by a super-majority vote. If a court struck down the Propositions, the City could be obligated to refund all or a portion of any taxes levied and collected for the measures. The City is considering seeking judicial validation of the Propositions under Civil Code section 860 et seq. The City cannot predict the outcome of any litigation to resolve this issue.

## **Impact of the State of California Budget on Local Finances**

Revenues from the State represent approximately 14% of the General Fund revenues appropriated in the Original Budget for fiscal years 2018-19 and 2019-20, 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 June 27, 2018, the Governor signed the 2018-19 State Budget, appropriating \$201.4 billion from the General Fund and other State funds. General Fund appropriations total \$138.7 billion, \$11.6 billion or 9% more than the 2017-18 budget. The State budget agreement focuses on maintaining fiscal prudence by continuing to pay down past budgetary borrowing and state employee pension liabilities and contributing to stabilization reserves. The budget increases funding to K-12 schools through the full implementation of the Local Control Funding Formula, and increases funding to community colleges and the university systems. Among many investments to counteract poverty, the budget also includes \$500 million to assist local governments with efforts to address homelessness. Of the \$500 million the City is expected to receive approximately \$30 million, which is assumed in the City's budget. The State budget also continues to implement the Road Repair and Accountability Act of 2017 (SB1) providing \$55 billion of new transportation infrastructure funding over the next 10 years. The City's fiscal year 2018-19 budget assumes \$23.0 million of street-related capital funding and \$36.5 million for transit services and repair through the Road Repair and Accountability Act of 2017 (SB1). Voters will decide on Proposition 6 in the November 2018 State ballot, which would repeal the gas tax increase and result in a loss of these funds.

The final fiscal year 2018-19 budget continues to re-base the In-Home Supportive Services Maintenance-of-Effort "IHSS MOE" agreement negotiated in 2012, as first proposed in the fiscal year 2017-18 budget. The City's budget assumes an additional General Fund cost of \$30.0 million in fiscal year 2018-19 or a total cost of \$67.9 million and an additional \$26.0 million or a total cost of \$86.8 million in fiscal year 2019-20 to support the IHSS program, partially offset by health and welfare realignment subventions.

## **Impact of Federal Government on Local Finances**

The City is continuing to assess the potential material adverse changes in anticipated federal funding. Currently, these changes include, for example, potential increased costs associated with changes to or termination or replacement of the Affordable Care Act ("ACA"), potential withholding of federal grants or other federal funds flowing to "sanctuary jurisdictions," impact of new census questions related to immigration status, and the potential suspension or termination of other federal grants for capital projects. The scope and timing of such changes will not be known until the administration concretely proposes specific changes or Congress acts on such proposals, as applicable. As to potential withholding of funds for "sanctuary cities" the City has challenged in federal court the Presidential Executive Order that would cut funding from "sanctuary jurisdictions." The federal district court issued a permanent injunction in November 2017. On August 1, 2018, the 9<sup>th</sup> Circuit Court of Appeal upheld the district's court's injunction against the President's Executive Order. The City will continue to monitor federal budget and policy changes, but cannot at this time determine the financial impacts of any proposed federal budget changes. The fiscal year 2017-18 and 2018-19 budget created a \$50 million reserve to manage cost and revenue uncertainty related to potential federal and state changes to the

administration and funding of the Affordable Care Act. In addition, the recently adopted fiscal year 2018-19 and 2019-20 budget establishes a \$40 million reserve to manage state, federal, and other revenue uncertainty and a \$70 million reserve to manage costs related to local wage and salary contingencies.

The federal tax reform bill that was approved by Congress on December 20, 2017 and its effects on San Francisco are not clear at this time. However, the local economy may be affected by the tax law's provisions, including: (1) creation of a \$10,000 cap on the state and local tax deduction, which will increase many residents' total tax liabilities and affect consumer spending; (2) repeal of the individual health insurance mandate under the ACA; (3) reduction in the mortgage interest tax deduction; and (4) reduction of corporate income tax rates.

### **Budgetary Reserves**

Under the Charter, the Treasurer, upon recommendation of the City Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any unencumbered funds then held in the City's pooled investment fund. The operating cash reserve is available to cover cash flow deficits in various City funds, including the City's General Fund. From time to time, the Treasurer has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other City funds. Any such transfers must be repaid within the same fiscal year in which the transfer was made, together with interest at the rate earned on the pooled funds at the time the funds were used. See "INVESTMENT OF CITY FUNDS – Investment Policy" herein.

The City maintains an annual General Reserve to be used for current-year fiscal pressures not anticipated during the budget process. The policy, originally adopted on April 13, 2010, set the reserve equal to 1% of budgeted regular General Fund revenues in fiscal year 2012-13 and increasing by 0.25% each year thereafter until reaching 2% of General Fund revenues in fiscal year 2016-17. On December 16, 2014, the Board of Supervisors adopted financial policies to further increase the City's General Reserve from 2% to 3% of General Fund revenues between fiscal year 2017-18 and fiscal year 2020-21 while reducing the required deposit to 1.5% of General Fund revenues during economic downturns. The intent of this policy change is to increase reserves available during a multi-year downturn. The Original Budget for fiscal years 2018-19 and 2019-20 includes starting balances of \$127.3 million and \$141.5 million for the General Reserve, respectively.

In addition to the operating cash and general reserves, the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the Board of Supervisors. These include the Salaries and Benefit Reserve (Original Budget includes \$24.8 million for fiscal year 2018-19 and \$14.9 million in fiscal year 2019-20 ), and the Litigation Reserve (Original Budget includes \$10.9 million for fiscal year 2018-19 and \$11 million in fiscal year 2019-20). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

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

## **Rainy Day Reserve**

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

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

Fiscal year 2016-17 revenue exceeded the deposit threshold by \$8.9 million generating a deposit of \$3.4 million to the City Reserve, \$1.1 million to the School Reserve, and \$2.2 million to the One-Time or Capital Expenditures account. 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 allocated to capital and other one-time expenditures.

Monies in the City Reserve are available to provide a budgetary cushion in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Monies in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. The fiscal year 2016-17 combined ending balance of the One-Time and Economic Stabilization portions of the Reserve was \$125.7 million. No deposits or withdrawals are projected in the Controller's 2017-18 Nine-Month Report or in the fiscal year 2018-19 and 2019-20 budgets.

## **Budget Stabilization Reserve**

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

Fiscal year 2016-17 RPTT receipts exceeded the five-year annual average by \$144.4 million and ending general fund unassigned fund balance was \$57.6 million, triggering a \$57.6 million deposit. However, \$6.7 million of this deposit requirement was offset by the Rainy Day Reserve deposit, resulting in a \$144.8 million deposit to the Budget Stabilization Reserve and an ending balance of \$323.3 million. No deposits or withdrawals are projected in the Controller's 2017-18 Nine-Month Report. The fiscal year 2018-19 and 2019-20 budgets assume no reserve deposits given projected RPTT receipts. The Controller's Office determines deposits during year end close based on actual receipts during the prior fiscal year.

The maximum combined value of the Rainy Day Reserve and the Budget Stabilization Reserve is 10% of General Fund revenues. As of the Controller's fiscal year 2017-18 Nine-Month Report, 10% of General Fund revenues is projected to be \$488 million, slightly above the projected ending balance of \$449 million and 9.2% of revenues. Under the City's current policy, no further deposits will be made once this cap is reached, and no deposits are required in years when the City is eligible to withdraw. The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve, however, there is no provision for allocations to the SFUSD. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn; in the second year, the maximum withdrawal is 50%; and, in the third year, the entire remaining balance may be drawn.

## THE SUCCESSOR AGENCY

### Effect of the Dissolution Act

The San Francisco Redevelopment Agency (herein after the "Successor Agency") was organized in 1948 by the Board of Supervisors pursuant to the Redevelopment Law. The Successor Agency is a separate legal entity from the City, and no funds of the City are pledged or available for Successor Agency operations. The Successor Agency's mission was to eliminate physical and economic blight within specific geographic areas of the City designated by the Board of Supervisors. The Successor 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 Successor Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies and also to satisfy "enforceable obligations" of the former redevelopment agency all under the supervision of a new oversight board, the State Department of Finance and the State Controller.

Pursuant to Ordinance No. 215-12 passed by the Board of Supervisors on October 2, 2012 and signed by the Mayor on October 4, 2012, the Board of Supervisors (i) officially gave the following name to the Successor Agency: the "Successor Agency to the Redevelopment Agency of the City and County of San Francisco," (ii) created the Successor Agency Commission as the policy body of the Successor Agency, (iii) delegated to the Successor Agency Commission the authority to act to implement the surviving redevelopment projects, the replacement housing obligations and other enforceable obligations and the authority to take actions required by AB 26 and AB 1484 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, four major redevelopment projects that were previously administered by the Former Agency: (i) the Mission Bay North and South Redevelopment Project Areas, (ii) the Hunters Point Shipyard Redevelopment Project Area and Zone 1 of the Bayview Redevelopment Project Area, and (iii) the Transbay Redevelopment Project Area (collectively, the "Major Approved Development Projects"). In addition, the Successor Agency continues to manage Yerba Buena Gardens and other assets within the former Yerba Buena Center Redevelopment Project Area ("YBC"). The Successor Agency exercises land use, development and design approval authority for the Major Approved Development Projects and manages the former Redevelopment Agency assets in YBC in place of the Former Agency. The Successor Agency also issues CFD bonds from time to time to

facilitate development in the major approved development projects in accordance with the terms of such enforceable obligations.

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

### **Assessed Valuations, Tax Rates and Tax Delinquencies**

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

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor Agency (OCII). Property tax revenues attributable to the growth in assessed value of taxable property (known as “tax increment”) within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations and a portion of administrative costs of the agency causing a loss of tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. The Successor Agency received \$153 million of property tax increment in fiscal year 2017-18, diverting about \$85 million that would have otherwise been apportioned to the City’s discretionary general fund.

The percent collected of property tax (current year levies excluding supplemental) was 99.14% for fiscal year 2017-18. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder's Office, numbered 111 for fiscal year 2017-18 compared to 262 in fiscal year 2016-17. The trustee deeds recorded in fiscal year 2011-12, fiscal year 2012-13 and fiscal year 2013-14 were 804, 363 and 187, respectively. In fiscal year 2016-17 there were 262 Notices of Trustee's Sales deeds recorded.

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO  
Assessed Valuation of Taxable Property  
Fiscal Years 2012-13 through 2018-19  
(000s)

Fiscal Year	Net Assessed <sup>1</sup> Valuation (NAV)	% Change from Prior Year	Total Tax Rate per \$100 <sup>2</sup>	Total Tax Levy <sup>3</sup>	Total Tax Collected <sup>3</sup>	% Collected June 30
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 <sup>1</sup>	10.8%	TBD	TBD	N/A	N/A

<sup>1</sup> Based on initial assessed valuations for fiscal year 2018-19. Net Assessed Valuation (NAV) is Total Assessed Value for Secured and Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

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

<sup>3</sup> The Total Tax Levy and Total Tax Collected through fiscal year 2017-18 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 Rate and Total Tax Levy for fiscal year 2018-19 has not yet been determined.

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 2018-19, the total net assessed valuation of taxable property within the City was \$259.3 billion. Of this total, \$244.9 billion (94.4%) represents secured valuations and \$14.4 billion (5.6%) represents unsecured valuations. See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.

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

Under Article XIII A of the State Constitution added by Proposition 13 in 1978, property sold after March 1, 1975 must be reassessed to full cash value at the time of sale. 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. Historically, during severe economic downturns, partial reductions of up to approximately 30% of the assessed valuations appealed have

been granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCCD, BAAQMD, and BART share proportionately in any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year.

In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary General Fund appeals reserve fund for fiscal years 2012-13 through 2016-17 are listed in Table A-6 below.

TABLE A-6

**CITY AND COUNTY OF SAN FRANCISCO**  
**Refunds of Prior Years' Property Taxes**  
**General Fund Assessment Appeals Reserve**  
**Fiscal Years 2012-13 through 2016-17**  
**(000s)**

Fiscal Year	Amount Refunded
2012-13	\$36,744
2013-14	25,756
2014-15	16,304
2015-16	16,199
2016-17	33,397

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

As of July 1, 2017, the Assessor granted 7,090 temporary reductions in property assessed values worth a total of \$194.9 million (equating to a reduction of approximately \$2.3 million in general fund taxes), compared to 7,055 temporary reductions worth \$128.7 million (equating to a reduction of approximately \$1.52 million in general fund taxes) as of July 1, 2016 and 8,598 temporary reductions worth \$425.1 million (equating to a reduction of approximately \$5.03 million in general fund taxes) as of July 1, 2015. The July 2017 temporary reductions of \$194.9 million represent 0.08% of the fiscal year 2017-18 Net Assessed Valuation of \$234.1 billion shown in Table A-5. All of the temporary reductions granted are subject to review in the following year. Property owners who are not satisfied with the valuation shown on a Notice of Assessed Value may have a right to file an appeal with the Assessment Appeals Board ("AAB") within a certain period. For regular, annual secured property tax assessments, the period for property owners to file an appeal typically falls between July 2nd and September 15th.

As of December 31, 2017, the total number of open appeals before the AAB was 1,605, compared to 1,754 open AAB appeals as of December 31, 2016. As of May 31, 2018 there were 1,552 new applications filed during fiscal year 2017-18, compared to 1,428 new applications filed during the same period (May 31, 2017) of fiscal year 2016-17. Also, as of May 31, 2018 the total number of open applications was 965 and the difference between the current assessed value and the taxpayer's opinion of values for the open appeals is \$4.88 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all the taxpayer's requests, a negative potential property tax impact of about \$57.5 million would result.



The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction in assessed valuation that the Assessor may ultimately grant. City revenue estimates take into account projected losses from pending and future assessment appeals.

### **Tax Levy and Collection**

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City's boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the Bay Area Air Quality Management District and BART. The total tax levy for all taxing entities in fiscal year 2017-18 was estimated to produce about \$2.7 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 had budgeted to receive \$1.6 billion into the General Fund and \$201.5 million into special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD were estimated to receive about \$176.3 million and \$33.1 million, respectively, and the local ERAF was estimated to receive \$580.0 million (before adjusting for the vehicle license fees ("VLF") backfill shift). The Successor Agency received \$153 million. The remaining portion was allocated to various other governmental bodies, various special funds, and general obligation bond debt service funds, and other taxing entities. Taxes levied to pay debt service for general obligation bonds issued by the City, SFUSD, SFCCD and BART may only be applied for that purpose.

General Fund property tax revenues in fiscal year 2017-18 were projected to be \$1.65 billion as of the Controller's Nine-Month Report, representing an increase of \$169.9 million (11.5%) over fiscal year 2016-17 actual revenue. Property tax revenue is budgeted at \$1.73 billion for fiscal year 2018-19 representing an increase of \$77.0 million (4.7%) over fiscal year 2017-18 projections. Fiscal year 2019-20 property tax revenue is budgeted at \$1.74 billion, \$15.0 million (or 0.9%) more than the fiscal year 2018-19 budget. Tables A-2 and A-4 set forth a history of budgeted and actual property tax revenues for fiscal years 2012-13 through 2016-17, and budgeted receipts for fiscal years 2017-18, 2018-19, and fiscal year 2019-20.

The City's General Fund is allocated about 48% of total property tax revenue before adjusting for the VLF backfill shift. The State's Triple Flip ended in fiscal year 2015-16, eliminating the sales tax in-lieu revenue from property taxes from succeeding fiscal years and shifting it to the local sales tax revenue line.

Generally, property taxes levied by the City on real property becomes 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, in June 2017, 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). 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-7.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO	
Teeter Plan	
Tax Loss Reserve Fund Balance	
Fiscal Years 2012-13 through 2016-17	
(000s)	
Year Ended	Amount Funded
2012-13	\$18,341
2013-14	19,654
2014-15	20,569
2015-16	22,882
2016-17	24,882

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, 2018 are shown in Table A-8. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the Office of the Assessor-Recorder.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO  
 Top 10 Parcels Total Assessed Value  
 July 1, 2018

Assessee	Location	Parcel Number	Type	Total Assessed Value <sup>1</sup>	% of Basis of Levy <sup>2</sup>
TRANSBAY TOWER LLC	415 MISSION ST	3720 009	OFFICE	\$1,336,595,294	0.51540%
SUTTER BAY HOSPITALS <sup>3</sup>	1101 VAN NESS AVE	0695 006	HOSPITAL	1,182,540,579	0.45600
HWA 555 OWNERS LLC	555 CALIFORNIA ST	0259 026	OFFICE	1,018,418,547	0.39271
ELM PROPERTY VENTURE LLC	101 CALIFORNIA ST	0263 011	OFFICE	984,858,015	0.37977
PPF PARAMOUNT ONE MARKET PLAZA OWNER LP	1 MARKET ST	3713 007	OFFICE	834,307,207	0.32172
SHR ST FRANCIS LLC	301 - 345 POWELL ST	0307 001	HOTEL	738,069,300	0.28461
SFDC 50 FREMONT LLC	50 FREMONT ST	3709 019	OFFICE	689,319,255	0.26581
GSW ARENA LLC	300 16TH STREET	8722 021	ENTERTAINMENT COMPLEX	659,966,629	0.25449
KR MISSION BAY LLC	1800 OWENS ST	8727 008	OFFICE	558,150,177	0.21523
P55 HOTEL OWNER LLC	55 CYRIL MAGNIN ST	0330 026	HOTEL	533,785,362	0.20583
				<b>\$8,536,010,365</b>	

<sup>1</sup> 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.

<sup>2</sup> 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).

<sup>3</sup> 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 2018-19 valuation of property assessed by the State Board of Equalization is \$3.7 billion.

**OTHER CITY TAX REVENUES**

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

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

**Business Taxes**

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

The payroll expense tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. The 1.5% payroll tax rate in 2013 was adjusted to 1.35% in tax year 2014, 1.16% in tax year 2015, 0.829% in tax year 2016, 0.71% in tax year 2017, and annually thereafter according to gross receipts tax collections to ensure that the phase-in of the gross receipts tax neither results in a windfall nor a loss for the City. The gross receipts tax ordinance, like the current payroll expense tax, is imposed for the privilege of “engaging in business” in San Francisco. The gross receipts tax will apply to businesses with \$1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. Proposition E also imposes a 1.4% tax on administrative office business activities measured by a company’s total payroll expense within San Francisco in lieu of the Gross Receipts Tax, and increases annual business registration fees to as much as \$35,000 for businesses with over \$200 million in gross receipts. Prior to Proposition E, business registration taxes varied from \$25 to \$500 per year per subject business based on the prior year computed payroll tax liability. Proposition E increased the business registration tax rates to between \$75 and \$35,000 annually.

Business tax revenue in fiscal year 2017-18 is projected to be \$810.4 million (all funds) as of the Controller’s Nine-Month Report, representing an increase of \$109.9 million (15.4%) from fiscal year 2016-17. Business tax revenue is budgeted at \$879.4 million in fiscal year 2018-19 representing an increase of \$68.9 million (8.5%) over fiscal year 2017-18 projected revenue. Business tax revenue is budgeted at \$914.7 million in fiscal year 2019-20 representing an increase of \$35.3 million (4.0%) over fiscal year 2018-19 budget.

TABLE A-9

**CITY AND COUNTY OF SAN FRANCISCO**  
**Business Tax Revenues**  
**Fiscal Years 2014-15 through 2019-20**  
**All Funds**  
**(000s)**

Fiscal Year <sup>1</sup>	Revenue	Change	
2014-15	\$611,932	\$48,525	8.6%
2015-16	660,926	48,994	8.0%
2016-17	702,331	41,405	6.3%
2017-18 <i>projected</i> <sup>2</sup>	810,434	108,103	15.4%
2018-19 <i>budgeted</i> <sup>3</sup>	879,380	68,946	8.5%
2019-20 <i>budgeted</i> <sup>3</sup>	914,710	35,330	4.0%

<sup>1</sup> Figures for fiscal years 2014-15 through 2016-17 are audited actuals. Includes portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and beginning in fiscal year 2013-14, Gross Receipts Tax revenues.

<sup>2</sup> Figure for fiscal year 2017-18 from Controller’s Nine-Month Report.

<sup>3</sup> Figures for fiscal year 2018-19 and 2019-20 are Original Budget amounts.

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

**Transient Occupancy Tax (Hotel Tax)**

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators to the City monthly. A quarterly tax-filing requirement is also imposed. Hotel tax revenue growth is a function of changes in occupancy, average daily room rates (“ADR”) and room supply. Revenue per available room (RevPAR), the combined effect of occupancy and ADR, experienced double digit growth rates between fiscal years 2013-14 and 2014-15, driving an average annual increase of 28.5% in hotel tax revenue during this

period. RevPAR growth began to slow in fiscal year 2015-16 and then declined in fiscal year 2016-17, due mainly to the partial-year closure of the Moscone Convention Center. The Moscone Center reopened in the second quarter of fiscal year 2017-18, and RevPAR is expected to partially recover. Hotel tax revenue in fiscal year 2017-18 is projected to be \$377.2 million (all-funds) as of the Controller's Nine-Month Report, a slight increase of \$1.9 million (0.5%) from fiscal year 2016-17. In fiscal year 2018-19, hotel tax is budgeted to be \$398.9 million, representing growth of \$20.7 million (5.5%). In fiscal year 2019-20, hotel tax is budgeted to be \$409.8 million, an increase of \$11.9 million (3.0%) from fiscal year 2018-19 budget.

San Francisco and a number of other jurisdictions in California and the United States are currently involved in litigation with online travel companies regarding the companies' duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. On February 6, 2013, the Los Angeles Superior Court issued a summary judgment concluding that the online travel companies had no obligation to remit hotel tax to San Francisco. The City has received approximately \$88 million in disputed hotel taxes paid by the companies. Under State law, the City is required to accrue interest on such amounts. The portion of these remittances that will be retained or returned (including legal fees and interest) will depend on the ultimate outcome of these lawsuits. San Francisco has appealed the judgment against it. That appeal has been stayed pending the California Supreme Court's decision in a similar case between the online travel companies and the City of San Diego. That ruling was issued on December 12, 2016 but did not resolve the matters that are the subject to the City's appeal. On May 23, 2018, the Court of Appeal ruled in favor of the online travel companies, and San Francisco is seeking review of that decision by the California Supreme Court.

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TABLE A -10

**CITY AND COUNTY OF SAN FRANCISCO**  
**Transient Occupancy Tax Revenues**  
**Fiscal Years 2014-15 through 2019-20**  
**All Funds**  
**(000s)**

Fiscal Year <sup>1</sup>	Tax Rate	Revenue	Change	
2014-15 <sup>2</sup>	14.0%	\$399,364	\$86,226	27.5%
2015-16	14.0%	392,686	(6,678)	-1.7%
2016-17	14.0%	375,291	(17,395)	-4.4%
2017-18 <i>projected</i> <sup>3</sup>	14.0%	377,156	1,865	0.5%
2018-19 <i>budgeted</i> <sup>4</sup>	14.0%	397,896	20,740	5.5%
2019-20 <i>budgeted</i> <sup>4</sup>	14.0%	409,840	11,945	3.0%

<sup>1</sup>Figures for fiscal year 2014-15 through fiscal year 2016-17 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds.

<sup>2</sup>Figures in fiscal year 2014-15 are substantially adjusted due to multi-year audit and litigation resolution.

<sup>3</sup>Figure for fiscal year 2017-18 from Controller's 9-Month Report.

<sup>4</sup>Figures for fiscal year 2018-19 and 2019-20 are Original Budget amounts. These 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 should a local ballot measure to dedicate a portion of hotel tax pass in November 2018.

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

### Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources. Prior to November 8, 2016, the 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; \$20.00 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; and \$25 per \$1,000 for properties valued at more than \$10.0 million. After the passage of Proposition W on November 8, 2016, transfer tax rates were amended, raising the rate to \$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. This change resulted in an estimated additional \$30.3 million in transfer tax revenue in fiscal year 2017-18.

Real property transfer tax ("RPTT") revenue for fiscal year 2017-18 was projected to be \$257.0 million as of the Controller's Nine-Month Report, a \$153.6 million (37.4%) decrease from fiscal year 2016-17 revenue. Fiscal year 2018-19 RPTT revenue is budgeted to be \$228.0 million, \$29 million (11.3%) less than the revenue received in fiscal year 2017-18 primarily due to the assumption that RPTT collections will return to their historic average. For fiscal year 2019-20, RPTT revenue is budgeted to be \$228 million, which represents no change from the fiscal year 2018-19 budget.

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO  
Real Property Transfer Tax Receipts  
Fiscal Years 2014-15 through 2019-20  
(000s)

Fiscal Year <sup>1</sup>	Revenue	Change	
2014-15	\$314,603	\$52,678	20.1%
2015-16	269,090	(45,513)	-14.5%
2016-17	410,561	141,471	52.6%
2017-18 <i>projected</i> <sup>2</sup>	257,000	(153,561)	-37.4%
2018-19 <i>budgeted</i> <sup>3</sup>	228,000	(29,000)	-11.3%
2019-20 <i>budgeted</i> <sup>3</sup>	228,000	-	0.0%

<sup>1</sup> Figures for fiscal year 2014-15 through 2016-17 are audited actuals.

<sup>2</sup> Figure for fiscal year 2017-18 from Controller's 9-Month Report.

<sup>3</sup> Figures for fiscal year 2018-19 and 2019-20 are Original Budget amounts.

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 8.50%; of which 1.00% represents the City's local share. 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. Between fiscal year 2004-05 and the first half of fiscal year 2015-16, the State diverted one-quarter of City's 1.00% local share of the sales tax, and replaced the lost revenue with a shift of local property taxes to the City from local school district funding. This "Triple Flip" concluded on December 31, 2015, after which point the full 1.00% local tax is recorded in the General Fund.

Local sales tax for fiscal year 2017-18 are projected to be \$191.7 million as of the Controller's Nine-Month Report, a slight increase of \$2.2 million (1.2%) from fiscal year 2016-17. Fiscal year 2018-19 revenue is budgeted to be \$196.9 million, an increase of \$5.2 million (2.7%) from fiscal year 2017-18 budget. Fiscal year 2019-20 revenue is budgeted to be \$198.8 million, an increase of \$2.0 million (1.0%) from fiscal year 2018-19 budget.

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and population. This revenue is significantly affected by changes in the economy. In recent years, online retailers have contributed significantly to sales tax receipts, offsetting sustained declines in point of sale purchases.

In June 2018, the United States Supreme Court ruled in favor of South Dakota in the case of *South Dakota v. Wayfair, Inc.*, requiring out-of-state online retailers to collect sales taxes on sales to in-state residents. The impact of this ruling on sales tax revenues in the City remains unknown due to various factors. In California and other states, many large online retailers already collect and remit state and local sales and use taxes, including Wayfair and Amazon. However, out-of-state retailers, who have no physical presence in California and no agreements with affiliates, are not required to collect California sales and use tax. In addition, the ruling affirms the South Dakota tax system, which provides a safe harbor to small businesses that have less than \$100,000 in sales or 200 separate transactions in the state. It is difficult to determine if and when California will modify its sales tax rules and regulations, or if

Congress will adopt uniform standards at the federal level. As a result, the budget assumes no changes from the impact of this ruling.

Table A-12 reflects the City's actual sales and use tax receipts for fiscal years 2014-15 through 2016-17, projected receipts for fiscal year 2017-18, and budgeted receipts for fiscal year 2018-19 and 2019-20. The fiscal year 2014-15 and 2015-16 figures include the imputed impact of the property tax shift made in compensation for the one-quarter sales tax revenue taken by the State's "Triple Flip."

TABLE A-12

**CITY AND COUNTY OF SAN FRANCISCO**  
**Sales and Use Tax Revenues**  
**Fiscal Years 2014-15 through 2019-20**  
**(000s)**

Fiscal Year <sup>1</sup>	Tax Rate	City Share	Revenue	Change	
2014-15	8.75%	0.75%	140,146	6,441	4.8%
2014-15 adj. <sup>2</sup>	8.75%	1.00%	186,891	9,592	5.4%
2015-16	8.75%	0.75%	167,915	27,769	19.8%
2015-16 adj. <sup>3</sup>	8.75%	1.00%	204,118	17,227	9.2%
2016-17	8.75%	1.00%	189,473	(14,645)	-8.7%
2017-18 <i>projected</i> <sup>4</sup>	8.50%	1.00%	191,696	2,223	1.2%
2018-19 <i>budgeted</i> <sup>3</sup>	8.50%	1.00%	196,870	5,174	2.7%
2019-20 <i>budgeted</i> <sup>3</sup>	8.50%	1.00%	198,840	1,970	1.0%

<sup>1</sup> Figures for fiscal year 2014-15 through fiscal year 2016-17 are audited actuals. In November 2012 voters approved Proposition 30, which temporarily increases the state sales tax rate by 0.25% effective January 1, 2013 through December 31, 2016. The City share did not change.

<sup>2</sup> Adjusted figure represent the value of the entire 1.00% local sales tax, which was reduced by 0.25% beginning in fiscal year 2004-05 through December 31, 2015 in order to repay the State's Economic Recovery Bonds as authorized under Proposition 57 in March 2004. This 0.25% reduction is backfilled by the State.

<sup>3</sup> The 2015-16 adjusted figure includes the State's final payment to the Counties for the lost 0.25% of sales tax, from July 1, 2015 through December 31, 2015. It also includes a true-up payment for April through June 2015.

<sup>4</sup> Figure for fiscal year 2017-18 from Controller's 9-Month Report.

<sup>5</sup> Figures for fiscal year 2018-19 and 2019-20 are Original Budget amounts.

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

**Utility Users Tax**

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

Fiscal year 2017-18 Utility User Tax ("UUT") revenues were projected to be \$98.0 million as of the Controller's Nine-Month Report, a decline of \$3.2 million (3.2%) from fiscal year 2016-17. Fiscal year 2018-19 UUT revenues are budgeted at \$99.1 million, a \$1.1 million (1.1%) increase from the 2017-18 projection. Fiscal year 2019-20 revenues are budgeted at \$100.0 million, a \$0.9 million (1.0%) increase from the prior year budget.



### Access Line Tax

The City imposes an Access Line Tax ("ALT") on every person who subscribes to telephone communications services in the City. The ALT replaced the Emergency Response Fee ("ERF") in 2009. It applies to each telephone line in the City and is collected from telephone communications service subscribers by the telephone service supplier. Access Line Tax revenue for fiscal year 2017-18 is projected to be \$52.0 million as of the Controller's Nine-Month Report, a \$5.5 million (11.8%) increase over fiscal year 2016-17. Fiscal year 2018-19 revenue is budgeted at \$51.9 million a \$0.1 million (0.3%) decrease from fiscal year 2017-18 projections. Fiscal year 2019-20 revenue is budgeted at \$53.5 million, a \$1.6 million (3.2%) increase from the prior year. Budgeted amounts in fiscal year 2018-19 assume annual inflationary increases to the access line tax rate as allowed under Business and Tax Regulation Code Section 784.

### Sugar Sweetened Beverage Tax

On November 9, 2016 voters adopted Proposition V, a one cent per ounce tax on the distribution of sugary beverages. This measure took effect on January 1, 2018 and is expected to raise \$15.0 million in annual revenue.

### Parking Tax

A 25% tax is imposed on the charge for off-street parking spaces. The tax is paid by occupants and remitted monthly to the City by parking facility operators. Historically, parking tax revenue was positively correlated with business activity and employment, both of which are projected to increase over the next two years as reflected in increases in business and sales tax revenue projections. However, widespread use of ride-sharing services and redevelopment of surface lots and parking garages into office and other uses have led to declines in this source over the past two fiscal years.

Fiscal year 2017-18 Parking Tax revenue is projected to be \$85.5 million as of the Controller's Nine-Month Report, \$1.3 million (1.5%) increase from fiscal year 2016-17 revenue. Parking tax revenue is budgeted at \$85.5 million in fiscal year 2018-19 and fiscal year 2019-20, representing no change from fiscal year 2017-18 revenue.

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

## INTERGOVERNMENTAL REVENUES

### State – Realignment

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

**1991 Health & Welfare Realignment.** In fiscal year 2017-18, the General Fund share of 1991 realignment revenue is projected to be \$197.7 million, as of the Controller's Nine-Month Report, or \$5.6 million (2.9%) more than the fiscal year 2016-17. The fiscal years 2018-19 and 2019-20 General Fund share of these revenues are budgeted at \$209.1 million and \$215.5 million, a net increase of \$11.3 million (5.7%) and \$6.4 million (3.1%) from the respective prior year, based on projected sales tax and VLF growth payments.

Since fiscal year 2014-15, the State has assumed that under the Affordable Care Act (ACA), counties will realize savings as a result of treating fewer uninsured patients. The State redirects these savings from realignment allocations to cover CalWORKs expenditures previously paid for by the State's General Fund. In fiscal year 2018-19, reductions to the City's allocation are assumed equal to \$12.0 million. However, they are projected to be offset by the true up payments from the State for fiscal year 2015-16. The fiscal year 2019-20 budget makes the same assumption as fiscal year 2018-19, projecting reductions to the City's allocation that are equally offset by true up payments from fiscal year 2016-17. Future budget adjustments could be necessary depending on final State determinations of ACA savings amounts, which are expected in January 2020 and January 2021 for fiscal year 2017-18 and fiscal year 2018-19, respectively. The fiscal year 2018-19 and 2019-20 realignment budget assumes the redirection of sales tax and VLF growth distributions from health and mental health allocations to social service allocations, consistent with IHSS assumptions enacted in the Governor's 2018-19 budget.

**Public Safety Realignment.** Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. In fiscal year 2017-18, revenue is projected to be \$37.6 million as of the Controller's Nine-Month Report, a \$2.1 million (5.9%) increase from the fiscal year 2016-17 actual. Based on the State's adopted budget, this revenue is budgeted at \$39.0 million in fiscal year 2018-19, a \$1.4 million (3.8%) increase over the fiscal year 2017-18 projection. This increase reflects increased State funding to support implementation of AB109. The fiscal year 2019-20 budget assumes a \$1.2 million (3.1%) increase from the fiscal year 2018-19 budget.

#### **Public Safety Sales Tax**

State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. This revenue is a function of the City's proportionate share of Statewide sales activity. In fiscal year 2017-18, public safety sales tax is projected to be \$103.6 million as of the Controller's Nine-Month Report, a \$3.2 million (3.2%) increase from fiscal year 2016-17 revenues. In fiscal years 2018-19 and 2019-20, this revenue is budgeted at \$104.7 million and \$106.2 million, representing growth of \$1.0 million (1.0%) and \$1.6 million (1.5%), respectively. These revenues are allocated to counties by the State separately from the local one-percent sales tax discussed above, and are used to fund police and fire services. Disbursements are made to counties based on the county ratio, which is the county's percent share of total statewide sales taxes in the most recent calendar year. The county ratio for San Francisco in fiscal year 2016-17 is almost 3% and is expected to decline slightly in fiscal years 2017-18, 2018-19, and 2019-20.

#### **Other Intergovernmental Grants and Subventions**

In addition to those categories listed above, the City is projected to receive \$654.1 million of funds in fiscal year 2017-18 from grants and subventions, as of the Controller's Nine-Month Report, from State and federal governments to fund public health, social services and other programs in the General Fund. This represents a \$24.3 million (3.9%) increase from fiscal year 2016-17. The fiscal year 2018-19 budget is \$698.9 million, an increase of \$44.88 million (6.9%) over fiscal year 2017-18 projected. Fiscal year 2019-20 budget is \$700.7 million, an increase of \$1.8 million (0.3%) over fiscal year 2018-19 budget.

## Charges for Services

Revenue from charges for services in the General Fund in fiscal year 2017-18 is projected to be \$226.8 million in the Controller's Nine-Month Report and is expected to increase to \$248.4 million in the fiscal year 2018-19 budget and \$234.9 million in the fiscal year 2019-20 budget.

## CITY GENERAL FUND PROGRAMS AND EXPENDITURES

Unique among California cities, San Francisco as a charter city and county must provide the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including port and airport; construction and maintenance of all public buildings and facilities; water, sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for approximately 50% of all City expenditures. In addition, the Charter imposes certain baselines, mandates, and property tax set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including MTA, children's services and public education, and libraries. Budgeted baseline and mandated funding is \$1.5 billion in fiscal year 2018-19 and \$1.5 billion in fiscal year 2019-20.

### General Fund Expenditures by Major Service Area

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

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO					
Expenditures by Major Service Area					
Fiscal Years 2015-16 through 2019-20					
(000s)					
Major Service Areas	2015-16	2016-17	2017-18	2018-19	2019-20
	Final Budget	Final Budget	Original Budget <sup>1</sup>	Original Budget	Original Budget
Public Protection	\$1,223,981	\$1,298,185	\$1,331,196	\$1,403,620	\$1,453,652
Human Welfare & Neighborhood Development	857,055	176,768	995,230	1,053,814	1,083,329
Community Health	787,554	970,679	884,393	943,631	893,763
General Administration & Finance	286,871	786,218	358,588	391,900	418,497
Culture & Recreation	137,062	158,954	162,622	165,784	166,575
General City Responsibilities	186,068	349,308	152,390	183,159	188,171
Public Works, Transportation & Commerce	161,545	154,344	170,949	183,703	170,150
Total*	\$3,640,137	\$3,894,456	\$4,055,368	\$4,325,611	\$4,374,137

\*Total may not add due to rounding

<sup>1</sup> Fiscal year 2017-18 Final Revised Budget will be available upon release of the fiscal year 2017-18 CAFR.  
Source: Office of the Controller, City and County of San Francisco.

Public Protection primarily includes the Police Department, the Fire Department and the Sheriff's Office. These departments are budgeted to receive \$485 million, \$255 million and \$193 million of General Fund support respectively in fiscal year 2018-19 and \$514 million, \$265 million, and \$193 million, respectively in fiscal year 2019-20. Within Human Welfare & Neighborhood Development, the Department of Human Services, which includes aid assistance and aid payments and City grant programs, is budgeted to

receive \$272 million of General Fund support in the fiscal year 2018-19 and \$286 million in fiscal year 2019-20.

The Public Health Department is budgeted to receive \$738 million in General Fund support for public health programs and the operation of San Francisco General Hospital and Laguna Honda Hospital in fiscal year 2018-19 and \$751 million in fiscal year 2019-20.

For budgetary purposes, enterprise funds are characterized as either self-supported funds or General Fund-supported funds. General Fund-supported funds include the Convention Facility Fund, the Cultural and Recreation Film Fund, the Gas Tax Fund, the Golf Fund, the Grants Fund, the General Hospital Fund, and the Laguna Honda-Hospital Fund. The MTA is classified as a self-supported fund, although it receives an annual general fund transfer equal to 80% of general fund parking tax receipts pursuant to the Charter. This transfer is budgeted to be \$68.4 million in both fiscal years 2017-18 and 2018-19.

### **Baselines**

The Charter requires funding for baselines and other voter-mandated funding requirements. The chart below identifies the required and budgeted levels of funding for key baselines and mandates. Revenue-driven baselines are based on the projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending. Table A-14 reflects fiscal year 2018-19 spending requirements at the time the fiscal year 2018-19 and fiscal year 2019-20 budget was finally adopted.

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TABLE A-14

**CITY AND COUNTY OF SAN FRANCISCO**  
**Baselines & Set-Asides**  
**Fiscal Year 2018-19**  
**(millions)**

Baselines & Set-Asides	2018-19 Required Baseline	2018-19 Original Budget
<u>Municipal Transportation Agency (MTA)</u>		
Municipal Railway Baseline	\$244.6	\$244.6
Parking and Traffic Baseline	\$91.7	\$91.7
Population Adjustment	\$50.9	\$50.9
Children's Services	\$176.7	\$182.2
Transitional Aged Youth	\$21.2	\$28.1
Library Preservation	\$83.6	\$83.6
Recreation and Park Maintenance of Effort	\$73.2	\$75.5
Dignity Fund	\$47.1	\$47.1
Street Treet Maintenance Fund	\$19.8	\$19.8
City Services Auditor	\$18.8	\$18.8
Human Services Homeless Care Fund	\$17.6	\$17.6
<u>Public Education Enrichment Funding</u>		
Unified School District	\$74.6	\$74.6
Office of Early Care and Education	\$37.3	\$37.3
Public Education Baseline Services	\$10.6	\$10.6
<u>Property Tax Related Set-Asides</u>		
Municipal Symphony	\$3.2	\$3.2
Children's Fund Set-Aside	\$101.7	\$101.7
Library Preservation Set-Aside	\$63.6	\$63.6
Open Space Set-Aside	\$63.6	\$63.6
<u>Staffing and Service-Driven</u>		
Police Minimum Staffing		Requirement met
<b>Total Baseline Spending</b>	<b>\$1,199.8</b>	<b>\$1,214.6</b>

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

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

#### **EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS**

The cost of salaries and benefits for City employees represents slightly less than half of the City's expenditures, totaling \$5.2 billion in the fiscal year 2018-19 Original Budget (all-funds), and \$5.4 billion in the fiscal year 2019-20 Original Budget. Looking only at the General Fund, the combined salary and benefits budget was \$2.3 billion in the fiscal year 2017-18 Original Budget and \$2.4 billion in the fiscal

year 2018-19 Original Budget. This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-retirement health and medical benefits. Employees of the San Francisco Unified School District (SFUSD), San Francisco Community College District (SFCCD) and the San Francisco Superior Court are not City employees.

### **Labor Relations**

The City's budget for fiscal years 2018-19 and 2019-20 includes 31,220 and 31,579 budgeted and funded City positions, respectively. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021 ("SEIU"), the International Federation of Professional and Technical Engineers, Local 21 ("IFPTE"), and the unions representing police, fire, deputy sheriffs, and transit workers.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (the Meyers-Millias-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, even managers, are represented by labor organizations. Further, the City Charter provides a unique impasse resolution procedure. In most cities and counties, when labor organizations cannot reach agreement on a new contract, there is no mandatory procedure to settle the impasse. However, in San Francisco, nearly all of the City's contracts advance to interest arbitration in the event the parties cannot reach agreement. This process provides a mandatory ruling by an impartial third party arbitrator, who will set the terms of the new agreement. Except for nurses and less than one-hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through final and binding interest arbitration conducted by a tripartite mediation and arbitration panel. The award of the arbitration panel is final and binding. Wages, hours and working conditions of nurses are not subject to interest arbitration, but are subject to Charter-mandated economic limits. Strikes by City employees are prohibited by the Charter. Since 1976, no City employees have participated in a union-authorized strike.

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

In February 2017, the City negotiated two-year contract extensions (for fiscal years 2017-18 and 2018-19) with most of its labor unions. The parties agreed to a wage increase schedule of 3% on July 1, 2017 and 3% on July 1, 2018, with a provision to delay the fiscal year 2018-19 adjustment by six months if the City's deficit for fiscal year 2018-2019, as projected in the March 2018 Update, exceeds \$200 million (the March 2018 Update projected a \$37.9 million deficit for fiscal year 2018-19). MTA and TWU, along with unions representing MTA service critical employees, agreed to two-year contract extensions with the same wage provisions and term as those contracts covering City employees. The agreement with supervising nurses expires in June, 2019.

In May 2018, the City negotiated three-year agreements (for fiscal years 2018-19 through 2020-21) with the Police Officers' Association ("POA") and the Municipal Executives' Association ("MEA") – Police Chiefs. The POA contract was resolved through interest arbitration. The POA and MEA – Police contracts included a wage schedule increase of 3% (July 1, 2018), 3% (July 1, 2019), 2% (July 1, 2020), and 1%

(January 1, 2021). The final two increases are subject to a six-month delay if the March 2020 Five-Year Financial Plan update projects a budget deficit of more than \$200 million.

The City also negotiated three-year agreements with the Firefighters Local 798 ("798") and the MEA – Fire Chiefs in May 2018. The 798 contract was a mediated arbitration award. The 798 and MEA – Fire contracts included a wage schedule increase of 3% (July 1, 2018), 3% (July 1, 2019), and 3% (July 1, 2020). The final increase is subject to a six-month delay if the March 2020 Five-Year Financial Plan projects a budget deficit of more than \$200 million.

Also in May 2018, the City negotiated contract extensions with the Union of American Physicians and Dentists ("UAPD") and SEIU – H-1 Fire Rescue Paramedics. UAPD agreed to a one-year extension with a wage increase of 3% on July 1, 2018. The H-1 Fire Rescue Paramedics agreed to a two-year extension with a wage increase schedule of 3% (July 1, 2018) and 3% (July 1, 2019).

With the exception of the safety unions, the City will negotiate new contracts with all unions in the Spring of 2019. The MTA will also negotiate new contracts at that time. The MTA is responsible for negotiating contracts for the transit operators and employees in service-critical bargaining units pursuant to Charter Section 8A.104. These contracts are subject to approval by the MTA Board. Table A-15 shows the membership of each operating employee bargaining unit and the date the current labor contract expires.

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TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO (All Funds)  
Employee Organizations as of July 1, 2018

Organization	City Budgeted Positions	Expiration Date of MOU
Auto Machinist, Lodge 1414	495	30-Jun-19
BrickLayers, Local 3 / Hod Carriers, Local 36	10	30-Jun-19
Building Inspectors Association	93	30-Jun-19
CAIR/CIR (Interns & Residents)	0	30-Jun-21
Carpenters, Local 22	114	30-Jun-19
Carpet, Linoleum & Soft Tile	3	30-Jun-19
Cement Masons, Local 300	45	30-Jun-19
Electrical Workers, Local 6	949	30-Jun-19
Firefighters, Local 798	1,887	30-Jun-21
Glaziers, Local 718	13	30-Jun-19
Hod Carriers, Local 36	8	30-Jun-19
Iron Workers, Local 377	15	30-Jun-19
Laborers, Local 261	1,141	30-Jun-19
Municipal Attorneys Association	470	30-Jun-19
Municipal Exec Assoc - Fire	9	30-Jun-21
Municipal Exec Assoc - Misc	1,390	30-Jun-19
Municipal Exec Assoc - Police	16	30-Jun-21
Operating Engineers, Local 3	65	30-Jun-19
Physician/Dentists, UAPD	204	30-Jun-19
Pile Drivers, Local 34	37	30-Jun-19
Plasterers & Shphnds, Local 66	0	30-Jun-19
Plumbers, Local 38	350	30-Jun-19
Police Officers Association	2,584	30-Jun-21
Prof & Tech Eng, Local 21	6,254	30-Jun-19
Roofers, Local 40	13	30-Jun-19
SEIU 1021, H-1 Paramedics	1	30-Jun-20
SEIU 1021, Misc.	12,547	30-Jun-19
SEIU 1021, Staff & Per Diem RNs	1,720	30-Jun-19
SF City Workers United	133	30-Jun-19
SF Deputy Sheriffs Assn	819	30-Jun-19
SF Probation Off Assoc	153	30-Jun-19
SF Sheriff's Managers and Supv	109	30-Jun-19
SFDA Investigators Assn	45	30-Jun-19
SFIPOA, Op Eng, Local 3	1	30-Jun-19
Sheet Metal Workers, Local 104	41	30-Jun-19
Stationary Engineers, Local 39	694	30-Jun-19
Sup Probation Ofcr, Op Eng 3	32	30-Jun-19
Teamsters, Local 853	174	30-Jun-19
Teamsters, Local 856 Multi-Unit	111	30-Jun-19
Teamsters, Local 856 Spv Nurses	127	30-Jun-19
Theatrical Stage Emp, Local 16	27	30-Jun-19
TWU Local 200	374	30-Jun-19
TWU Local 250-A, AutoServWrkr	141	30-Jun-19
TWU Local 250-A, Misc	110	30-Jun-19
TWU Local 250-A, TranFareInsp	50	30-Jun-19
TWU Local 250-A, TransitOpr	2,615	30-Jun-19
Unrepresented Employees	89	30-Jun-19
	<b>36,276</b> <sup>1</sup>	

<sup>1</sup> Budgeted positions do not include SFUSD, SFCCD, or Superior Court Personnel.

Budgeted positions include authorized positions that are not currently funded.

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



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

### *History and Administration*

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

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

The Retirement Board appoints an Executive Director and an Actuary to aid in the administration of the Retirement System. The Executive Director serves as chief executive officer 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.

In 2014, the Retirement System filed an application with the Internal Revenue Service ("IRS") for a Determination Letter. In July 2014, the IRS issued a favorable Determination Letter for SFERS. Issuance of a Determination Letter constitutes a finding by the IRS that operation of the defined benefit plan in accordance with the plan provisions and documents disclosed in the application qualifies the plan for federal tax exempt status. A tax qualified plan also provides tax advantages to the City and to members of the Retirement System. The favorable Determination Letter included IRS review of all SFERS provisions, including the provisions of Proposition C approved by the City voters in November 2011. This 2014 Determination Letter has no operative expiration date pursuant to Revenue Procedure 2016-37. The IRS does not intend to issue new determination letters except under special exceptions.

### *Membership*

Retirement System members include eligible employees of the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, and the San Francisco Trial Courts.

The Retirement System estimates that the total active membership as of July 1, 2017 is 41,867, compared to 40,051 at July 1, 2016. Active membership at July 1, 2017 includes 7,381 terminated vested members and 1,039 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 29,127 retired members and beneficiaries. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Table A-16 shows total Retirement System participation (City and County of San Francisco, SFUSD, SFCCD, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates, July 1, 2013 through July 1, 2017.

TABLE A-16

City and County of San Francisco  
 Employees' Retirement System  
 Fiscal Years 2012-13 through 2016-17

As of 7/1/2017	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
2012-13	28,717	4,933	1,040	34,690	26,034	1.103
2013-14	29,516	5,409	1,032	35,957	26,852	1.099
2014-15	30,837	5,960	1,024	37,821	27,485	1.122
2015-16	32,406	6,617	1,028	40,051	28,286	1.146
2016-17	33,447	7,381	1,039	41,867	29,127	1.148

Sources: SFERS' annual July 1 actuarial valuation reports

See <http://mysfers.org/resources/publications/sfers-actuarial-valuations/>

Notes: Member counts exclude DROP participants.

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

*Funding Practices*

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

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

At the November 2017 Retirement Board meeting, the Board adopted updated economic assumptions for the July 1, 2017 actuarial valuation after consideration of two options presented by the consulting actuarial firm. Key economic assumptions are the long-term investment earnings assumption of 7.50%, the long-term wage inflation assumption of 3.50%, and the long-term consumer price index assumption of 3.00%. In November 2015 the Board voted to update demographic assumptions, including mortality, after review of a new demographic assumptions study by the consulting actuarial firm.

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

Prospective purchasers of the City's bonds should carefully review and assess the assumptions regarding the performance of the Retirement System. Audited financials and actuarial reports may be found on the Retirement System's website, [mysfers.org](http://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 bonds are cautioned that the information

and assumptions speak only as of the respective dates contained in the underlying source documents, and are therefore subject to change.

*Employer Contribution History and Annual Valuations*

Fiscal year 2015-16 total City employer contributions were \$496.3 million which included \$215.2 million from the General Fund. Fiscal year 2016-2017 total City contributions were \$519.1 million which included \$230.1 million from the General Fund. For fiscal year 2017-18, total City employer contributions to the Retirement System are budgeted at \$568.7 million which includes \$265.8 million from the General Fund. These budgeted amounts are based upon the fiscal year 2017-18 employer contribution rate of 23.46% (estimated to be 20.1% after taking into account the 2011 Proposition C cost-sharing provisions). The fiscal year 2018-19 employer contribution rate is 23.31% (estimated to be 19.8% after cost-sharing). The slight decrease in employer contribution rate from 23.46% to 23.31% reflects investment experience better than assumed and the reduction in wage inflation from 3.75% to 3.50% offset by a new Supplemental COLA effective July 1, 2017 and the continued phase-in of the 2015 assumption changes approved by the Retirement Board. As discussed under "City Budget – Five Year Financial Plan" increases in retirement costs are projected in the City's December 2016 Five Year Financial Plan.

Table A-17 shows total Retirement System liabilities, assets and percent funded for the last five actuarial valuations as well as contributions for the fiscal years 2012-13 through 2016-17. Information is shown for all employers in the Retirement System (City, 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 total of mandated employee contributions and employer contributions received by the Retirement System in the fiscal year ended June 30<sup>th</sup> prior to the July 1<sup>st</sup> valuation date.

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TABLE A-17

City and County of San Francisco  
 Employees' Retirement System  
 Fiscal Years 2012-13 through 2016-17  
 (000s)

As of 7/1/2017	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 <sup>1</sup> in prior FY
2012-13	\$20,224,777	\$17,011,545	\$16,303,397	84.1%	80.6	\$701,596	20.71%
2013-14	21,122,567	19,920,607	18,012,088	94.3	85.3	821,902	24.82
2014-15	22,970,892	20,428,069	19,653,339	88.9	85.6	894,325	26.76
2015-16	24,403,882	20,154,503	20,654,703	82.6	84.6	849,569	22.80
2016-17	25,706,090	22,410,350	22,185,244	87.2	86.3	868,653	21.40

<sup>1</sup> Employer contribution rates for fiscal years 2017-18 and 2018-19 are 23.46% and 23.31%, respectively.

Sources: SFERS' audited year-end financial statements and required supplemental information  
 SFERS' annual July 1 actuarial valuation reports

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 2017, the Market Percent Funded ratio is higher than the Actuarial Percent Funded ratio in 2017. The Actuarial Percent Funded ratio does not yet fully reflect the net asset gains from the last five fiscal 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.

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

Total Pension Liability reported under GASB Statements No. 67 and 68 differs from the 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 at a municipal bond rate to the extent that the fiduciary net position is unavailable to make payments. Differences between the discount rate and assumed investment return have been small, ranging from zero to six basis points 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 been already been granted.

Table A-17A 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-17A

**City and County of San Francisco  
Employees' Retirement System (000s)  
GASB 67/68 Disclosures**

As of 6/30/2017	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
2012-13	\$20,785,417	7.52 %	\$17,011,545	81.8 %	\$3,773,872	\$3,552,075
2013-14	21,691,042	7.58	19,920,607	91.8	1,770,435	1,660,365
2014-15	22,724,102	7.46	20,428,069	89.9	2,296,033	2,156,049
2015-16	25,967,281	7.50	20,154,503	77.6	5,812,778	5,476,653
2016-17	27,403,715	7.50	22,410,350	81.8	4,993,365	4,697,131

Sources: SFERS fiscal year-end GASB 67/68 Reports as of June 30, 2014, 2015, 2016 and 2017.

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

The fiscal year 2017 decline in the City's net pension liability is due to investment return during the fiscal year that exceeded the assumed 7.50%.

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### *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. For a breakdown of the asset allocation as of June 30, 2017, see Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017," page 63.

Annualized investment returns (net of fees and expenses) for the Retirement System for the five years ending June 30, 2017 were 9.98%. For the ten-year and twenty-year periods ending June 30, 2017, annualized investment returns were 5.40% and 7.46% 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, 5<sup>th</sup> Floor, San Francisco, California 94103, or by calling (415) 487-7020. Certain documents are available at the Retirement System website at [www.mysfers.org](http://www.mysfers.org). These documents are not incorporated herein by reference.

### *Recent Voter Approved Changes to the Retirement Plan*

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

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

1. New SFERS benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raise the minimum service retirement age for Miscellaneous members from 50 to 53; limit covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculate final compensation using highest three-year average compensation; and decrease vesting allowances for Miscellaneous members by lowering the City's funding for a portion of the vesting allowance from 100% to 50%;
2. Employees commencing employment on or after January 7, 2012 otherwise eligible for membership in CalPERS may become members of SFERS;
3. Cost-sharing provisions which increase or decrease employee contributions to SFERS on and after July 1, 2012 for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. For example, Miscellaneous employees who earn between \$50,000 and \$100,000 per year pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate, while Miscellaneous employees who earn \$100,000 or more per year pay a fluctuating contribution rate in the range of +5% to -5% of the

Charter-mandated employee contribution rate. Similar fluctuating employee contributions are also required from Safety employees; and

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

A retiree organization has brought a legal action against the requirement in Proposition C that SFERS be fully funded in order to pay the Supplemental COLA. In that case, *Protect our Benefits (POB) v. City of San Francisco* (1st DCA Case No. A140095), the Court of Appeals held that changes to the Supplemental COLA adopted by the voters in November 2011 under Proposition C could not be applied to current City employees and those who retired after November 1996 when the Supplemental COLA provisions were originally adopted, but could be applied to SFERS members who retired before November 1996. This decision is now final and its implementation increased the July 1, 2016 unfunded actuarial liability by \$429.3 million for Supplemental COLAs granted retroactive to July 1, 2013 and July 1, 2014.

On July 13, 2016, the SFERS Board adopted a Resolution to exempt members who retired before November 6, 1996, from the "fully funded" provision related to payment of Supplemental COLAs under Proposition C. The Resolution directed that retroactive payments for Supplemental COLAs be made to these retirees. After the Board adopted the Resolution, the Retirement System published an actuarial study on the cost to the Fund of payments to the pre-1996 retirees. The study reports that the two retroactive supplemental payments will trigger immediate payments of \$34 million, create additional liability for continuing payments of \$114 million, and cause a new unfunded liability of \$148 million. This liability does not include the Supplemental COLA payments that may be triggered in the future. Under the cost sharing formulas in Proposition C, the City and its employees will pay for these costs in the form of higher yearly contribution rates. The Controller has projected the future cost to the City and its employees to be \$260 million, with over \$200 million to be paid in the next five fiscal years. The City obtained a permanent injunction to prevent SFERS from making Supplemental COLA payments to these members who retired before November 6, 1996. The Retirement Board has appealed the Superior Court's injunction, and the schedule for that appeal is not yet known.

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

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

As of June 30, 2017, the audited market value of Retirement System assets was \$22.4 billion. As of June 30, 2018, the unaudited market value of SFERS' portfolio was \$24.4 billion. These values represent, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are audited at each fiscal year end as part of the annual audit of the Retirement System's financial statements.

The Retirement System investment portfolio is structured for long-term performance. The Retirement System continually reviews investment and asset allocation policies as part of its regular operations and continues to rely on an investment policy which is consistent with the principles of diversification and

the search for long-term value. Market fluctuations are an expected investment risk for any long-term strategy. Significant market fluctuations are expected to have significant impact on the value of the Retirement System investment portfolio.

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

#### *Other Employee Retirement Benefits*

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members, at rates determined by the CalPERS board. Such payment from the General Fund equaled \$19.2 million in fiscal year 2012-13 and \$20.0 million in fiscal year 2013-14. For fiscal year 2014-15, the City prepaid its annual CalPERS obligation at a level of \$25.2 million. Further discussion of the City's CalPERS plan obligations are summarized in Note 9 to the City's CAFR, as of June 30, 2017, attached to this Official Statement as Appendix B. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under "Medical Benefits – *Post-Employment Health Care Benefits and GASB 45.*"

#### **Medical Benefits**

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

Medical benefits for eligible active City employees and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the "City Beneficiaries") are administered by the 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 San Francisco Health Service System also administers medical benefits to active and retired employees of SFUSD, SFCCD and the San Francisco Superior Court (collectively the "System's Other Beneficiaries"). However, the City is not required to fund medical benefits for the System's Other Beneficiaries and therefore this section focuses on the funding by the City of medical and dental benefits for City Beneficiaries.

The San Francisco Health Service System is overseen by the City's Health Service Board (the "Health Service Board"). The seven member Health Service Board is composed of members including a seated member of the City's Board of Supervisors, appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; a member nominated by the Controller and approved by the Health Service Board, and three members of the San Francisco Health Service System, active or retired, elected from among their members. The plans (the "SFHSS Medical Plans") for providing medical care to the City Beneficiaries and the System's Other Beneficiaries (collectively, the "SFHSS 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 Trust Fund") established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the SFHSS Beneficiaries are funded. The San Francisco Health Service System issues annually a publicly available, independently audited financial report that includes financial statements for the Health



Service Trust Fund. This report may be obtained on the SFHSS website or by writing to the San Francisco Health Service System, 1145 Market Street, Third Floor, San Francisco, California 94103, or by calling (415) 554-1727. Audited annual financial statements for several years are also posted on the SFHSS website. The information available on such website is not incorporated in this Official Statement by reference.

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

#### *Determination of Employer and Employee Contributions for Medical Benefits*

According to the City Charter Section A8.428, the City's contribution towards SFHSS Medical Plans for active employees and retirees is determined by the results of a survey annually of the amount of premium contributions provided by the 10 most populous counties in California (other than the City). The survey is commonly called the 10-County Average Survey 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." Under City Charter Section A8.428, the City is required to contribute to the Health Service Trust Fund an amount equal to such "average contribution" for each City Beneficiary.

In the Memoranda of Understandings negotiated through collective bargaining in June 2014, the 10-County Average was eliminated in the calculation of premiums for active employees represented by most unions, and exchanged for a percentage based employee premium contribution. The long term impact of the premium contribution model is anticipated to be a reduction in the relative proportion of the projected increases in the City's contributions for healthcare, stabilization of the medical plan membership and maintenance of competition among plans. The contribution amounts are paid by the City into the Health Service Trust Fund. The 10-County Average is still used as a basis for calculating all retiree premiums. To the extent annual medical premiums exceed the contributions made by the City as required by the Charter and union agreements, such excess must be paid by SFHSS Beneficiaries or, if elected by the Health Service Board, from net assets also held in the Health Service Trust Fund. Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g., surviving spouses and surviving domestic partners of City retirees) ("Nonemployee City Beneficiaries") are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The San Francisco Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under "*Post-Employment Health Care Benefits and GASB 45.*"

Contributions relating to Nonemployee City Beneficiaries are also based on the negotiated methodologies found in most of the union agreements and, when applicable, the City contribution of the "10-County average contribution" corresponding to such Nonemployee City Beneficiaries as described in Charter Section A8.423 along with the following:

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

In addition to the 10-County Average contribution, the City contributes additional amounts in respect of the Nonemployee City Beneficiaries sufficient to defray the difference in cost to the San Francisco Health Service System in providing the same health coverage to Nonemployee City Beneficiaries as is provided for active employee City Beneficiaries, excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining.

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

*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. For retirees who were hired on or after January 10, 2009, there are five coverage / employer contribution classifications based on certain criteria outlined in the table below. In 2019, the provision for retirees who have at least 10 but less than 15 years of Credited Service with the Employers will apply for the first time.

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<b>Retiree Medical Coverage / Employer Contribution For Those Hired On or After January 10, 2009</b>	
<b>Years of Credited Service At Retirement</b>	<b>Percentage of Employer Contribution Established in Charter Section A8.428 Subsection (b)(3)</b>
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) <b>(A8.428 Subsection (b)(6))</b>	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 <b>(AB.428 Subsection (b)(5))</b>	50%
At least 15 but less than 20 years pf Credited Service with the Employers <b>(AB.428 Subsection (b)(5))</b>	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 <b>(AB.428 Subsection (b)(4))</b>	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. Two pieces of legislation, passed by Congress in December 2017 and January 2018, respectively, have amended and repealed some of the fiscal requirements of the law.

In December 2017, Congress passed the Tax Cuts and Jobs Act (the "ACT"). The ACT eliminated the ACA's requirement which "zeroes out" the ACA individual mandate penalty effective beginning after December 31, 2018. This does not end the mandate, rather eliminates the tax penalty for violating the mandate. The ACA mandate that requires employers, with 50 or more full-time employees, to offer full-time workers ACA-compliant health coverage is still in place. Eligibility for health benefits is offered to employees who are employed, on average, at least 20 hours of service per week. In addition, the employer reporting obligations under the ACA remains unchanged. In January 2018, approximately 50,000 1095 forms were distributed to SFHSS members documenting compliance to this mandate.

The potential impact with the repeal of the individual mandate may: 1) increase uncompensated care costs, which is generally passed onto plan sponsors, employers and other payers, 2) destabilize the individual market leading to more employees and dependents electing high cost, limit duration COBRA

benefits instead of buying coverage elsewhere, and 3) limit the opportunity for plan sponsors/employers to leverage the healthcare marketplace as a coverage vehicle for groups such as part-time employees or pre-65 retirees. In addition, the overall cost of health care may increase as a result of changes in risk pools due to the young, healthy population not electing coverage.

On January 22, 2018 Congress approved the delay of three ACA taxes that impact SFHSS rates for medical coverage. The taxes are:

- **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. Implementation of the tax has been delayed twice and is now effective in 2022. SFHSS continues to evaluate the future impact of the cost of medical benefits for all coverage tiers and it is expected that the plans for pre-65 retirees will trigger the tax first.

- **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. A moratorium on this tax was in place for 2017, and the spending bill passed by Congress in January 2018 includes another moratorium for 2019.

The HIT tax is mandated for the 2018 plan year. The 2018 plan year premiums for Kaiser Permanente and City Health Plan (UHC) included the impact of the HIT tax which was estimated to cost the City \$10.98 million. Late in 2016, Blue Shield and the California Department of Managed Health Care agreed that the HIT tax was not applicable to Blue Shield because SFHSS "flex funds" Blue Shield meaning that SFHSS is at risk directly for non-physician costs and thus it is not fully-insured. This resulted in a one-time refund for 2016 of \$9.93 million which is applied to the 2018 rate stabilization reserve.

- **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). Implementation of the tax is delayed until 2020.

The Patient Centered Outcomes Research Institute ("PCORI") fee is still in place for 2018, however it sunsets in 2019. Beginning in 2013, the PCORI Fee was assessed at the rate of \$2.00 per enrollee per year to all participants in the Self-Insured medical-only plan (approximately 8,600). The 2018 PCORI fee is \$2.39 per enrollee per year and was factored into the calculation of medical premium rates and premium equivalents for the 2018 plan year. The impact on the City is \$0.31 million.

### *State Legislation*

Beginning in 2019, the California Managed Care Organization (MCO) Tax will apply to all managed care plans which include the City's Blue Shield plans. The MCO tax was enacted by California Senate Bill X2-2 (Hernandez, Chapter 2, Statutes 2016) effective for the taxing period spanning July 1, 2016 through June 30, 2019. The fee is \$1.30 per covered life per month and in 2019 the obligation is expected to be \$504,000 for the City and County of San Francisco.

### *Local Elections:*

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

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

#### *Proposition C (2011) City Pension and Health Care Benefit*

On November 8, 2011, the San Francisco voters approved Proposition C, a charter amendment that made additional changes to the way the City and current and future employees share in funding SFERS pension and health benefits. The Proposition limits the 50% coverage for dependents to employees who left the workforces (without retiring) prior to 2001. In addition, the Proposition requires employee hired on or before January 9, 2009 contribute 0.25% of compensation into the Retiree Health Care Trust Fund beginning July 1, 2016. The contribution requirement increases to 0.50% effective July 1, 2017, 0.75% effective July 1, 2018 and cap out at 1.00% on July 1, 2019. The San Francisco Health Service System is in compliance with Proposition C.

#### *Employer Contributions for San Francisco Health Service System Benefits*

For fiscal year 2016-17, based on the most recent audited financial statements, the San Francisco Health Service System received approximately \$713.9 million from participating employers for San Francisco Health Service System benefit costs. Of this total, the City contributed approximately \$604.5 million; approximately \$165.4 million of this \$604.5 million amount was for health care benefits for approximately 21,410 retired City employees and their eligible dependents and approximately \$439.1 million was for benefits for approximately 31,905 active City employees and their eligible dependents.

The 2018 aggregate plan costs for the City increased by 3.28%. This is due to a number of factors including aggressive contracting by SFHSS that maintains competition among the City's vendors, implementing Accountable Care Organizations that reduced utilization and increased use of generic prescription rates 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 lower 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 flattening is anticipated to continue. In 2019, the aggregate plan costs for the City are estimated to increase 2.47%.

### *Post-Employment Health Care Benefits and GASB 45*

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

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

1. The City's account balance in any fiscal year is fully funded. The account is fully funded when it is large enough to pay then-projected retiree health care costs as they come due; and,
2. The City's retiree health care costs exceed 10% of the City's total payroll costs in a fiscal year. The Controller, Mayor, Trust Board and a majority of the Board of Supervisors must agree to allow payments from the Fund for that year. These payments can only cover retiree health care costs that exceed 10% of the City's total payroll cost. The payments are limited to no more than 10% of the City's account; or,
3. The Controller, Mayor, Trust Board and two-thirds of the Board of Supervisors approve changes to these limits.

### *GASB 45 Reporting Requirements*

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

### *City's Estimated Liability*

The City is required by GASB 45 to prepare a new actuarial study of its post-retirement benefits obligation every two years. As of July 1, 2014, the most recent actuarial valuation date, the funded status of retiree health care benefits was 1.1%. The actuarial accrued liability for benefits was \$4.26 billion, and the actuarial value of assets was \$49.0 million, resulting in an unfunded actuarial accrued liability ("UAAL") of \$4.21 billion. As of July 1, 2014, the estimated covered payroll (annual payroll of active employees covered by the plan) was \$2.62 billion and the ratio of the UAAL to the covered payroll was 160.8%.

The difference between the estimated ("ARC") and the amount expended on post-retirement medical benefits in any year is the amount by which the City's overall liability for such benefits increases in that year. The City's most recent CAFR estimated that the 2016-17 annual OPEB cost was \$401.4 million, of which the City funded \$175.0 million which caused, among other impacts, the City's long-term liability to increase by \$237.5 million (as shown on the City's balance sheet and below). The annual OPEB cost

consists of the ARC, one year of interest on the net OPEB obligation and recognition of one year of amortization of the net OPEB obligation. While GASB 45 does not require funding of the annual OPEB cost, any differences between the amount funded in a year and the annual OPEB cost are recorded as increases or decreases in the net OPEB obligation. See Note 9(b) to the City's CAFR, as of June 30, 2017, included as Appendix B to this Official Statement. Five-year trend information is displayed in Table A-18

TABLE A-18

**CITY AND COUNTY OF SAN FRANCISCO**  
**Five-year Trend**  
**Fiscal Years 2012-13 to 2016-17<sup>1</sup>**  
**(000s)**

Fiscal Year	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
2012-13	\$418,539	38.3%	\$1,607,130
2013-14	353,251	47.2%	1,793,753
2014-15	363,643	46.0%	1,990,155
2015-16	326,133	51.8%	2,147,434
2016-17	401,402	43.6%	2,384,938

<sup>1</sup> Fiscal year 2017-18 will be available upon release of the fiscal year 2017-18 CAFR.

Actuarial projections of the City's OPEB liability will be affected by Proposition B as well as by changes in the other factors affecting that calculation. For example, the City's actuarial analysis shows that by 2031, Proposition B's three-percent of salary funding requirement will be sufficient to cover the cost of retiree health benefits for employees hired after January 10, 2009. See "Retirement System – *Recent Voter Approved Changes to the Retirement Plan*" above. In accordance with GASB 75, the City's actuarial analysis is updated every two years. As of June 30, 2017, the fund balance in the Retiree Health Care Trust Fund established by Proposition B was \$187.4 million, an increase of 63% versus the prior year. See "– Local Elections: Proposition C (2011)."

**Total City Employee Benefits Costs**

The City budgets to pay its ARC for pension and has established a Retiree Health Care Trust Fund into which both the City and employees are required to contribute funds as retiree health care benefits are earned. Currently, these Trust deposits are only required on behalf of employees hired after 2009, and are therefore limited, but is expected to grow as the workforce retires and this requirement is extended to all employees in 2016. Proposition A, passed by San Francisco voters on November 5, 2013 restricted the City's ability to make withdrawals from the Retiree Health Care Trust Fund.

The balance in the Retiree Health Care Trust Fund as of June 30, 2017 is approximately \$187.4 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Table A-19 provides a five-year history for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. For all fiscal years shown, a "pay-as-you-go" approach was used by the City for health care benefits.

Table A-19 below provides a summary of the City's employee benefit actual and budgeted costs from fiscal years 2014-15 to fiscal year 2019-20.

TABLE A-19

**CITY AND COUNTY OF SAN FRANCISCO**  
**Employee Benefit Costs, All Funds**  
**Fiscal Years 2014-15 through 2019-20<sup>1</sup>**  
**(000s)**

	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18 Budget <sup>4</sup>	2018-19 Budget <sup>5</sup>	2019-20 Budget <sup>5</sup>
SFERS and PERS Retirement Contributions	\$593,619	\$531,821	\$554,956	\$597,176	\$628,601	\$642,174
Social Security & Medicare	171,877	184,530	196,914	207,108	215,164	220,733
Health - Medical + Dental, active employees <sup>2</sup>	383,218	421,864	459,772	480,956	508,108	548,119
Health - Retiree Medical <sup>2</sup>	146,164	158,939	165,822	180,975	186,742	195,613
Other Benefits <sup>3</sup>	18,439	20,827	21,388	29,145	21,229	50,384
<b>Total Benefit Costs</b>	<b>\$1,313,318</b>	<b>\$1,317,981</b>	<b>\$1,398,852</b>	<b>\$1,495,360</b>	<b>\$1,559,844</b>	<b>\$1,657,023</b>

<sup>1</sup> Fiscal year 2014-15 through fiscal year 2016-17 figures are audited actuals.

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

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

<sup>4</sup> Fiscal year 2017-18 will be available upon release of the fiscal year 2017-18 CAFR.

<sup>5</sup> Figures for fiscal years 2018-19 and 2019-20 are Original Budget amounts.

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 February 2018, is included as an Appendix to this Official Statement. The Investment Policy is also posted at the Treasurer's website. The information available on such website is not incorporated herein by reference.



*Investment Portfolio*

As of June 30, 2018, the City's surplus investment fund consisted of the investments classified in Table A-20, and had the investment maturity distribution presented in Table A-21.

TABLE A-20

**City and County of San Francisco  
Investment Portfolio  
Pooled Funds  
As of June 30, 2018**

<u>Type of Investment</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasuries	\$1,085,000,000	\$1,075,080,435	\$1,069,988,408
Federal Agencies	4,976,915,000	4,973,704,498	4,922,493,983
State and Local Obligations	191,080,228	192,862,253	189,487,372
Public Time Deposits	25,240,000	25,240,000	25,240,000
Negotiable Certificates of Deposit	2,187,838,000	2,187,838,000	2,188,602,355
Commercial Paper	927,000,000	917,442,780	922,170,924
Medium Term Notes	98,463,000	98,357,441	98,173,583
Money Market Funds	407,022,866	407,022,866	407,022,866
Supranationals	782,262,000	778,498,288	773,679,833
Total	\$10,680,821,094	\$10,656,046,561	\$10,596,859,324

June 2018 Earned Income Yield: 2.01%

Sources: Office of the Treasurer and Tax Collector, City and County of San Francisco  
From Citibank-Custodial Safekeeping, SunGard Systems-Inventory Control Program.

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TABLE A-21

**City and County of San Francisco  
Investment Maturity Distribution  
Pooled Funds  
As of June 30, 2018**

Maturity in Months			Par Value	Percentage
0	to	1	\$1,514,472,866	14.2%
1	to	2	422,000,000	4.0%
2	to	3	463,000,000	4.3%
3	to	4	649,000,000	6.1%
4	to	5	375,000,000	3.5%
5	to	6	491,545,000	4.6%
6	to	12	1,920,667,000	18.0%
12	to	24	2,040,915,000	19.1%
24	to	36	1,656,011,228	15.5%
36	to	48	766,635,000	7.2%
48	to	60	381,575,000	3.6%
			\$10,680,821,094	100.0%

Weighted Average Maturity: 466 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](http://www.sftreasurer.org). The monthly reports and annual reports are not incorporated by reference herein.

Additional information on the City's investments, investment policies, and risk exposure as of June 30, 2017 are described in Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017," Notes 2(d) and 5.

**CAPITAL FINANCING AND BONDS**

**Capital Plan**

In October 2005, the Board of Supervisors adopted, and the Mayor approved, Ordinance No. 216-05, which established a new capital planning process for the City. The legislation requires that the City develop and adopt a 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, composed of other City finance and capital project officials, makes recommendations to the Mayor and Board of Supervisors on all of the City's capital expenditures. To help inform CPC recommendations, the CPP staff; under the direction of the City Administrator, review and prioritize funding needs; project and coordinate funding sources and uses; and provide policy analysis and reports on interagency capital planning.

The City Administrator, in conjunction with the CPC, is directed to develop and submit a 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 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 year 2018-2027 Capital Plan was approved by the CPC on February 27, 2017, and was adopted by the Board of Supervisors in April 2017. The Capital Plan contains \$35.2 billion in capital investments over the coming decade for all City departments, including \$5.25 billion in projects for General Fund-supported departments. The Capital Plan proposes \$1.9 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 assumed to grow to over \$200 million per year by fiscal year 2023-24. Major capital projects for General Fund-supported departments included in the Capital Plan consist of upgrades to public health, police, and fire facilities; improvements to homeless service sites; street and right-of-way improvements; the removal of barriers to accessibility; park improvements; the relocation of public health staff and services to improved spaces, among other capital projects. \$2.1 billion of the capital projects of General Fund supported departments are expected to be financed with general obligation bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, the General Fund and other sources.

In addition to the City General Fund-supported capital spending, the Capital Plan recommends \$18.9 billion in enterprise fund department projects to continue major transit, economic development and public utility projects such as the Central Subway project, runway and terminal upgrades at San Francisco International Airport, Pier 70 infrastructure investments and the Sewer System Improvement Program, among others. Approximately \$12.3 billion of enterprise fund department capital projects are anticipated to be financed with revenue 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 \$4.6 billion in capital needs including enhancements are deferred from the plan's horizon. Over two-thirds of these unfunded needs are for the City's transportation and waterfront infrastructure, where core maintenance investments have lagged for decades. The late Mayor Edwin Lee convened a taskforce to recommend funding mechanisms to bridge a portion of the gaps in the City's transportation needs, but it is likely that significant funding gaps will remain even assuming the identification of significant new funding sources for these needs.

Failure to make the capital improvements and repairs recommended in the Capital Plan may have the following impacts: (i) failing to meet federal, State or local legal mandates; (ii) failing to provide for the imminent life, health, safety and security of occupants and the public; (iii) failing to prevent the loss of

use of the asset; (iv) impairing the value of the City's assets; (v) increasing future repair and replacement costs; and (vi) harming the local economy.

### Tax-Supported Debt Service

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds") can only be authorized with a two-thirds approval of the voters. As of August 1, 2018, the City had approximately \$2.48 billion aggregate principal amount of general obligation bonds outstanding.

Table A-22 shows the annual amount of debt service payable on the City's outstanding general obligation bonds.

TABLE A-22

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Bonds Debt Service**  
**As of August 1, 2018<sup>1 2</sup>**

Fiscal Year	Principal	Interest	Annual Debt Service
2018-19 <sup>3</sup>	\$235,390,545	\$95,065,892	\$330,456,437
2019-20	139,126,232	93,933,252	233,059,484
2020-21	138,365,457	87,917,066	226,282,523
2021-22	145,103,401	81,593,303	226,696,704
2022-23	149,575,251	74,875,636	224,450,887
2023-24	153,006,206	67,762,310	220,768,516
2024-25	154,731,476	60,452,314	215,183,790
2025-26	150,921,279	53,210,200	204,131,479
2026-27	157,080,840	46,508,995	203,589,835
2027-28	162,674,035	39,874,779	202,548,814
2028-29	163,776,751	33,430,898	197,207,649
2029-30	160,805,094	26,830,558	187,635,652
2030-31	123,526,950	20,469,219	143,996,169
2031-32	127,655,000	16,033,541	143,688,541
2032-33	93,940,000	11,510,799	105,450,799
2033-34	70,545,000	8,019,895	78,564,895
2034-35	62,900,000	5,464,844	68,364,844
2035-36	41,440,000	3,214,796	44,654,796
2036-37	29,740,000	1,756,985	31,496,985
2037-38	19,730,000	717,223	20,447,223
<b>TOTAL<sup>4</sup></b>	<b>\$2,480,033,517</b>	<b>828,642,505</b>	<b>\$3,308,676,022</b>

<sup>1</sup> This table includes the City's General Obligation Bonds shown in Table A-24 and does not include any overlapping debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

<sup>2</sup> Totals reflect rounding to nearest dollar.

<sup>3</sup> Excludes payments made to date in current fiscal year

<sup>4</sup> Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all real and personal assessment district indebtedness or any redevelopment agency indebtedness.

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

## General Obligation Bonds

Certain general obligation bonds authorized by the City's voters as discussed below have not yet been issued. Such bonds may be issued at any time by action of the Board of Supervisors, without further approval by the voters.

In November 1992, voters approved Proposition A, which authorized the issuance of up to \$350.0 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program (the "Loan Program"). The purpose of the Loan Program was to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued \$35.0 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed all outstanding bonds remaining from such issuance. In February 2007, the Board of Supervisors approved the issuance of additional indebtedness under this authorization in an amount not to exceed \$35.0 million. Such issuance would be achieved pursuant to the terms of a Credit Agreement with Bank of America, N.A. (the "Credit Bank"), under which the Credit Bank agreed to fund one or more loans to the City from time to time as evidenced by the City's issuance to the Credit Bank of the Taxable General Obligation Bond (Seismic Safety Loan Program), Series 2007A. The funding by the Credit Bank of the loans at the City's request and the terms of repayment of such loans are governed by the terms of the Credit Agreement. Loan funds received by the City from the Credit Bank are in turn used to finance loans to Seismic Safety Loan Program borrowers. In March 2007, the City initiated an initial borrowing of \$2.0 million, and in October 2007, the City borrowed approximately \$3.8 million from the Credit Bank. In January 2008, the City borrowed approximately \$3.9 million and in November 2008, the City borrowed \$1.3 million from the Credit Bank. Further borrowings under the Credit Agreement with the Credit Bank (up to the \$35.0 million not-to-exceed amount) are expected as additional loans to Seismic Safety Loan Program borrowers are approved. In August 2015, the City issued \$24.0 million in Series 2015A taxable general obligation bonds under the Seismic Safety Loan Program authorization. On November 8, 2016, voters approved Proposition C, authorizing the use of Seismic Safety Bond Program to fund the purchase and improvement of buildings in need of safety upgrades in order to convert them into affordable housing.

In February 2008, voters approved Proposition A (the "2008 Parks Proposition") that authorized the issuance of up to \$185.0 million in general obligation bonds for the construction, reconstruction, purchase, and/or improvement of park and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under the 2008 Parks Proposition in the amount of approximately \$42.5 million in August 2008. The City issued the second series in the amount of approximately \$60.4 million in March 2010 and the third series in the amount of approximately \$73.4 million in March 2012. The City issued the fourth and final series in the amount of approximately \$8.7 million in January 2016.

In June 2010, voters approved Proposition B (the "2010 ESER Proposition"), which authorized the issuance of up to \$412.3 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement and retrofitting of neighborhood fire and police stations, the auxiliary water supply system, a public safety building, and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds under the 2010 ESER Proposition in the amount of \$79.5 million in December 2010 and the second series of bonds in the amount of \$183.3 million in March 2012. The City issued the third series in the amount of approximately \$38.3 million in August 2012 and the fourth series of bonds in the amount of \$31.0 million in June 2013,

and the fifth series in the amount of \$54.9 million was issued in October 2014. The final series was issued in June 2016 in the amount of approximately \$25 million.

In November 2011, voters approved Proposition B (the "2011 Roads & Streets Proposition"), which authorized the issuance of up to \$248.0 million in general obligation bonds to provide funds to repair and repave City streets and remove potholes; strengthen and seismically upgrade street structures; redesign street corridors by adding or improving pedestrian signals, lighting, sidewalk extensions, bicycle lanes, trees and landscaping; construct and renovate curb ramps and sidewalks to increase accessibility and safety for everyone, including persons with disabilities; and add and upgrade traffic signals to improve MUNI service and traffic flow. The City issued the first series of bonds under the 2011 Roads & Streets Proposition in the amount of approximately \$74.3 million in March 2012 and the second series of bonds in the amount of \$129.6 million in June 2013. The City issued the final series in June 2016 in the amount of approximately \$109 million.

In November 2012, voters approved Proposition B (the "2012 Parks Proposition"), which authorized the issuance of up to \$195.0 million in general obligation bonds to provide funds for the construction, reconstruction, renovation, demolition, environmental remediation and/or improvement of park, open space and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under the 2012 Parks Proposition in the amount of approximately \$71.9 million in June 2013. The City issued the second series of bonds in the amount of \$43 million in January 2016. The third series of bonds under the 2012 Parks Proposition authorization was issued in April 2018 in the amount of approximately \$76.7 million.

In June 2014, voters approved Proposition A (the "2014 ESER Proposition"), which authorized the issuance of up to \$400.0 million in general obligation bonds to improve fire, earthquake and emergency response by improving and/or replacing deteriorating cisterns, pipes, and tunnels, and related facilities to ensure firefighters a reliable water supply for incurring indebtedness of fires and disasters; improving and/or replacing neighborhood fire and police stations; replacing certain seismically unsafe police and medical examiner facilities with earthquake-safe buildings and to pay related costs. The City issued the first series of bonds under the 2014 ESER Proposition authorization in the amount of \$100.7 million in October 2014 and the second series of bonds in the amount of \$109.6 million in April 2016. The third and final series was issued in May 2018 in the amount of \$189.7 million.

In November 2014, voters approved Proposition A (the "2014 Transportation Proposition"), which authorized the issuance of up to \$500 million in general obligation bonds to provide funds to finance the construction, acquisition and improvement of certain transportation and transit related improvements and other related costs. The City issued the first series of bonds under the 2014 Transportation Proposition in the amount of approximately \$67 million in June 2015. The second series of bonds under the 2014 Transportation Proposition authorization was issued in April 2018 in the amount of approximately 174.4 million.

In November 2015, voters approved Proposition A (the "2015 Affordable Housing Proposition") which authorized the issuance of up to \$310 million in general obligation bonds to provide funds to finance the construction, development, acquisition and preservation of housing affordable to low- and middle-income households and to assist in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; to repair and reconstruct dilapidated public housing; to fund a middle-income rental program; and to provide for homeownership down payment assistance opportunities for educators and middle-income households. The City issued the first series of bonds under the 2015 Affordable Housing Proposition in the amount of approximately \$75

million in October 2016. The second series was issued in May 2018 in the amount of \$142.1 million.

In June 2016, voters approved Proposition A (the “2016 Public Health & Safety Proposition”), which authorized the issuance of up to \$350 million in general obligation bonds to provide funds to protect public health and safety, improve community medical and mental health care services, earthquake safety and emergency medical response; to seismically improve, and modernize neighborhood fire stations and vital public health and homeless service sites; to construct a seismically safe and improved San Francisco Fire Department ambulance deployment facility; and to pay related costs. The City issued the first series of the bonds under the 2016 Public Health & Safety Proposition authorization in the amount of approximately \$173.1 million in February 2017. The second series was issued in May 2018 in the amount of \$49.9 million.

### Refunding General Obligation Bonds

The Board of Supervisors adopted and the Mayor approved Resolution No. 272-04 in May of 2004 (the “2004 Resolution”). The 2004 Resolution authorized the issuance of \$800.0 million of 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. On November of 2011, the Board of Supervisors adopted, and the Mayor approved, Resolution No. 448-11 (the “2011 Resolution,” and together with the 2004 Resolution, the “Refunding Resolutions”). The 2011 Resolution authorized the issuance \$1.356 billion of general obligation refunding bonds from time to time in one or more series for the purpose of refunding certain outstanding General Obligation Bonds of the City. The City has issued [four] series of refunding bonds, of which three series remain currently outstanding, under the Refunding Resolutions, as shown in Table A-23 below.

TABLE A-23

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Refunding Bonds**  
**As of August 1, 2018**

Series Name	Date Issued	Principal Amount Issued	Amount Outstanding
2008-R1	May 2008	\$232,075,000	\$5,110,000
2008-R2	May 2008	39,320,000	-
2011-R1	November 2011	339,475,000	176,360,000 <sup>1</sup>
2015-R1	February 2015	293,910,000	248,035,000 <sup>2</sup>

<sup>1</sup> Series 2004-R1 Bonds were refunded by the 2011-R1 Bonds in November 2011.

<sup>2</sup> Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015.

Table A-24 below 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 August 1, 2018, the City had authorized and unissued general obligation bond authority of approximately \$742 billion.

TABLE A-24

CITY AND COUNTY OF SAN FRANCISCO  
General Obligation Bonds  
As of August 1, 2018

Description of Issue (Date of Authorization)	Series	Issued	Outstanding <sup>1</sup>	Authorized & Unissued
Seismic Safety Loan Program (11/3/92)	2007A	\$30,315,450	\$20,093,517	
	2015A	24,000,000	24,000,000	\$260,684,550
Clean & Safe Neighborhood Parks (2/5/08)	2010B	24,785,000	2,610,000	
	2010D	35,645,000	35,645,000	
	2012B	73,355,000	48,035,000	
	2016A	8,695,000	7,520,000	
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	5,525,000	
	2010A	120,890,000	12,735,000	
	2010C	173,805,000	173,805,000	
	2012D	251,100,000	155,825,000	
	2014A	209,955,000	161,730,000	
Earthquake Safety and Emergency Response Bond (6/8/10)	2010E	79,520,000	40,815,000	
	2012A	183,330,000	121,625,000	
	2012E	38,265,000	29,925,000	
	2013B	31,020,000	17,540,000	
	2014C	54,950,000	41,925,000	
	2016C	25,215,000	22,370,000	
Road Repaving & Street Safety (11/8/11)	2012C	74,295,000	49,175,000	
	2013C	129,560,000	73,205,000	
	2016E	44,145,000	39,155,000	
Clean & Safe Neighborhood Parks (11/6/12)	2013A	71,970,000	40,680,000	
	2016B	43,220,000	24,400,000	
	2018A	76,710,000	46,485,000	3,100,000
Earthquake Safety and Emergency Response Bond (6/3/14)	2014D	100,670,000	76,780,000	
	2016D	109,595,000	75,465,000	
	2018C	189,735,000	189,735,000	
Transportation and Road Improvement (11/4/14)	2015B	67,005,000	43,665,000	
	2018B	174,445,000	105,715,000	258,550,000
Affordable Housing Bond (11/3/15)	2016F	75,130,000	50,795,000	
	2018D	142,145,000	142,145,000	92,725,000
Public Health and Safety Bond (6/7/16)	2017A	173,120,000	121,450,000	
	2018E	49,955,000	49,955,000	126,925,000
	<b>SUB TOTALS</b>		\$3,018,195,450	\$2,050,528,517
<b>General Obligation Refunding Bonds:</b>				
Series 2008-R1 Issued 5/29/08		232,075,000	5,110,000	
Series 2011-R1 Issued 11/9/12		339,475,000	176,360,000	
Series 2015-R1 Issued 2/25/15		293,910,000	248,035,000	
<b>SUB TOTALS</b>		865,460,000	429,505,000	
<b>TOTALS</b>		\$3,883,655,450	\$2,480,033,517	\$741,984,550

<sup>1</sup> 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.

### Lease Payments and Other Long-Term Obligations

The Charter requires that any lease-financing agreements with a nonprofit corporation or another public agency must be approved by a majority vote of the City's electorate, except (i) leases approved prior to April 1, 1977, (ii) refunding lease 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-25 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of August 1, 2018. The annual payment obligations reflected in Table A-25 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

TABLE A-25

**CITY AND COUNTY OF SAN FRANCISCO**  
**Lease Revenue Bonds and Certificates of Participation**  
**As of August 1, 2018**

Fiscal Year	Principal	Interest	Annual Payment Obligation
2018-19	63,300,000	62,426,217	125,726,217
2019-20	49,115,000	59,788,198	108,903,198
2020-21	57,800,000	57,310,890	115,110,890
2021-22	58,210,000	54,742,504	112,952,504
2022-23	60,795,000	52,119,175	112,914,175
2023-24	62,995,000	49,374,771	112,369,771
2024-25	63,325,000	46,505,114	109,830,114
2025-26	63,810,000	43,645,624	107,455,624
2026-27	66,820,000	40,628,011	107,448,011
2027-28	68,180,000	37,474,005	105,654,005
2028-29	71,360,000	34,218,461	105,578,461
2029-30	71,870,000	30,826,226	102,696,226
2030-31	64,020,000	27,588,665	91,608,665
2031-32	53,780,000	24,737,593	78,517,593
2032-33	54,755,000	22,446,642	77,201,642
2033-34	57,130,000	19,918,261	77,048,261
2034-35	45,615,000	17,650,673	63,265,673
2035-36	44,865,000	15,599,242	60,464,242
2036-37	43,915,000	13,589,230	57,504,230
2037-38	45,705,000	11,612,665	57,317,665
2038-39	47,555,000	9,553,956	57,108,956
2039-40	49,500,000	7,407,472	56,907,472
2040-41	51,515,000	5,172,668	56,687,668
2041-42	45,550,000	3,007,611	48,557,611
2042-43	10,125,000	1,242,000	11,367,000
2043-44	8,555,000	818,000	9,373,000
2044-45	8,895,000	475,800	9,370,800
2045-46	1,470,000	120,000	1,590,000
2046-47	1,530,000	61,200	1,591,200
<b>TOTAL <sup>2</sup></b>	<b>\$1,392,060,000</b>	<b>\$750,060,874 <sup>3</sup></b>	<b>\$2,142,120,874</b>

<sup>1</sup> Excludes payments made to date in current fiscal year

<sup>2</sup> Totals reflect rounding to nearest dollar.

<sup>3</sup> For purposes of this table, the interest rate on the Lease Revenue Bonds Series 2008-1, and 2008-2 (Moscone Center Expansion Project) is assumed to be 3.25%. These bonds are in variable rate mode.

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

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

The City electorate has approved several lease revenue bond propositions, some of which have authorized but unissued bonds. The following lease programs have remaining authorization:

In 1987, voters approved Proposition B, which authorizes the City to lease finance (without limitation as to maximum aggregate par amount) the construction of new parking facilities, including garages and surface lots, in eight of the City's neighborhoods. In July 2000, the City issued \$8.2 million in lease revenue bonds to finance the construction of the North Beach Parking Garage, which was opened in February 2002. There is no current plan to issue any more bonds under Proposition B.

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of August 1, 2018 the total authorized amount for such financings was \$73.7 million. The total principal amount outstanding as of August 1, 2018 was \$890 million.

In 1994, voters approved Proposition B, which authorized the issuance of up to \$60.0 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued \$22.6 million and \$23.3 million of Proposition B lease revenue bonds, respectively, leaving \$14.0 million in remaining authorization. There is no current plan to issue additional series of bonds under Proposition B.

In March 2000, voters approved Proposition C, which extended a two and one half cent per \$100.0 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the "Open Space Fund"). Proposition C also authorizes the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. The City issued approximately \$27.0 million and \$42.4 million of such Open Space Fund lease revenue bonds in October 2006 and October 2007, respectively. The City intends to issue refunding lease revenues bonds for the remaining outstanding amounts of the Series 2006 and Series 2007 Open Space Fund lease revenue bonds in August 2018.

In November 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 establishes 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. The City issued the first series of lease revenue bonds in the amount of approximately \$34.3 million in March 2009. The City intends to issue refunding lease revenues bonds for the remaining outstanding amounts of the Series 2009A Branch Library Improvement Project lease revenue bonds in August 2018.

#### **Commercial Paper Program**

In March of 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"). 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 original Series 1 and 1-T and Series 2 and 2-T letters of credit issued in 2010 by J.P. Morgan Chase Bank, N.A. and U.S. Bank National Association were scheduled to expire in June of 2016. In May of 2016, the City obtained renewal credit facilities to secure the CP Notes 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 of 2021.

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. The Series 3 and 3-T and 4 and 4-T are secured by a letter of credit issued by State Street Bank and Trust Company expiring in February of 2019.

As of August 1, 2018, the outstanding principal amount of CP Notes is \$36.5 million. The weighted average interest rate for the outstanding CP Notes is approximately 1.67%.

#### **Transbay Transit Center Interim Financing**

In May of 2016, the Board authorized and the Mayor approved the establishment of a not-to-exceed \$260.0 million Lease Revenue Commercial Paper Certificates of Participation (the "Short-Term Certificates") to meet cash flow needs during the construction of phase one of the Transbay Transit Center. The Short-Term Certificates are expected to be repaid in part from Transbay Transit Center CFD bond proceeds and tax increment. It is anticipated that long-term debt will be issued to retire the Short-Term Certificates, and such long-term debt is also expected to be repaid from such sources.

The Short-Term Certificates consist of \$160 million of direct placement revolving certificates with Wells Fargo, expiring in January of 2020 and \$100 million of direct placement revolving certificates with Bay Area Toll Authority expiring September 1, 2021.

As of August 1, 2018, the TJPA had drawn a total of \$103,000,000 from the Wells Fargo financing facility, at a current interest rate of 2.64%.

#### **Board Authorized and Unissued Long-Term Obligations**

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 (Treasure Island Improvement Project) to finance the cost of additions and improvements to the utility infrastructure at Treasure Island. It is anticipated that a portion of these certificates will be issued in the summer of 2019.

In November 2016, the Board authorized and the Mayor approved the issuance of not to exceed \$60.5 million of City and County of San Francisco Certificates of Participation (Animal Care and Control Renovation Project) to finance the costs acquisition, construction, and improvement of an animal care and control facility. The City anticipates issuing the certificates in the summer of 2019.

In June of 2017, the Board authorized and the Mayor approved the issuance of not to exceed \$321.8 million of City and County of San Francisco Certificates of Participation (49 South Van Ness Project, formerly referred to as "1500 Mission Project") to finance a portion of the development costs, including construction and improvement, and related FF&E (furniture, fixture, or other equipment), technology,

and moving costs for the 1500 Mission Street office building. The City anticipates issuing the certificates in the Fall of 2019.

### **Overlapping Debt**

Table A-26 shows bonded debt and long-term obligations as of August 1, 2018 sold in the public capital markets by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

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TABLE A-26

**CITY AND COUNTY OF SAN FRANCISCO**  
**Statement of Direct and Overlapping Debt and Long-Term Obligations**

As of August 1, 2018

<u>2018-19 Assessed Valuation</u> (net of non-reimbursable & homeowner exemptions):	\$259,329,479,498
<b><u>DIRECT GENERAL OBLIGATION BOND DEBT</u></b>	
General City Purposes Carried on the Tax Roll	<u>\$2,480,033,517</u>
<b>GROSS DIRECT DEBT</b>	<b>\$2,480,033,517</b>
<b><u>DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS</u></b>	
San Francisco Finance Corporation, Equipment LRBs Series 2013A	\$890,000
San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1	8,545,000
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2	91,800,000
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007	40,760,000
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A	25,975,000
San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital)	119,130,000
San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project)	30,075,000
San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt	19,835,000
San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs	129,550,000
San Francisco Refunding Certificates of Participation, Series 2010A	100,575,000
San Francisco COPs, Refunding Series 2011AB (Moscone)	25,515,000
San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project)	35,460,000
San Francisco COPs, Series 2013BC Port Facilities	31,170,000
San Francisco COPs, Series 2014-R1 (Courthouse Project), 2014-R2 (Juvenile Hall Project)	35,150,000
San Francisco COPs, Series 2015AB War Memorial Veterans Building Seismic Upgrade and Improvements	125,295,000
San Francisco Refunding COPs, Series 2015-R1 (City Office Buildings-Multiple Properties Project)	118,100,000
San Francisco COPs, Series 2016A War Memorial Veterans Building Seismic Upgrade and Improvements	14,305,000
San Francisco COPs Series 2017A (Hope SF)	27,575,000
San Francisco COPs Series 2017B (Moscone Convention Center Expansion)	<u>412,355,000</u>
<b>LONG-TERM OBLIGATIONS</b>	<b>\$1,392,060,000</b>
<b>GROSS DIRECT DEBT &amp; LONG-TERM OBLIGATIONS</b>	<b>\$3,872,093,517</b>
<b><u>OVERLAPPING DEBT &amp; LONG-TERM OBLIGATIONS</u></b>	
Bayshore Hester Assessment District	\$510,000
San Francisco Bay Area Rapid Transit District Sales Tax Revenue Bonds (29.27%)	148,123,091
San Francisco Bay Area Rapid Transit District General Obligation Bonds (34.14%)	276,417,924
San Francisco Community College District General Obligation Bonds (2001, 2005)	231,675,000
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds (2011)	27,715,000
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	859,949,677
San Francisco Redevelopment Agency Obligations (Special Tax Bonds CFD #4, #6, #7)	182,261,505
Association of Bay Area Governments Obligations Special Tax Bonds, Series 2004-1, 2006-1, 2006-1	18,140,000
Special Tax District No. 2009-1 Improvement Area 1, 2 SF Sustainable Financing	2,906,624
San Francisco Unified School District General Obligation Bonds (2003, 2006, 2011, 2015R, 2016, 2017)	968,915,000
San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Series 2017A, 2017B	<u>207,500,000</u>
<b>TOTAL OVERLAPPING DEBT &amp; LONG-TERM OBLIGATIONS</b>	<b>\$2,924,113,821</b> <sup>3</sup>
<b>GROSS COMBINED TOTAL OBLIGATIONS</b>	<b>\$6,796,207,338</b> <sup>1</sup>

**Ratios to Assessed Valuation:**

	<u>Actual Ratio</u>	<u>Charter Req.</u>
Gross Direct Debt (General Obligation Bonds)	0.96%	< 3.00% <sup>2</sup>
Gross Direct Debt & Long-Term Obligations	1.49%	n/a
Gross Combined Total Obligations	2.62%	n/a

<sup>1</sup> Excludes revenue and mortgage revenue bonds and non-bonded third party financing lease obligations. Also excludes tax allocation bonds sold in August, 2009.

<sup>2</sup> 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.

<sup>3</sup> Does not include CCSF Lease Revenue Direct Placement Revolving COPs (Transbay Interim Financing)

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

## **MAJOR ECONOMIC DEVELOPMENT PROJECTS**

Numerous development and construction projects are in progress throughout the City at any given time. This section describes several of the most significant privately owned and managed real estate developments currently under way in the City in which there is City participation, generally in the form of a public/private partnership. The information in this section has been prepared by the City based on City-approved plans as well as unofficial plans and representations of the developer in each case, and includes forward-looking statements. These forward-looking statements consist of expressions of opinion, estimates, predictions, projections, plans and the like; such forward-looking statements in this section are those of the developers and not of the City. The City makes no prediction, representation or assurance that the plans and projects described will actually be accomplished, or the time frame in which the developments will be completed, or as to the financial impact on City real estate taxes, developer fees, other tax and fee income, employment, retail or real estate activity, or other consequences that might be expected or projected to result from the successful completion of each development project. Completion of development in each case may depend on the local economy, the real estate market, the financial health of the developer and others involved in the project, specific features of each development and its attractiveness to buyers, tenants and others, as well as the financial health of such buyers, tenants, and others. Completion and success of each development will also likely depend on other factors unknown to the City.

### **Hunters Point Shipyard (Phase 1 and 2) and Candlestick Point**

The Hunters Point Shipyard Phase 1 and 2 and Candlestick Point project area will deliver approximately 12,100 new homes, approximately 32 percent of which will be below market rate and will include the rebuilding of the Alice Griffith public housing development consistent with the City's HOPE SF program, up to 3 million square feet of research and development space, and more than 350 acres of new parks in the southeast portion of San Francisco (the "Project"). In total, the Project will generate over \$6 billion of new economic activity to the City, more than 15,000 permanent jobs, hundreds of new construction jobs each year, new community facilities, new transit infrastructure, and provide approximately \$90 million in community benefits. The Project's full build out will occur over 20 to 30 years. In the next five years over 1,000 units of housing and 26 acres of parks will be completed in the first phase of the Shipyard.

The first phase of development has begun at the Hunters Point Shipyard site with 375 completed units and 198 units currently under construction. An additional 478 units are expected to begin construction in 2018. On Candlestick Point, 306 housing units are now complete which includes a mix of public housing replacement and new, affordable units, with an additional 31 units in construction. In 2016, horizontal infrastructure construction commenced to support additional residential and commercial development; designs for approximately 1260 housing units, 220 hotel rooms, and a 62,000 square-foot film and arts center are currently underway.

### **Treasure Island**

Former Naval Station Treasure Island is located in the San Francisco Bay and connected to the City by the San Francisco-Oakland Bay Bridge. The former base, which ceased operations in 1997, consists of approximately 405 acres on Treasure Island and 90 acres on adjoining Yerba Buena Island. Development plans for the islands include up to 8,000 new homes, 2,173 of which will be offered at below-market rates; up to 500 hotel rooms; an expanded marina; restaurants; retail and entertainment venues; and a world-class 300-acre parks and open space system. The compact mixed-use transit-oriented

development is centered around a new ferry terminal connecting the island to downtown San Francisco and is designed to prioritize walking, biking and public transit. The development plan includes green building standard, best practices in low-impact development, and sea level rise adaptation strategies.

The first major land transfer from the Navy to the Treasure Island Development Authority (“TIDA”) occurred in May 2015 and included the northern half of Yerba Buena Island and more than half of the area of Treasure Island. This was followed by smaller transfers of additional parcels on Treasure Island in September 2016 and August 2017. The developer, Treasure Island Community Development (“TICD”), received its first land transfer in February 2016. Demolition in these areas is complete, and initial infrastructure and geotechnical improvements are underway. The first phase of development will include extensive horizontal infrastructure improvements (utilities, ferry facilities, roadway improvements, site preparation, etc.) as well as the initial vertical developments. The complete build-out of the project is anticipated to occur over 15 to 20 years.

### **Mission Bay**

The development plans for Mission Bay include a new University of California-San Francisco (“UCSF”) research campus containing 3.15 million square feet of building space on 46 acres of land, of which 43 acres were donated by the Mission Bay Master Developer and the City; UCSF’s 550-bed hospital; 3.4 million square feet of biotech, ‘cleantech’ and health care office space; 6,500 housing units, with 1,850 (29%) affordable to moderate-, low-, and very low-income households; 425,000 square feet of retail space; a 250-room hotel with up to 25,000 square feet of retail entertainment uses; 49 acres of public open space, including parks along Mission Creek and San Francisco Bay and eight acres of open space within the UCSF campus; a new 500-student public school; and a new fire and police station and police headquarters. Mission Bay is approximately 70% complete. Over 5,646 units have been completed with an additional 262 units under construction, along with several new parks. In the past 6 months, a 119-unit affordable housing project and a 250 room have broken ground.

### **Mission Bay Blocks 29-32– Warriors Multipurpose Recreation and Entertainment Venue**

The Golden State Warriors, a National Basketball Association team, is developing a multipurpose recreation and entertainment venue and associated development in Mission Bay. The site is bordered by Third Street to the West, Terry Francois Boulevard to the East, 16<sup>th</sup> Street to the South and South Street to the North. The Warriors project includes a state-of-the-art multi-purpose recreation and entertainment venue for Warriors’ home games, concerts and family shows. The site will also have restaurants, retail, office space, bike valet, public plazas and a limited amount of parking. Environmental review has been completed for the site, and was upheld in a November 2016 decision. The project began construction in January 2017 and the event center is scheduled to open in time for the 2019-2020 basketball season.

### **Transbay Transit Center**

The Transbay Project Redevelopment Project Area was adopted in 2005 with the purpose of redeveloping 10 acres of property owned by the State in order to generate funding for the new Salesforce Transit Center. In 2012 the Transit Center District Plan, the guiding document for the area surrounding the transit center, was approved by the Planning Commission and by the Board of Supervisors. The Transit Center District Plan includes additional funding sources for the Salesforce Transit Center. The Transbay Program will replace the former Transbay Terminal at First and Mission Streets with a modern transit hub and extend the Caltrain commuter rail line underground 1.3 miles into

the Financial District. The Salesforce Transit Center broke ground on August 11, 2010 and is scheduled to open in August 2018. Demolition of existing structures on the site was completed in August 2011.

The Pelli Clarke Pelli Architects-designed transit center will serve more than 100,000 people per day through 11 transportation systems, including future California High Speed Rail, which will be designed to connect San Francisco to Los Angeles in less than 2-1/2 hours. The center is designed to embrace the goals of green architecture and sustainability. The heart of the Salesforce Transit Center, "Salesforce Park," a 5.4-acre public park atop the facility, that will serve as a living green roof for the transit facility. The center will have a LEED rating of at least Silver. The Transbay Program is funded by various public funding partners, including the federal government, the State, the Metropolitan Transportation Commission, the San Francisco County and San Mateo County Transportation Authorities, AC Transit and the Successor Agency among others.

The 10 acres of property formerly owned by the State surrounding the Transbay Transit Center is being redeveloped with plans for 3,300 new homes, 1,300 to be affordable below-market rate homes, over 2.4 million square feet of new office space, over 9 acres of new parks and open space, and a new retail boulevard on Folsom Street. Of the parcels over which OCII has jurisdiction, three parcels are fully complete and seven parcels are in various stages of development and pre-development. Four of those parcels are currently under construction and will provide over 1,400 housing units and 760,000 of commercial space within the next 2 years. The sale of various sites has generated more than \$600 million in funding for construction of the Transbay Transit Center.

#### **Seawall Lot (SWL) 337 and Pier 48 (Mission Rock)**

Mission Rock is a mixed-use development at Seawall Lot 337 and Pier 48, Port-owned property comprising approximately 28 acres. The development plan for Mission Rock includes: approximately 8 acres of public parks and open spaces, including a 5-acre regional waterfront park; approximately 1,500 new rental housing units, 40 percent of which will be affordable to low- and moderate-income households; 1.0 to 1.4 million square feet of commercial space; 250,000 square feet of restaurant and retail space, approximately 3,000 parking spaces within a dedicated parking structure which will serve patrons of AT&T Park as well as Mission Rock occupants and visitors; and the rehabilitation and reuse of historic Pier 48.

On November 3, 2015, 74% of San Francisco voters approved the Mission Rock Affordable Housing, Parks, Jobs and Historic Preservation Initiative (Proposition D), which authorized increased height limits on the Project Site. Environmental review for the project was successfully completed in October 2017. The Port Commission approved the project's CEQA findings and transaction documents in January 2018 and the Mayor signed legislation approving the project and all associated transaction documents in March 2018. On In April 2018, State Lands Commission made determinations required under California statutes regarding the Mission Rock development. Site preparation and ground improvement work is planned for Fall 2019, and full project buildout is anticipated to occur in four phases over 15 to 30 years.

#### **Pier 70**

Plans for Pier 70 call for substantial development, including major parks and historic building rehabilitation, on this 69-acre site to achieve a number of goals, including preservation and adaptive reuse of historic structures; retention of the ship repair operations; provision of new open space; reactivation and economic development on the site; and needed infrastructure and site remediation. The Port, which controls Pier 70, OEWD, in its capacity as lead City negotiator, and the City's



development partner, Forest City, completed project approvals in February 2018 for new mixed-use neighborhood on a 28-acre portion of Pier 70 known as the Waterfront Site. Approvals included: passage of Proposition F by San Francisco voters in November 2014 – the Union Iron Works Historic District Housing, Waterfront Parks, Jobs, and Preservation Initiative – which allowed for an increase in height limits on the Waterfront Site to up to 90 feet; Mayoral signature on legislation approving the project in late 2017; and State Lands Commission action on the project in February 2018.

The Special Use District for the neighborhood includes 9 acres of parks, 1,600 to 3,000 residential units and 30% affordable housing, rehabilitation and reuse of three historic buildings in the Union Iron Works Historic District, almost 500,000 square feet of retail, arts, and light industrial space, 1.1 to 1.7 million square feet of commercial office. The project is anticipated to be developed in 3 phases over 15 to 25 years. The Forest City team has submitted its phase 1 application, and Phase I broke ground in 2018.

### **Moscone Convention Center Expansion Project**

The Moscone Center Expansion Project will add approximately 300,000 square feet and repurpose an additional 120,000 square feet to the portion of the existing Moscone Center located on Howard Street between 3rd and 4th Streets in the Yerba Buena Gardens neighborhood of San Francisco. Nearly 140,000 square feet of this additional space would be created by excavating and expanding the existing below-grade exhibition halls that connect the Moscone North and South buildings under Howard Street, with the remaining consisting of new and repurposed lobby area, new multi-purpose/meeting room area, and new and repurposed building support area.

In addition to adding new rentable square footage, the project architects propose an iconic sense of arrival that enhances Moscone's civic presence on Howard Street and reconnects it to the surrounding neighborhood through the creation of reintroduced lost mid-block passageways. As such, the project proposes a new mid-block pedestrian entrance from Third Street and a replacement pedestrian bridge connecting Yerba Buena Gardens with the cultural facilities and children's playground to the south. An additional enclosed pedestrian bridge would provide enhanced circulation for Moscone convention attendees and reduce on-street congestion.

A May 2012 analysis by Jones Lang Lasalle Hotels estimated that the City would forego up to \$2 billion in revenue over the next decade if Moscone were not expanded. The project allows the City to recover approximately \$734 million of this future revenue and create 3,480 local jobs through a phased construction schedule that keeps Moscone in continuous revenue generating operation.

The proposed project is a joint partnership between the City and the hotel industry, acting through the Tourist Improvement District Management Corporation, with the City paying approximately one-third of all expansion costs and the hotel community paying approximately two-thirds. The Board of Supervisors unanimously approved the creation of the Moscone Expansion District and the issuance of \$507 million in Certificates of Participation on February 5, 2013 and the Planning Commission unanimously approved the project on August 15, 2014. On July 6, 2017, the City issued \$412 million in Certificates of Participation for the Moscone Convention Center Expansion Project, and there are no plans to issue any subsequent certificates for the expansion project. Project development began in December 2012, with major construction starting in November 2014. The project is expected to reach completion by the end of 2018.

## CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limit the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. However, *ad valorem* property taxes required to be levied to pay debt service on general obligation bonds was authorized and approved in accordance with all applicable constitutional limitations. A summary of the currently effective limitations is set forth below.

### Article XIII A of the California Constitution

Article XIII A of the California Constitution, known as "Proposition 13," was approved by the California voters in June of 1978. It limits the amount of *ad valorem* tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when "purchased, newly constructed or a change in ownership has occurred" (as such terms are used in Article XIII A) after the 1975 assessment. Furthermore, all real property valuation may be increased or decreased to reflect the inflation rate, as shown by the CPI or comparable data, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on 1) indebtedness approved by the voters prior to July 1, 1978, 2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or 3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district voting on the proposition, but only if certain accountability measures are included in the proposition.

The California Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher or lower than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate persons with disabilities and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

### **Article XIII B of the California Constitution**

Article XIII B was enacted by California voters as an initiative constitutional amendment in November 1979. Article XIII B limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population, and services rendered by the governmental entity. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters. Article XIII B includes a requirement that if an entity's 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.

### **Statutory Limitations**

On November 4, 1986, California voters adopted Proposition 62, an initiative statute that, among other things, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the local governmental entity's legislative body and by a majority vote of the voters, and (ii) that any new or increased special purpose tax be approved by a two-thirds vote of the voters.

In *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara* decision"), the California Supreme Court upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a "special tax" as required by Proposition 62. The *Santa Clara* decision did not address the question of whether it should be applied retroactively. In *McBrearty v. City of Brawley*, 59 Cal. App. 4th 1441 (1997), the Court of Appeal, Fourth District, concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

The *Santa Clara* decision also did not decide, and the California Supreme Court has not otherwise decided, whether Proposition 62 applies to charter cities. The City is a charter city. Cases decided by the California Courts of Appeal have held that the voter approval requirements of Proposition 62 do not apply to certain taxes imposed by charter cities. See *Fielder v. City of Los Angeles*, 14 Cal. App. 4th 137 (1993) and *Fisher v. County of Alameda*, 20 Cal. App. 4th 120 (1993).

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since it is a statute, it is subordinate to the authority of charter cities to impose taxes derived from the State Constitution. Proposition 218 (discussed above), however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution.

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure under Proposition 62 may not be significant. The effective date of Proposition 62 was November 1986. Proposition 62 contains provisions that apply to taxes imposed on or after August 1, 1985. Since August 1, 1985, the City has collected taxes on businesses, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rentals. See "OTHER CITY TAX REVENUES" herein. Only the hotel and stadium admissions taxes have been increased since that date. The increases in these taxes were ratified by the voters on November 3, 1998 pursuant to the requirements of Proposition 218. With the exception of the vehicle rental tax, the City continues to collect all of the taxes listed above. Since these remaining taxes were adopted prior to August 1, 1985, and have not been increased, these taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city.

### **Proposition 1A**

Proposition 1A, a constitutional amendment proposed by the State Legislature and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate, or change the allocation of local sales tax revenues,

subject to certain exceptions. As set forth under the laws in effect as of November 3, 2004, Proposition 1A generally prohibits the State from shifting any share of property tax revenues allocated to local governments for any fiscal year to schools or community colleges. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A also provides that if the State reduces the annual vehicle license fee rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing aid to cities and spending on other State programs, or other actions, some of which could be adverse to the City.

#### **Proposition 22**

Proposition 22 ("Proposition 22") which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase a school and community college district's share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. Proposition 22 prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies (but see "San Francisco Redevelopment Agency Dissolution" above). While Proposition 22 will not change overall State and local government costs or revenues by the express terms thereof, it will cause the State to adopt alternative actions to address its fiscal and policy objectives.

Due to the prohibition with respect to the State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However, borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

## **Proposition 26**

On November 2, 2010, the voters approved Proposition 26 ("Proposition 26"), revising certain provisions of Articles XIII and 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.

## LITIGATION AND RISK MANAGEMENT

### Pending Litigation

There are a number of lawsuits and claims routinely pending against the City, including those summarized in Note 18 to the City's CAFR as of June 30, 2017, attached as Appendix B to this Official Statement. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not materially impair the ability of the City to pay debt service on the Bonds, its General Fund lease or other debt obligations, nor have a material adverse impact on City finances.

Millennium Tower is a 58-story luxury residential building completed in 2009 and located at 301 Mission Street in downtown San Francisco. On August 17, 2016, some owners of condominiums in Millennium Tower filed a lawsuit, San Francisco Superior Court No. 16-553758 (the "Lehman Lawsuit") against the Transbay Joint Powers Authority ("TJPA") and the individual members of the TJPA, including the City. The TJPA is a joint exercise of powers authority created by the City, the Alameda-Contra Costa Transit District, the Peninsula Corridor Joint Powers Board, and Caltrans (ex officio). The TJPA is responsible under State law for developing and operating the Transbay Transit Center, which will be a new regional transit hub located near the Millennium Tower. See "MAJOR ECONOMIC DEVELOPMENT PROJECTS—Transbay".

The TJPA began excavation and construction of the Transbay Transit Center in 2010, after the Millennium Tower was completed. In brief, the Lehman Lawsuit claims that the construction of the Transbay Transit Center harmed the Millennium Tower by causing it to settle into the soil more than planned and tilt toward the west/northwest, and the owners claim unspecified monetary damages for inverse condemnation and nuisance. The TJPA has asserted that the Millennium Tower was already sinking more than planned and tilting before the TJPA began construction of the Transbay Transit Center and that the TJPA took precautionary efforts to avoid exacerbating the situation. In addition to the Lehman Lawsuit, several other lawsuits have been filed against the TJPA related to the subsidence and tilting of the Millennium Tower. In total, seven lawsuits have been filed against TJPA, and a total of three of those name the City.

In addition to the Lehman Lawsuit, the City is named as a defendant in a lawsuit filed by the owners of a single unit, the Montana Lawsuit, San Francisco Superior Court Case No. 17-558649, and in a lawsuit filed by owners of multiple units, Case No. 17-559210, the Ying Lawsuit. The Montana and Ying Lawsuits contain the same claims as the Lehman Lawsuit. The City continues to evaluate the lawsuits, and the subject matter of the lawsuits, and is engaged in discovery, but cannot now make any prediction as to the outcome of the lawsuits, or whether the lawsuits, if determined adversely to the TJPA or the City, would have a material adverse impact on City finances.

## Risk Management Program

Citywide risk management is coordinated by the Risk Management Division which reports to the Office of the City Administrator. With certain exceptions, it is the general policy of the City not to purchase commercial liability insurance for the risks of losses to which it is exposed but rather to first evaluate self-insurance for such risks. The City believes that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing transactions and for other limited purposes. The City does not maintain commercial earthquake coverage, with certain minor exceptions.

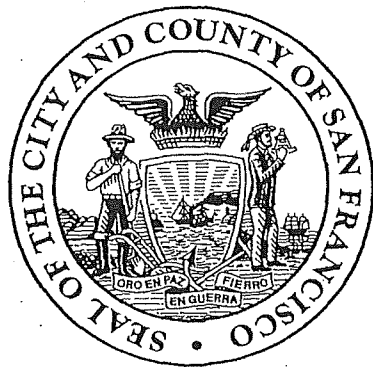
The City's decision to obtain commercial insurance depends on various factors including whether the facility is currently under construction or if the property is owned by a self-supporting enterprise fund department. For new construction projects, the City has utilized traditional insurance, owner-controlled insurance programs or contractor-controlled insurance programs. Under the latter two approaches, the insurance program provides coverage for the entire construction project. When a traditional insurance program is used, the City requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory 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 SF Public Utilities Commission, the Port and Convention Facilities, etc.). The remainder of the commercial insurance coverage is for General Fund departments that are required to provide coverage for bond-financed facilities, coverage for collections at City-owned museums and to meet statutory requirements for bonding of various public officials, and other limited purposes where required by contract or other agreement.

Through coordination 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 CAFR. The appropriations are sized based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The City actuarially determines liability and workers' compensation risk exposures as permitted under State law. The City actuarially estimates future workers' compensation costs to the City according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the department's payroll. The administration of workers' compensation claims and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. The Workers' Compensation Division determines and allocates workers' compensation costs to departments based upon actual payments and costs associated with a department's injured workers' claims. Statewide workers' compensation reforms have resulted in some City budgetary savings in recent years. The City continues to develop and implement programs to lower or mitigate workers' compensation costs. These programs focus on accident prevention, transitional return to work for injured workers, improved efficiencies in claims handling and maximum utilization of medical cost containment strategies.

The City's estimated liability and workers' compensation risk exposures are summarized in Note 18 to the City's CAFR, attached to this Official Statement as Appendix B.







**OFFICE OF THE CONTROLLER**  
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield  
Controller

Todd Rydstrom  
Deputy Controller

Anna Van Degna  
Director of Public Finance

## MEMORANDUM

**TO:** Honorable Members, Board of Supervisors

**FROM:** Anna Van Degna, Director of the Office of Public Finance  
Bridget Katz, Office of Public Finance  
Vishal Trivedi, Office of Public Finance

**DATE:** Friday, December 7, 2018

**SUBJECT:** Master Resolution Authorizing the Issuance of General Obligation Bonds (Proposition A, 1992/Proposition C, 2016) – Not to Exceed \$260,684,550;  
  
Resolution Authorizing the Sale of Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016) Series 2019A – Not to Exceed \$75,000,000;  
  
Ordinance Appropriating Proceeds of General Obligation Bonds, Series 2019A

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We respectfully request that the Board of Supervisors (the "Board") consider for review and adoption the resolutions authorizing the issuance of General Obligation Bonds for the Preservation and Seismic Safety ("PASS") Program in an aggregate amount of \$260,684,550 and the sale of a not-to-exceed par amount of \$75,000,000 in City and County of San Francisco Taxable General Obligation Bonds (Social Bonds - Affordable Housing, 2016), Series 2019A (the "Bonds"), which will be used to finance the acquisition, improvement, and rehabilitation of at-risk multi-unit residential buildings and to convert such structures to affordable housing; and the ordinance appropriating the proceeds.

In connection with this request, legislation approving the sale and issuance of the bonds, supplemental appropriation ordinances to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, December 11, 2018. We respectfully request that the items be heard at the scheduled January 10, 2019 meeting of the Budget and Finance Committee.

2 | Resolutions Authorizing Issuance and Sale of General Obligation Bonds (Social Bonds – Affordable Housing, 2016) & Ordinance Appropriating the Proceeds

**Background:**

*Proposition A, 1992:* As adopted in 1992, the Seismic Safety Loan Program (“SSLP”) authorized the sale of up to \$350,000,000 of general obligation bonds intended to support the seismic strengthening of unreinforced masonry buildings (UMBs). Currently, \$260,684,550 of the original SSLP financing authorization remains available for future bond issuances.

Per the SSLP, the \$350,000,000 total authorization was allocated across two separate loan programs: (i) a \$150,000,000 below-market rate (BMR) loan program for seismic improvements to affordable housing UMBs, and (ii) a \$200,000,000 market rate (MR) loan program intended for commercial or other UMBs.

- 1) Below Market Rate Program (BMR): The BMR program was structured such that borrowers would pay back principal and 1/3 of the City’s borrowing costs, leaving a net impact to the property tax levy of 2/3 of interest cost generated by the loan amount. Additionally, \$60,000,000 of the BMR program allocation was permitted to be deferred for 20 or 55 years, which resulted in an additional short-term impact to the property tax rolls.

Of the \$150,000,000 originally authorized for the BMR loan program, \$45,315,450 of bonds have been issued to date, all of which have been deferred loans. This leaves \$104,684,550 in available funding authority for BMR loans, of which \$14,684,550 is eligible to be deferred.

- 2) Market Rate Program (MR): The MR program was structured as a pass-through, with borrowers paying the full borrowing cost to the City, plus an additional 1% interest to cover administration costs.

Of the \$200,000,000 originally authorized for the MR program, \$44,000,000 of bonds have been issued to date, leaving \$156,000,000 in available funding authority for MR loans.

BMR and MR loans may be combined within the same bond financing to achieve a low-cost blended interest rate:

*Proposition C, 2016:* Due to low historical demand for SSLP loans funded through this general obligation bond program, in November 2016 the City’s voters approved Proposition C, which amended the 1992 authorization to broaden the scope of the original program. Proposition C added the eligibility to finance the cost to acquire, improve, and rehabilitate and to convert at-risk multi-unit residential buildings to affordable housing, to perform needed seismic, fire, health, and safety upgrades and other major rehabilitation for habitability, and related costs. On October 30, 2018, the Board of Supervisors approved Ordinance No. 270-18, amending the Administrative Code to authorize and implement a Seismic Safety Retrofit and Affordable Housing Loan Program (SSRAHLP) to be funded by the sale of the authorized general obligation bonds.

**Financing Parameters**

The proposed legislation will authorize the issuance of bonds for the purposes allowed under the November 2016 Proposition C, approve the sale of the first tranche of bonds under the program, and approve the appropriation of bond proceeds from that sale.

Table 1 below outlines the not-to-exceed sources and uses for the Bonds, based on an estimate provided by Sperry Capital Inc., a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB). The information below is intended to advise the Board of Supervisors regarding the proposed financing in accordance with Section 5852.1 of the California Government Code.

3 | Resolutions Authorizing Issuance and Sale of General Obligation Bonds (Social Bonds – Affordable Housing, 2016) & Ordinance Appropriating the Proceeds

Table 1: Estimated Sources and Uses from the Bonds

<b>Maximum Not to Exceed Amount:</b>	<b>\$75,000,000</b>
<b>Estimated Sources:</b>	
Par Amount	\$75,000,000
<b>Total Estimated Sources:</b>	<b>\$75,000,000</b>
<b>Estimated Uses:</b>	
Project Fund Deposits:	
Project Fund	\$71,461,128
CSA Audit Fee	\$142,922
<b>Total Project Fund Deposits:</b>	<b>\$71,604,050</b>
Cost of Issuance	\$600,000
Underwriter's Discount	\$220,950
CBOBOC Fee	\$75,000
<b>Total Delivery Expense:</b>	<b>\$895,950</b>
Reserve for Market Uncertainty	\$2,500,000
<b>Total Estimated Uses:</b>	<b>\$75,000,000</b>

Source: Sperry Capital

Based upon an assumed current market interest rate of 5.53%, which assumes the issuance of the Bonds on a federally taxable basis, the Office of Public Finance estimates a not-to-exceed average annual debt service of approximately \$4,700,000. The not-to-exceed par amount of \$75,000,000 is estimated to generate approximately \$113,500,000 in interest payments and approximately \$188,500,000 in total debt service over the life of the Bonds. The debt service estimates assume a 40-year term, which the Office of Public Finance and the Mayor's Office of Housing Community Development, in consultation with the City's municipal advisers, determined most closely aligns with the underlying loan repayment term. The Bonds will mature on or before June 15, 2059.

**Property Tax Impact**

Repayment of annual debt service on the Bonds will be recovered through increases in the annual property tax rate. As previously discussed, borrowers of BMR loans are expected to repay principal and 1/3 of the City's borrowing cost, and borrowers of MR loans are expected to repay the full borrowing cost to the City, plus an additional 1% interest to cover administrative costs. Therefore, we anticipate a portion of the City's borrowing cost and, subsequently, a portion of the impact on property taxes, may be reduced due to these loan repayments.

The increase in the property tax rate associated with the Bonds is estimated to range from 0.00003% up to 0.00172% per \$100 of assessed value or \$0.03 up to \$1.72 per \$100,000 of assessed value over the anticipated 40-year term of the bonds. The owner of a residence with an assessed value of \$600,000,

#### 4 | Resolutions Authorizing Issuance and Sale of General Obligation Bonds (Social Bonds – Affordable Housing, 2016) & Ordinance Appropriating the Proceeds

assuming a homeowner's exemption of \$7,000, would pay additional property taxes to the City estimated to range from \$0.19 up to \$10.19 per year if the not-to-exceed \$75,000,000 Bonds are sold.

*Method of Sale & Bond Purchase Agreement:* The Office of Public Finance is proposing a negotiated sale in connection with this transaction. The Bonds will be structured as taxable bonds with a final maturity of 35 to 40 years in order to benefit the needs of an affordable housing loan program. Citigroup has been selected to serve as Senior Underwriter, and Raymond James and Loop Capital Markets have been selected to serve as Co-underwriters. All three firms were selected through a competitive process, based on their responses to a Request for Proposal that was distributed to the City's Underwriter Pool, and in consultation with the City's municipal advisors on the transaction. The proposed Resolution approves the form of the Bond Purchase Agreement, which provides the terms of sale of the bonds by the City to the selected underwriters.

#### "Social Bond" Designation:

The City intends to designate the Bonds as "Social Bonds" since the proceeds will be used to finance socially beneficial projects ("Social Projects"), particularly the acquisition and conversion of at-risk buildings to affordable housing through MR and BMR loans.

#### Debt Limit:

The City Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3.00% of the assessed value of property in the City. For purposes of this provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's general obligation debt limit for fiscal year 2018-19 is approximately \$7.78 billion, based on a net assessed valuation of approximately \$259.3 billion. As of December 1, 2018, the City had outstanding approximately \$2.46 billion in aggregate principal amount of general obligation bonds, which equals approximately 0.95% of the net assessed valuation for fiscal year 2018-19. If all of the City's voter-authorized and unissued general obligation bonds were issued, the total debt burden would be 1.40% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by approximately 0.03% to 0.98%— within the 3.00% legal debt limit.

#### Capital Plan:

The Capital Planning Committee approved a financial constraint regarding the City's planned use of general obligation bonds such that debt service on approved and issued general obligation bonds would not increase property owners' long-term property tax rates above fiscal year 2006 levels. The fiscal year 2006 property tax rate for the general obligation bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the Bonds, the property tax rate for general obligation bonds for fiscal year 2018-19 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

#### Additional Information

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, December 11, 2018. The forms of the related financing documents—including the Bond Purchase Agreement, Preliminary Official Statement, Appendix A, the Continuing Disclosure Certificate and related documents—will also be submitted.

*Bond Purchase Agreement:* The City intends to pursue a negotiated sale of the Bonds; the Purchase Contract details the terms, covenants, and conditions for the sale of the Bonds through selected

underwriter(s), as well as agreements regarding expenses, closing and disclosure documents.

*Official Notice of Sale:* Should the bonds be sold competitively, the Official Notice of Sale would announce the date and time for a competitive bond sale, including the terms relating to sale of the Bonds; form of bids, and delivery of bids; and closing procedures and documents.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Bonds. Pursuant to the Resolutions, in a competitive sale the Controller is authorized to award the Bonds to the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

*Notice of Intention to Sell:* The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the 2019A Bonds. Such Notice of Intention to Sell would be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

*Official Statement:* The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of the Bonds. The Official Statement describes the Bonds, including sources and uses of funds; security for the Bonds; risk factors; and tax and other legal matters, among other information. The Official Statement also includes the City's Appendix A, the most recent Comprehensive Annual Financial Report of the City, the City's Investment Policy, and other forms of legal documents for the benefit of investors, holders and owners of the Bonds.

A *Preliminary Official Statement* is distributed to prospective bidders prior to the sale of the Bonds and within seven days of the public offering, the *Final Official Statement* (adding certain sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) is distributed to the initial purchasers of the Bonds.

The Board of Supervisors and the Mayor, in adopting and approving the Resolutions, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller certifies, on behalf of the City, that the Preliminary and Final Official Statements are final as of their dates.

*Appendix A:* The City prepares the Appendix A: "City and County of San Francisco—Organization and Finances" (the "Appendix A") for inclusion in the Official Statement. The Appendix A describes the City's government and organization, the budget, property taxation, other City tax revenues and other revenue sources, general fund programs and expenditures, employment costs and post-retirement obligations, investment of City funds, capital financing and bonds, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the Resolution, City staff will revise the Official Statement, including the Appendix A.

*Continuing Disclosure Certificate:* The City covenants to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made in order to assist initial purchasers of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

6 | Resolutions Authorizing Issuance and Sale of General Obligation Bonds (Social Bonds – Affordable Housing, 2016) & Ordinance Appropriating the Proceeds

Financing Timeline:

Milestones:

Capital Planning Committee  
Board of Supervisors Introduction  
Budget & Finance Committee Hearing  
Board Approval of Resolution and 1st Reading of Appropriation Ordinance  
Final Board Approval of Appropriation Ordinance (2nd Reading)  
Estimated Sale & Closing

Dates\*:

December 3  
December 11  
January 10  
January 22  
January 29  
February 2019

\*Please note that dates are preliminary and may change.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 ([anna.vandegna@sfgov.org](mailto:anna.vandegna@sfgov.org)), Vishal Trivedi at 415-554-4862 ([vishal.trivedi@sfgov.org](mailto:vishal.trivedi@sfgov.org)) or Bridget Katz at 415-554-6240 ([bridget.katz@sfgov.org](mailto:bridget.katz@sfgov.org)) if you have any questions.

OFFICE OF THE MAYOR  
SAN FRANCISCO



LONDON N. BREED  
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors  
FROM: Kanishka Karunaratne Cheng *KKC*  
RE: Sale of Taxable General Obligation Bonds (Social Bonds - Affordable Housing, 2016), Series 2019A – Not to Exceed \$75,000,000  
DATE: December 11, 2018

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**Resolution authorizing the issuance and sale of not to exceed \$75,000,000 aggregate principal amount of City and County of San Francisco Taxable General Obligation Bonds (Social Bonds - Affordable Housing, 2016), Series 2019A; prescribing the form and terms of said bonds; providing for the appointment of depositories and other agents for said bonds; providing for the establishment of accounts related to said bonds; authorizing the sale of said bonds by competitive or negotiated sale; approving the forms of Official Notice of Sale and Notice of Intention to Sell Bonds and directing the publication of the Notice of Intention to Sell Bonds; approving the form of Bond Purchase Contract; approving the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of said bonds; approving the form of the Continuing Disclosure Certificate; authorizing and approving modifications to documents; ratifying certain actions previously taken; and granting general authority to City officials to take necessary actions in connection with the authorization, issuance, sale, and delivery of said bonds.**

Please note that Supervisor Peskin is a co-sponsor of this legislation.

Should you have any questions, please contact Kanishka Karunaratne Cheng at 415-554-6696.

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