

File No. 180363

Committee Item No. 7

Board Item No. 7

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date May 10, 2018

Board of Supervisors Meeting

Date June 5, 2018

Cmte Board

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Completed by: Linda Wong Date May 4, 2018

Completed by: Linda Wong Date May 15, 2018

1 [San Francisco Finance Corporation Refunding Lease Revenue Bonds (Library Projects)]

2
3 Ordinance approving the issuance and sale of refunding lease revenue bonds by the
4 City and County of San Francisco Finance Corporation (the "Corporation") to refinance
5 lease revenue bonds previously issued to finance various projects under the Branch
6 Library Improvement Program, as further described herein; approving the form of a
7 First Amendment to Facilities Lease by and between the Corporation and the City and
8 County of San Francisco (the "City") relating to certain real property described herein;
9 approving the form of a First Amendment to Master Lease by and between the
10 Corporation and the City; approving the form of a First Supplemental Trust Agreement
11 by and between the Corporation and a trustee (including certain indemnities contained
12 therein); approving the form of an Assignment Agreement by and between the
13 Corporation and a trustee; authorizing the sale of the refunding lease revenue bonds
14 by competitive or negotiated sale; approving the form of an Official Notice of Sale and
15 a Notice of Intention to Sell the refunding lease revenue bonds; directing the
16 publication of the Notice of Intention to Sell the refunding lease revenue bonds;
17 approving the form of a Purchase Contract and authorizing the appointment of one or
18 more underwriters for the refunding lease revenue bonds; approving the form of an
19 Official Statement in preliminary and final form; approving the form of a Continuing
20 Disclosure Certificate; authorizing the payment of costs of issuance; granting general
21 authority to City officials to take certain actions in connection with the refunding lease
22 revenue bonds; approving modifications to documents; and ratifying previous actions
23 taken in connection therewith.

24 NOTE: Unchanged Code text and uncodified text are in plain Arial font.
25 Additions to Codes are in *single-underline italics Times New Roman font*.
Deletions to Codes are in *strikethrough-italics Times New Roman font*.
Board amendment additions are in double-underlined Arial font.

1 **Board amendment deletions** are in strikethrough Arial font.
2 **Asterisks (* * * *)** indicate the omission of unchanged Code
3 subsections or parts of tables.

4 Be it ordained by the People of the City and County of San Francisco:

5
6 Section 1. Findings. The Board of Supervisors of the City and County of San
7 Francisco (the "Board") hereby finds and declares as follows:

8 A. On November 6, 2007, the voters of the City and County of San Francisco (the
9 "City") approved Proposition ~~θ~~D, which extended the Library Preservation Fund (the "Fund"),
10 as codified in Section 16.109 of the City's Charter (the "Charter"), and authorized the Board to
11 issue revenue bonds or other evidences of indebtedness, or to incur lease financing or other
12 obligations, payable from the Fund and any available funds pledged or appropriated by the
13 Board for such purpose, the proceeds of which are to be used for the purposes set forth in
14 Section 16.109(d) of the Charter; and,

15 B. The City and County of San Francisco Finance Corporation (the "Corporation"),
16 a California nonprofit public benefit corporation, has been formed among other purposes to
17 facilitate lease financings for the City; and,

18 C. By resolution adopted on October 2, 2008, the San Francisco Public Library
19 Commission (the "Library Commission") previously requested that the City, acting through the
20 Corporation, issue a series of lease revenue bonds and, with the approval of this Board and
21 the Mayor of the City, the Corporation has previously issued, in accordance with Charter
22 Section 16.109(d), its \$34,265,000 principal amount of Lease Revenue Bonds, Series 2009A
23 (Branch Library Improvement Program) (the "Series 2009A Bonds") to finance the acquisition,
24 construction, reconstruction, rehabilitation and/or improvement of real property and/or facilities
25 operated by the San Francisco Public Library (the "Library") for Library purposes and for the

1 purchase of equipment relating to such real property and/or facilities (the "2009 Project"); and

2 D. At the present time, \$27,030,000 principal amount of such Series 2009A Bonds
3 remain outstanding and are subject to optional redemption in whole or in part on any date
4 commencing June 15, 2018, and such outstanding amount of such bonds are referred to in
5 this Ordinance as the "Refunded Bonds"; and

6 E. By resolution adopted April 21, 2016 (the "Library Commission Resolution 2016-
7 01"), the Library Commission has requested that the Board authorize the issuance of a series
8 of refunding lease revenue bonds by the Corporation to redeem and refund the Refunded
9 Bonds and to refinance the 2009 Project; and,

10 F. In order to refinance the costs of the 2009 Project, the Board now desires to
11 authorize the issuance and sale of refunding lease revenue bonds (the "Bonds") by the
12 Corporation pursuant to Section 16.109 of the Charter and in accordance with Section
13 9.108(2) of the Charter, which refunding Bonds are expected to result in net debt service
14 savings to the Corporation and to the City on a present value basis of at least 3% of the par
15 value of the Refunded Bonds on a net present value basis, using the True Interest Cost (or
16 "TIC," as defined in the Debt Policy of the City (the "Debt Policy") of the Bonds as the discount
17 rate; and,

18 G. The Board has selected certain City-owned facilities and property(ies) under the
19 jurisdiction of the Library (as set forth and further described in Section 4, below, the
20 "Property") for purposes of leasing in connection with the issuance and sale of the Bonds;
21 and,

22 H. Pursuant to a First Amendment to Facilities Lease between the City and the
23 Corporation (the "First Amendment to Facilities Lease" and, together with the Facilities Lease,
24 dated as of March 1, 2009, by and between the City as lessor and the Corporation as lessee
25 (the form of which having been previously approved by ordinance of this Board), the "Facilities

1 Lease”), the City shall lease certain City-owned facilities and property (as further described in
2 Section 4, below, the “Facilities”) to the Corporation, and the Corporation shall make an
3 advance rental payment to the City from the proceeds of the Bonds; and,

4 I. Pursuant to a First Supplemental Trust Agreement between the Corporation and
5 U.S. Bank National Association, as Trustee (together with Master Trust Agreement, dated as
6 of March 1, 2009, by and between the Corporation and U.S. Bank National Association as
7 successor Trustee (the form of which having been previously approved by ordinance of this
8 Board), the “Trust Agreement”), the Corporation shall issue the Bonds and use a portion of the
9 proceeds thereof to make an advance rental payment to the City under the Facilities Lease,
10 which the City will in turn use to prepay its payment obligations under the Original Master
11 Lease (defined below); and,

12 J. Pursuant to a First Amendment to Master Lease between the Corporation and
13 the City (the “First Amendment to Lease” and, together with the Master Lease, dated as of
14 March 1, 2009 (the “Original Master Lease”), by and between the City as lessee and the
15 Corporation as lessor (the form of which having been previously approved by ordinance of this
16 Board), the “Lease”), the Corporation shall lease back the Facilities to the City, and the City
17 shall make certain periodic rental payments to the Corporation; and,

18 K. Pursuant to an Assignment Agreement (the “Assignment Agreement”), between
19 the Corporation and the Trustee, the Corporation shall assign to the Trustee its right to
20 receive such periodic rental payments in order to provide funds to repay the Bonds; and,

21 L. In connection with the sale of the Bonds, the City will enter into a Continuing
22 Disclosure Certificate (the “Continuing Disclosure Certificate”) and certain other related
23 agreements; and,

24 M. As delegated to the Director of Public Finance herein, the sale of the Bonds will
25 be conducted either by negotiated sale pursuant to a Purchase Contract by and among the

1 Corporation, the City and one or more underwriters (the "Purchase Contract"), or by
2 competitive sale in accordance with the terms of an Official Notice of Sale (the "Official Notice
3 of Sale"), in which case the competitive sale will be publicized by means of a Notice of
4 Intention to Sell Bonds (the "Notice of Intention").

5 Section 2. Recitals. All of the recitals herein are true and correct.

6 Section 3. Approval of the Bonds. The Board hereby approves the issuance and
7 sale of the Bonds by the Corporation in accordance with the Trust Agreement and the
8 redemption and refunding of the Refunded Bonds, subject to the provisions of Section 18 of
9 this Ordinance. The Bonds shall be comprised of, and designated as, the "City and County of
10 San Francisco Finance Corporation Refunding Lease Revenue Bonds, Series 2018B (Branch
11 Library Improvement Program)" or such other designation as determined by the Director of
12 Public Finance of the City or her designee (together with the Director of Public Finance of the
13 City, the "Director of Public Finance"). The Director of Public Finance is hereby authorized to
14 approve the sale date, the manner of sale, the maturity dates, the redemption provisions and
15 all other terms of the Bonds, subject to the following additional limitations: the Bonds shall be
16 in an aggregate principal amount not to exceed \$26,530,000 and shall bear interest at a rate
17 not to exceed twelve percent (12%) per annum.

18 Section 4. Asset Transfer; Description of Property. The execution of the Bonds and
19 lease financing hereby approved may involve the lease and leaseback by the City of all or any
20 portion of the Main Library, 100 Larkin Street, San Francisco, California, and any other real
21 property of the City to be used for library purposes.

22 Section 5. Approval of the Form of First Amendment to Facilities Lease. The form of
23 the First Amendment to Facilities Lease, as presented to this Board, a copy of which is on file
24 with the Clerk of the Board, is hereby approved. The Mayor of the City, or his designee
25 (together with the Mayor of the City, the "Mayor"), is hereby authorized to execute the First

1 Amendment to Facilities Lease, and the Clerk of the Board is hereby authorized to attest to
2 such execution of the First Amendment to Facilities Lease, with such changes, additions,
3 modifications or deletions as the Mayor may make or approve in accordance with Section 18
4 hereof.

5 Section 6. Approval of the Form of First Amendment to Lease. The form of the First
6 Amendment to Lease, as presented to this Board, a copy of which is on file with the Clerk of
7 the Board, is hereby approved. The Mayor is hereby authorized to execute the First
8 Amendment to Lease, and the Clerk of the Board is hereby authorized to attest to such
9 execution of the First Amendment to Lease, with such changes, additions, modifications or
10 deletions as the Mayor may make or approve in accordance with Section 18 hereof, provided
11 however, that the maximum base rental in connection with the Bonds scheduled to be paid
12 under the Lease in any fiscal year shall not exceed \$26,530,000 and the term of the Lease
13 shall not be longer than 36 years, except as such date may be extended by future ordinance.

14 Section 7. Approval of the Form of First Supplemental Trust Agreement. The form of
15 the First Supplemental Trust Agreement, as presented to this Board, a copy of which is on file
16 with the Clerk of the Board, is hereby approved. The Mayor is hereby authorized to execute
17 the First Supplemental Trust Agreement, and the Clerk of the Board is hereby authorized to
18 attest to such execution of the First Supplemental Trust Agreement, with such changes,
19 additions, modifications or deletions as the Mayor may make or approve in accordance with
20 Section 18 hereof.

21 Section 8. Approval of the form of Assignment Agreement. The form of the
22 Assignment Agreement, as presented to this Board, a copy of which is on file with the Clerk of
23 the Board, is hereby approved. The Mayor is hereby authorized to execute the Assignment
24 Agreement, and the Clerk of the Board is hereby authorized to attest to such execution of the
25 Assignment Agreement, with such changes, additions, modifications or deletions as the Mayor

1 may make or approve in accordance with Section 18 hereof.

2 Section 9. Sale of Bonds by Competitive or Negotiated Sale. The Board authorizes
3 the sale of the Bonds by solicitation of competitive bids or by negotiated sale to one or more
4 underwriters to be appointed in accordance with City policies, if so determined by the Director
5 of Public Finance.

6 Section 10. Approval of the Form of Official Notice of Sale; Authorization for
7 Competitive Sale; Authorization to Award Bonds. The form of the Official Notice of Sale, as
8 presented to this Board, a copy of which is on file with the Clerk of the Board, is hereby
9 approved. The Director of Public Finance is hereby authorized to approve the distribution of
10 the Official Notice of Sale, with such changes, additions, modifications or deletions as the
11 Director of Public Finance may approve upon consultation with the City Attorney; such
12 approval to be conclusively evidenced by the distribution of the Official Notice of Sale to
13 potential purchasers of the Bonds. The Director of Public Finance is hereby authorized to sell
14 the Bonds by competitive sale if the Director of Public Finance determines that such manner
15 of sale is in the best interest of the City, such determination to be conclusively evidenced by
16 the receipt of bids and the award of the Bonds in accordance with the Official Notice of Sale. If
17 the Director of Public Finance determines to sell the Bonds by competitive sale, the Director of
18 Public Finance, on behalf of the Controller, is hereby authorized and directed to receive bids
19 for the purchase of the Bonds, and the President of the Corporation or the Chief Financial
20 Officer of the Corporation is each hereby authorized to award the Bonds in accordance with
21 the procedures described in the Official Notice of Sale; provided, that the Bonds shall be
22 issued and sold only if the Director of Public Finance determines that the sale of the Bonds
23 complies with the debt service savings requirement of the City's Debt Policy, such
24 determination to be conclusively evidenced by the award of the Bonds to the purchaser
25 thereof in accordance with the terms and conditions set forth in the Official Notice of Sale.

1 Section 11. Approval of the Form of Notice of Intention to Sell the Bonds. The form of
2 the Notice of Intention, as presented to this Board, a copy of which is on file with the Clerk of
3 the Board, is hereby approved. The Director of Public Finance is hereby authorized to
4 approve the publication of the Notice of Intention to Sell, with such changes, additions,
5 modifications or deletions as the Director of Public Finance may approve upon consultation
6 with the City Attorney; such approval to be conclusively evidenced by the publication of the
7 Notice of Intention to Sell.

8 Section 12. Official Statement. The form of Preliminary Official Statement related to
9 the Bonds is hereby approved with such changes, additions, amendments or modifications
10 made in accordance with Section 13 hereof. The Director of Public Finance is hereby
11 authorized to approve the distribution of the preliminary Official Statement in substantially said
12 form, with such changes, additions, modifications or deletions as the Director of Public
13 Finance may approve upon consultation with the City Attorney and Disclosure Counsel to the
14 City; such approval to be conclusively evidenced by the distribution of the preliminary Official
15 Statement to potential bidders for or purchasers of the Bonds. The Controller is hereby
16 authorized to cause the distribution of the Revised Preliminary Official Statement in
17 connection with the Bonds, deemed final for purposes of Rule 15c2-12 of the Securities and
18 Exchange Act of 1934, as amended, and to sign a certificate to that effect. The Controller is
19 hereby further authorized and directed to prepare and sign a final Official Statement for the
20 Bonds. The Co-Municipal Advisors to the City, under the direction of the Director of Public
21 Finance, are hereby authorized and directed to cause to be printed and mailed, or distributed
22 electronically, to prospective bidders or purchasers, as appropriate, for the Bonds, copies of
23 the Preliminary Official Statement and the final Official Statement relating to the Bonds.

24 Section 13. Modifications to Preliminary Official Statement. The Controller is further
25 authorized, in consultation with the City Attorney, to approve and make such changes,

1 additions, amendments or modifications to the Preliminary Official Statement or the final
2 Official Statement described in Section 12 as may be necessary or advisable. The approval
3 of any change, addition, amendment or modification to the Revised Preliminary Official
4 Statement or the final Official Statement shall be evidenced conclusively by the distribution of
5 the preliminary Official Statement to potential bidders for or purchasers of the Bonds and the
6 execution and delivery of the final Official Statement.

7 Section 14 Authorization for Negotiated Sale; Authorization to Select Underwriters;
8 Approval of the Form of Purchase Contract. The Director of Public Finance is hereby
9 authorized to sell the Bonds by negotiated sale pursuant to a purchase contract, if the Director
10 of Public Finance determines that such manner of sale is in the best interest of the City, such
11 determination to be conclusively evidenced by the execution and delivery of a purchase
12 contract for the Bonds. The Director of Public Finance is hereby authorized and directed to
13 appoint one or more investment banking firms to act as underwriters of the Bonds in
14 accordance with City policies and procedures, including, but not limited to, the City's policy to
15 provide locally disadvantaged minority business enterprises and women enterprises an equal
16 opportunity to participate in the performance of all City contracts. The form of the Purchase
17 Contract, among the City, the Corporation and one or more underwriters selected by the
18 Director of Public Finance, as presented to this Board, a copy of which is on file with the Clerk
19 of the Board, is hereby approved. If the Director of Public Finance determines to sell the
20 Bonds by negotiated sale, the Director of Public Finance is hereby authorized to execute the
21 Purchase Contract, with such changes, additions, modifications or deletions as the Director of
22 Public Finance may approve upon consultation with the City Attorney, such approval to be
23 conclusively evidenced by the execution and delivery of the Purchase Contract.

24 Section 15. Approval of the Form of Continuing Disclosure Certificate. The form of the
25 Continuing Disclosure Certificate of the City, as presented to this Board, a copy of which is on

1 file with the Clerk of the Board, is hereby approved. The Controller is hereby authorized to
2 execute the Continuing Disclosure Certificate, with such changes, additions, modifications or
3 deletions as the Controller may approve upon consultation with the City Attorney; such
4 approval to be conclusively evidenced by the execution and delivery of the Continuing
5 Disclosure Certificate.

6 Section 16. Payment of Cost of Issuance. The Board hereby authorizes the
7 expenditure of a portion of the proceeds of the Bonds for the payment of certain costs of
8 issuance incurred in connection with the issuance and sale of the Bonds.

9 Section 17. General Authority. The Mayor, the City Attorney, the Controller, the
10 Director of Public Finance, the City Librarian, the Director of Real Estate, the Clerk of the
11 Board and other officers of the City and their duly authorized deputies and agents are hereby
12 authorized and directed, jointly and severally, to take such actions and to execute and deliver
13 such certificates, agreements, requests or other documents, as they may deem necessary or
14 desirable to facilitate the issuance, sale and delivery of the Bonds, to obtain title and other
15 insurance with respect to the Facilities, and otherwise to carry out the provisions of this
16 Ordinance.

17 Section 18. Modifications, Changes and Additions. The Mayor is hereby authorized to
18 approve and make such modifications, changes, additions or deletions to the Facilities Lease
19 or the Lease or to any of the documents approved herein, upon consultation with the City
20 Attorney, as may be necessary or desirable in the interests of the City, and which changes do
21 not materially increase the obligations of the City thereunder. The Mayor's approval of such
22 modifications, changes, additions or deletions shall be conclusively evidenced by the
23 execution and delivery by the Mayor and the Clerk of the Board of the First Amendment to
24 Facilities Lease, the First Amendment to Lease, the First Supplemental Trust Agreement or
25 any of the documents approved herein. Any such actions are solely intended to further the

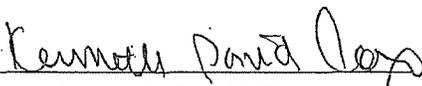
1 purposes of this Ordinance and are subject in all respects to the terms of this Ordinance. No
2 such actions shall increase the risk to the City or require the City to spend any resources not
3 otherwise granted herein. Final versions of any such documents shall be provided to the Clerk
4 of the Board for inclusion in the official file within 30 days (or as soon thereafter as final
5 documents are available) of execution by all parties.

6 Section 19. Ratification of Prior Actions. All actions authorized and directed by this
7 Ordinance and heretofore taken are hereby ratified, approved and confirmed by this Board.

8 Section 20. File Documents. All documents referred to as on file with the Clerk of the
9 Board are in File No. [180363].

10 Section 21. Immediate Effect. Pursuant to Section 2.105 of the Charter, this
11 Ordinance shall take effect immediately following the date of passage.

12
13 APPROVED AS TO FORM:
14 DENNIS J. HERRERA, City Attorney

15
16 By: 
17 Kenneth David Roux
18 Deputy City Attorney
19 n:\financlas2018\1800486\01266633.docx

LEGISLATIVE DIGEST

[San Francisco Finance Corporation Refunding Lease Revenue Bonds (Library Projects)]

Ordinance approving the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (the "Corporation") to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program, as further described herein; approving the form of a First Amendment to Facilities Lease by and between the Corporation and the City and County of San Francisco (the "City") relating to certain real property described herein; approving the form of a First Amendment to Master Lease by and between the Corporation and the City; approving the form of a First Supplemental Trust Agreement by and between the Corporation and a trustee (including certain indemnities contained therein); approving the form of an Assignment Agreement by and between the Corporation and a trustee; authorizing the sale of the refunding lease revenue bonds by competitive or negotiated sale; approving the form of an Official Notice of Sale and a Notice of Intention to Sell the refunding lease revenue bonds; directing the publication of the Notice of Intention to Sell the refunding lease revenue bonds; approving the form of a Purchase Contract and authorizing the appointment of one or more underwriters for the refunding lease revenue bonds; approving the form of an Official Statement in preliminary and final form; approving the form of a Continuing Disclosure Certificate; authorizing the payment of costs of issuance; granting general authority to City officials to take certain actions in connection with the refunding lease revenue bonds, as defined herein; approving modifications to documents; and ratifying previous actions taken in connection therewith, as defined herein.

Existing Law

This is new legislation.

Amendments to Current Law

Not applicable.

Background Information

Ordinance approving the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (the "Corporation") to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program. In 2007, the voters of the City approved Proposition D, which extended the Library Preservation Fund, as codified in Section 16.109 of the City Charter, and authorized the Board to issue revenue bonds or other evidences of indebtedness, or to incur lease financing or other obligations, payable from any available funds pledged or appropriated by the Board for such purpose, the proceeds of which are to be used for the purposes set forth in Section

16.109(d). The City, acting through the Corporation, issued and sold in 2009 \$34,265,000 principal amount of Lease Revenue Bonds, Series 2009A (Branch Library Improvement Program) to finance the acquisition, construction, reconstruction, rehabilitation and/or improvement of real property and/or facilities operated by the San Francisco Public Library (the "Library") for Library purposes and for the purchase of equipment relating to such real property and/or facilities (the "2009 Project"). At the present time, \$27,030,000 principal amount of such Series 2009A Bonds remain outstanding and are subject to optional redemption in whole or in part on any date commencing June 15, 2018. In order to refinance the costs of the 2009 Project, this Ordinance authorizes the issuance and sale of refunding lease revenue bonds (the "Bonds") by the Corporation pursuant to Section 16.109 of the Charter and in accordance with Section 9.108(2) of the Charter. The Ordinance also describes certain City-owned facilities and property(ies) under the jurisdiction of the Library for purposes of leasing in connection with the issuance and sale of the Bonds.

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<p>Items 6 and 7 Files 18-0362 and 18-0363</p>	<p>Department: Office of Public Finance (OPF)</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p>	
<ul style="list-style-type: none"> • <u>File 18-0362</u>: The proposed ordinance authorizes the issuance and sale of refunding lease revenue bonds by the San Francisco Finance Corporation (Corporation) payable from the Open Space Fund in an amount not-to-exceed \$41,320,000. • <u>File 18-0363</u>: The proposed ordinance authorizes the issuance and sale of refunding lease revenue bonds by the San Francisco Finance Corporation (Corporation) to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program in an amount not-to-exceed \$26,530,000. 	
<p style="text-align: center;">Key Points</p>	
<ul style="list-style-type: none"> • City voters approved Proposition C in March 2000 to extend the Park, Recreation and Open Space Fund (Open Space Fund) and property tax set aside for 30 years. Proposition C also authorized the issuance of revenue bonds secured by the Open Space Fund. • City voters approved Proposition D in November 2007 to renew the Library Preservation Fund and the property tax set aside for 15 years. The monies in the Library Fund are used by the Public Library to provide library services and materials and to operate library facilities. Proposition D also authorized the issuance of revenue bonds for the acquisition, construction, reconstruction, rehabilitation and/or improvement of Library property, primarily to provide revenue to the Branch Library Improvement Program (BLIP) projects. 	
<p style="text-align: center;">Fiscal Impact</p>	
<ul style="list-style-type: none"> • <u>Open Space Fund (File 18-0362)</u>: The Office of Public Finance anticipates issuing \$40,510,000 in Refunding Bonds that together with other sources would refund \$15,805,000 of outstanding 2006 Bonds and \$28,135,000 of outstanding 2007 Bonds. Based on current market conditions, the Refunding Bonds are estimated to result in aggregate savings to the City of about \$3,442,716. The Office of Public Finance estimates the net present value of the debt service savings to be approximately \$1,876,142 or 4.6 percent of the outstanding par amount of the 2006 Bonds and 2007 Bonds to be refunded, which meets the City's debt policy objective of at least 3 percent savings. • <u>Branch Library Improvement Program (File 18-0363)</u>: The Office of Public Finance anticipates issuing \$26,005,000 in Refunding Bonds that together with other sources would refund \$25,975,000 of outstanding 2009A Bonds. Based on current market conditions, the refunding transaction is estimated to result in aggregate savings to the City of about \$6,035,892 on a gross basis. The Office of Public Finance estimates the net present value of the debt service savings to be approximately \$4,286,401 or 16.5 percent of the outstanding par amount of the 2009A Bonds to be refunded, which meets the City's debt policy objective of at least 3 percent savings. 	
<p style="text-align: center;">Recommendation</p>	
<ul style="list-style-type: none"> • Approve the proposed ordinances. 	

MANDATE STATEMENT

In order to refinance outstanding Series 2006 and Series 2007 Lease Revenue Bonds (Open Space Fund), the Board can authorize the issuance and sale of refunding lease revenue bonds (the "Bonds") by the City and County of San Francisco Finance Corporation (Corporation)¹ pursuant to Section 16.107 of the Charter and in accordance with Section 9.108(2) of the Charter.

In order to refinance outstanding Series 2009A Lease Revenue Bonds (Branch Library Improvement Program), the Board can authorize the issuance and sale of refunding lease revenue bonds (the "Bonds") by the Corporation pursuant to Section 16.109 of the Charter and in accordance with Section 9.108(2) of the Charter.

These refunding bonds are expected to result in net debt service savings to the Corporation and to the City on a present value basis of at least 3 percent of the par value of the Refunded Bonds on a net present value basis, using the True Interest Cost (or "TIC," as defined in the Debt Policy of the City (the "Debt Policy") of the Bonds as the discount rate).

BACKGROUND

Open Space Fund (File 18-0362)

On March 7, 2000 voters in the City approved Proposition C which extended the Park, Recreation and Open Space Fund (Open Space Fund) and property tax set aside for 30 years. Proposition C also authorized the issuance of revenue bonds and the incurrence of other obligations secured by the Open Space Fund. In 2006, the Finance Corporation entered into lease arrangements obligating the City to make base rental payments (and certain other payments) payable from the Open Space Fund to the Corporation, and the Corporation issued the first series of revenue bonds (2006 Bonds) under this authority and a trust agreement in an aggregate principal amount of \$27,005,000, pursuant to Resolution No. 565-06 and Ordinance No. 249-04. The base rental payments to the Corporation, appropriated and paid by the City out of the Open Space Fund, provide the Corporation with sufficient funds to pay debt service on the 2006 Bonds. In 2007, the Corporation issued the second series of revenue bonds (2007 Bonds) under this authority and the amended trust agreement in an aggregate principal amount of \$42,435,000, pursuant to Ordinance No. 199-07. The amendments to the leases increased the amount of the City's base rental payments to provide the Corporation with sufficient funds to pay debt service on the 2007 Bonds (and the 2006 Bonds).

The 2006 Bonds and 2007 Bonds were previously issued to finance the design, construction, renovation and installation of various Park projects, including:

¹ The Corporation is a non-profit public benefit corporation duly organized and validly existing under the Nonprofit Public Benefit Corporation Law (Section 5110 et seq. of the California Corporations Code). The Corporation was formed in 1991 by the Chief Administrative Officer of the City and County of San Francisco pursuant to a resolution of the Board of Supervisors. The purpose of the Corporation is to provide a means to finance through lease financings the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

- Buena Vista Park
- Lincoln Playground
- Chinese Recreation Center
- Midtown Terrace Playground
- Hamilton Playground Recreation Center and Pool
- Moscone Recreation Center
- Potrero Hill Playground
- Junipero Serra Playground and Clubhouse
- St Mary's Recreation Center Playground
- Kelloch-Velasco Park
- Fields Initiative- Phase II
- Lake Merced
- Larsen Park Sava Pool
- Franklin Square Playground Renovation
- Lincoln Park Assessment and Master Plan

The 2006 Bonds and 2007 Bonds are currently refundable, and market conditions provide for savings with the issuance and sale of City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds (Open Space Fund), Series 2018A (Refunding Bonds). The ordinance imposes, among others, the following terms and conditions:

- Refunding Bonds must achieve 3 percent net present value savings;
- true interest cost of the Refunding Bonds must not exceed 12 percent;
- term of any lease agreement shall not be extended beyond its current term.

Branch Library Improvement Program (File 18-0363)

On November 6, 2007 voters in the City approved Proposition D "Renewing Library Preservation Fund" which amended the City Charter and renewed the property tax set-aside and the Library Preservation Fund (Library Fund) for 15 years. First enacted in 1994, the Library Fund receives an annual set aside from the property tax levy of \$0.025 per \$100 of assessed valuation of property in the City and a Baseline amount. The monies in the Library Fund are used by the Public Library to provide library services and materials and to operate library facilities. Proposition D also authorized the issuance of revenue bonds or other forms of indebtedness, or the incurrence of lease financing or other obligations, for the acquisition, construction, reconstruction, rehabilitation and/or improvement of real property and/or facilities that will be operated by the Public Library, primarily to provide additional revenue sources to the Branch Library Improvement Program (BLIP) projects. Any debt issued pursuant to Proposition D is repaid from available funds pledged or appropriated by the Board of Supervisors which amounts may include monies in the Library Fund.

In 2009, the City and the Corporation entered into lease arrangements obligating the City to make base rental payments (and certain other payments) to the Corporation, and the Corporation issued a series of revenue bonds (2009A Bonds) under this authority and a trust

agreement in an aggregate principal amount of \$34,265,000, pursuant to Ordinance No. 286-08 and Resolution No. 538-08. The base rental payments to the Corporation, appropriated and paid by the City, provide the Corporation with sufficient funds to pay debt service on the 2009A Bonds.

The 2009A Bonds were issued to finance the design, construction, renovation and installation of various BLIP projects, including:

- Anza Branch Library
- Bayview/Anna E. Waden Branch Library
- Golden Gate Valley Branch Library
- Merced Branch Library
- North Beach Branch Library
- Ortega Branch Library

The 2009A Bonds are currently refundable, and market conditions provide for savings with the issuance and sale of City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds (BLIP Refunding Bonds). The ordinance imposes, among others, the following terms and conditions:

- the Refunding Bonds must achieve 3 percent net present value savings;
- the true interest cost of the Refunding Bonds must not exceed 12 percent;
- the term of any lease agreement shall not be extended beyond its current term.

DETAILS OF PROPOSED LEGISLATION

File 18-0362: The proposed ordinance authorizes the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (Corporation) payable from the Open Space Fund in an amount not-to-exceed \$41,320,000.

File 18-0363: The proposed ordinance authorizes the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (Corporation) to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program in an amount not-to-exceed \$26,530,000.

Open Space Fund (File 18-0362)

Under the proposed ordinance, the City will structure the Refunding Bonds using a lease-lease back structure² between the City and the Corporation pursuant to the existing Site Lease, Master Lease and Trust Agreement, as amended. Pursuant to an Assignment Agreement, the Corporation will assign its right to the third-party trustee (Trustee) under the amended Trust Agreement, for the benefit of the owners of the Refunding Bonds, substantially all of the Corporation's rights under the amended Master Lease, including the right to receive and collect the base rental payments from the City under such Master Lease (and such rights as may be necessary to enforce payment of the base rental payments).

Site Lease and Master Lease: Pursuant to the Site Lease, the City leases a City-owned property to the Corporation. Pursuant to the Master Lease, the City leases back the leased property from the Corporation. The City makes annual base rental payments to the third-party Trustee, as the Corporation's assignee under the Assignment Agreement in amounts required to repay the Refunding Bonds. When the Refunding Bonds are finally paid, the Site Lease and the Master Lease terminate (assuming no other lease revenue bonds have been issued for park purposes under these Lease Agreements and the Trust Agreement). The Open Space Fund is the source of funding for the repayment of the Refunding Bonds.

Trust Agreement: Pursuant to the Trust Agreement and the Assignment Agreement between the Corporation and a Trustee acting on behalf of and for the benefit of Refunding Bond holders, the Trustee administers and disburses bond payments and enforces the covenants and remedies in the event of a default. The Trust Agreement provides for the terms of the Refunding Bonds, prepayment provisions, events of default remedies in the event of default, and other related administrative provisions. The Trustee holds proceeds derived from the sale of the Refunding Bonds and disburses the proceeds, as directed by authorized City representatives, including for the refunding of the 2006 Bonds and the 2007 Bonds. The ordinance delegates selection of the Trustee to the Director of Public Finance.

The Trust Agreement requires that the base rental payments be deposited semi-annually in the base rental fund maintained by the Trustee. The Trustee will apply such amounts as is necessary to make debt service (i.e., semi-annual interest and annual principal or sinking fund) payments with respect to the Refunding Bonds.

² The lease-lease back structure is based upon the power of the City to lease assets. It is viewed as a year over year obligation, to be budgeted each year and payable from the general revenues of the City. It is not considered a "debt" for state constitutional law purposes, and so therefore does not require a vote of the electorate. Under a lease-financing structure, the public entity leases certain land (which may be improved) to the nonprofit corporation pursuant to a "site lease" or "property lease," for a nominal rent, and the nonprofit corporation issuer "leases back" that property to the city pursuant to a sublease (often called a "master lease" or a "project lease") and agrees under that sublease to issue lease revenue bonds, the net proceeds of which are to be used for capital improvements or the purchase of other land or equipment for the use and benefit of the city. The lease revenue bonds are payable solely from rental payments appropriated and paid by the city to the nonprofit corporation in an amount equal to the debt service on the lease revenue bonds; which rental amounts must also represent the "fair rental value" of the property subject to the site lease and sublease.

The Leased Property: According to the Office of Public Finance, one or more of the following City-owned properties under the jurisdiction of the San Francisco Recreation and Parks Department may serve as the leased assets for the transaction: the Betty Ann Ong Chinese Recreation Center (1199 Mason Street), the Sunset Recreation Center (2201 Lawton Street), Palega Recreational Center (500 Felton Street), Minnie and Love Ward Recreational Center (650 Capital Avenue), and potentially other Recreation and Parks Department properties.

Assignment Agreement: An agreement that assigns specified rights (including the Corporation's right to receive lease revenues) as well as title and interest to the Leased Assets until the Refunding Bonds are repaid in full.

Under the Lease, the City has covenanted to include all Base Rental Payments, in an amount sufficient to pay debt service on the Bonds, in its annual budget by making the necessary appropriations from the net open space fund property tax revenues.

Branch Library Improvement Program (File 18-0363)

Under the proposed ordinance, the City will structure the Refunding Bonds using a lease-lease back structure between the City and the Corporation pursuant to the existing Facilities Lease, Master Lease, and Trust Agreement, each as amended. Pursuant to an Assignment Agreement, the Corporation will assign its right to the third-party trustee (Trustee) under the amended Trust Agreement, for the benefit of the owners of the Refunding Bonds, substantially all of the Corporation's rights under the amended Master Lease, including the right to receive and collect the base rental payments from the City under such Master Lease (and such rights as may be necessary to enforce payment of the base rental payments).

Facilities Lease and Master Lease: Pursuant to the Facilities Lease, the City leases a City-owned property (or portion thereof comprising certain facilities, such as specific floors of the City's Main Library building) to the Corporation. Pursuant to the Master Lease, the City leases back the leased property from the Corporation. The City makes annual base rental payments to the Trustee, as the Corporation's assignee under the Assignment Agreement, in amounts required to repay the Refunding Bonds. When the Refunding Bonds are finally paid, the Facilities Lease and the Master Agreement terminate (assuming no other lease revenue bonds have been issued for Library improvement purposes under these Lease Agreements and the Trust Agreement). In addition to the Library Preservation Fund, the City's general fund is the source of funding for the repayment of the Refunding Bonds.

Trust Agreement: Pursuant to the Trust Agreement and the Assignment Agreement between the Corporation and the Trustee acting on behalf of and for the benefit of Refunding Bond holders, the Trustee administers and disburses bond payments and enforces the covenants and remedies in the event of a default. The Trust Agreement provides for the terms of the Refunding Bonds, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The Trustee holds proceeds derived from the sale of the Refunding Bonds and will disburse the proceeds to pay off the 2009A Bonds and to pay costs of issuance, as directed by authorized City representatives. The ordinance delegates selection of the Trustee to the Director of Public Finance.

The Trust Agreement requires that the base rental payments be deposited semi-annually in the revenue fund established in the Trust Agreement and maintained by the Trustee. The Trustee will apply such amounts as is necessary to make debt service (i.e., semi-annual interest and annual principal or sinking fund) payments with respect to the Refunding Bonds.

The Leased Property: According to the Office of Public Finance, portions of the San Francisco Main Library building located at Civic Center Plaza, which is owned by the City, may serve as the leased asset for the transaction, which consistent with the leased asset for the 2009A Bonds.

Assignment Agreement: An agreement that assigns specified rights (including the Corporation's right to receive lease revenues) as well as title and interest to the Leased Assets until the Refunding Bonds are repaid in full.

The City has covenanted in the Lease that, so long as the City has the use and occupancy of the Facilities, it will make Base Rental payments to the Corporation from any legally available funds of the City in amounts sufficient to pay debt service on the Refunding Bonds. An authorization to set aside the taxes in the Library Preservation Fund provides the primary source of repayment on the refunding bonds through July 1, 2024. The final maturity of the refunding bonds is anticipated to be June 15, 2028. The City intends to seek re-authorization of the Library Preservation Fund set-aside tax to continue beyond July 1, 2024.

FISCAL IMPACT

Open Space Fund (File 18-0362)

The proposed ordinance authorizes the sale and issuance of Refunding Bonds in a par amount not to exceed \$41,320,000. Based on current market conditions, the Office of Public Finance anticipates issuing \$40,510,000 in Refunding Bonds that together with other sources of monies would refund \$15,805,000 of outstanding 2006 Bonds and \$28,135,000 of outstanding 2007 Bonds. According to the Office of Public Finance, the additional authorized amount above the expected issuance amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Refunding Bonds, any increased deposits for the debt service reserve fund, and other increased delivery date expenses.

Based upon a conservative estimate of 3.5 percent for an all-in true interest cost as defined in the proposed ordinance, the Office of Public Finance estimates that maximum fiscal year debt service on the Refunding Bonds is approximately \$4,731,390. The anticipated total par value of \$40,150,000 is estimated to result in approximately \$7,495,394 in interest payments over the life of the Refunding Bonds. The total principal and interest payments over the approximate 11-year life of the Refunding Bonds is estimated to be approximately \$48,005,394. The term of the Refunding Bonds will mirror the existing term of the 2007 Bonds, with a final maturity on July 1, 2029.

Based on current market conditions, the Refunding Bonds transaction is estimated to result in aggregate savings to the City of about \$3,442,716 on a gross basis. On a net present value (NPV) basis, the Office of Public Finance estimates the debt service savings to be approximately

\$1,876,142³ or 4.6 percent of the outstanding par amount of the 2006 Bonds and 2007 Bonds to be refunded. This NPV percent savings of refunded par meets the City's debt policy objective of 3 percent or higher.

Table 1 outlines anticipated sources and uses for the Refunding Bonds (Open Space Fund), based on an estimate provided by Backstrom McCarley Berry & Co., LLC a municipal advisory firm registered with the Municipal Securities Rulemaking Board (MSRB).

Table 1. Estimated Sources and Uses of Refunding Bonds (Open Space Fund)

Sources	
Estimated Par Amount	\$40,510,000
Other Sources - Prior Debt Service Reserve Fund (2006 Bonds)	2,007,482
Other Sources - Prior Debt Service Reserve Fund (2007 Bonds)	3,058,810
Total Sources	\$45,576,292
Uses	
Refunding Fund Deposit (2006 Bonds)	\$ 14,521,466
Refunding Fund Deposit (2007 Bonds)	26,310,966
Debt Service Reserve Fund	4,051,000
Cost of Issuance	550,000
Underwriter's Discount	142,860
Total Uses	\$45,576,292

Source: Office of Public Finance

In addition, approximately \$4,051,000 may be allotted to fund a Debt Service Reserve Fund, to be funded if recommended by the Director of the Office of Public Finance. Approximately \$692,860 (\$550,000 for cost of issuance and \$142,860 for underwriter's discount) will be allotted to cover costs associated with the issuance of the Refunding Bonds. This includes amounts for underwriter compensation, legal fees, financial advisory fees, rating agency fees, printing costs, and other issuance costs.

Branch Library Improvement Program (File 18-0363)

The proposed ordinance authorizes the sale and issuance of Refunding Bonds in a par amount not to exceed \$26,530,000. Based on current market estimates, the Office of Public Finance anticipates issuing \$26,005,000 in Refunding Bonds that together with other sources of monies would refund \$25,975,000 of outstanding 2009A Bonds. The additional authorized amount above the expected issuance amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Refunding Bonds, any increased deposits for the debt service reserve fund, and possible other increased delivery date expenses.

³ Original Series 2006 – NPV Savings of \$736,654.83; 5.082 percent of NPV savings of refunded bonds; Original Series 2007 – NPV Savings of \$1,139,486.71; 4.338 percent of NPV savings of refunded bonds

Based upon a conservative estimate of 3.332 percent for an all-in true interest cost as defined in the proposed ordinance, the Office of Public Finance estimates that maximum fiscal year debt service on the Refunding Bonds will be approximately \$2,095,388. The anticipated total par value of \$26,005,000 is estimated to result in approximately \$7,474,253 in interest payments over the life of the Refunding Bonds. The total principal and interest payment over the approximate 10-year life of the Refunding Bonds is approximately \$33,479,253. According to the Office of Public Finance, it is anticipated that the term of the Refunding Bonds may be shortened by up to six years compared to the existing term of the 2009A Bonds (from the original Series 2009A maturity date of 6/15/2034 to 6/15/2028).

Based on current market conditions, the refunding transaction is estimated to result in aggregate savings to the City of about \$6,035,892 on a gross basis. On a net present value (NPV) basis, the Office of Public Finance estimates the debt service savings to be approximately \$4,286,401 or 16.5 percent of the outstanding par amount of the 2009A Bonds to be refunded. This NPV percent savings of refunded par meets the City's debt policy objective of 3 percent or higher.

Table 2 below outlines anticipated sources and uses for the Refunding Bonds, based on an estimate provided by Backstrom McCarley Berry & Co., LLC.

Table 2. Estimated Sources and Uses of Refunding Bonds (Branch Library Improvement Program)

Sources	
Estimated Par Amount	\$26,005,000
Other Sources - Prior Debt Service Reserve Fund (2009A Bonds)	2,471,798
Total Sources	\$28,476,798
Uses	
Refunding Fund Deposit (2009A Bonds)	\$26,035,947
Debt Service Reserve Fund	2,095,388
Cost of Issuance	250,000
Underwriter's Discount	95,463
Total Uses	\$28,476,798

Source: Office of Public Finance

In addition, approximately \$2,095,388 may be allotted to fund a Debt Service Reserve Fund, to be funded if recommended by the Director of the Office of Public Finance. Approximately \$345,463 (\$250,000 for cost of issuance and \$95,463 for underwriter's discount) will be allotted to cover costs associated with the issuance of the Refunding Bonds. This includes amounts for underwriter compensation, legal fees, financial advisory fees, rating agency fees, printing costs, and other issuance costs.

In April 2016, the Library Commission appropriated \$7,556,391 of the Library Preservation Fund sources to pay down a portion of its existing debt tied to the 2009A Bonds, pursuant to San Francisco Library Commission Resolution No. 2016-01. According to the Office of Public Finance,

the impact of these additional sources allows the San Francisco Public Library to pay off its debt sooner, resulting in greater overall savings to the City.

RECOMMENDATION

Approve the proposed ordinances.

RECORDING REQUESTED BY:
CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION

Squire Patton Boggs (US) LLP
275 Battery Street, Suite 2600
San Francisco, California 94111
Attention: Nathan Treu, Esq.

APN(s):

(Space above for Recorder's Use Only)

[ADDRESS], San Francisco

**FIRST AMENDMENT TO
FACILITIES LEASE**

By and Between the

CITY AND COUNTY OF SAN FRANCISCO, as lessor

and the

CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION, as lessee

Dated as of June 1, 2018

NO DOCUMENTARY TRANSFER TAX

This First Amendment to Facilities Lease is exempt pursuant to
Section 6103 of the California Government Code

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FIRST AMENDMENT TO FACILITIES LEASE

THIS FIRST AMENDMENT TO FACILITIES LEASE (the "First Amendment to Facilities Lease"), is made and entered into as of June 1, 2018, (the "Effective Date") by and between the CITY AND COUNTY OF SAN FRANCISCO, a charter city and county and municipal corporation, duly organized and existing under and by virtue of its Charter and the Constitution of the State of California, as lessor (the "City"), and the CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION, a nonprofit public benefit corporation, duly organized and existing under and by virtue of the laws of the State of California, as lessee (the "Corporation").

WITNESSETH:

WHEREAS, the City and the Corporation previously have entered into a Facilities Lease, dated as of March 1, 2009 (the "Original Facilities Lease"), by and between the City as lessor and the Corporation as lessee under which the Corporation leased certain facilities (the "Original Facilities") and certain real property (the "Original Site") from the City; and

WHEREAS, pursuant to this First Amendment to Facilities Lease, the Corporation will lease certain [additional][substituted] facilities (as described in Section 2A hereof, the "2018 Facilities," which, together with the Original Facilities, as modified by this First Amendment to Facilities Lease, are also referred to herein as the "Facilities") and certain [additional][substituted] real property from the City (as described in Section 2A hereof, the "2018 Site," which, together with the Original Site, as modified by this First Amendment to Facilities Lease, is also referred to herein as the "Site"); the Original Facilities Lease, as supplemented by this First Amendment to Facilities Lease, is referred to herein as the "Facilities Lease"; and

WHEREAS, the City and the Corporation previously entered into a Master Lease, dated as of March 1, 2009 (the "Master Lease"), by and between the Corporation as lessor and the City as lessee pursuant to Section 16.109(d) of the Charter, which provides for the City to enter into obligations, including lease financing obligations, secured by and/or repaid from any available funds pledged or appropriated by the Board of Supervisors of the City for the acquisition, construction, reconstruction, rehabilitation and/or improvement of real property and/or facilities operated by the San Francisco Public Library (the "Library") for Library purposes and for the purchase of equipment relating to such real property and/or facilities; and

WHEREAS, the City has entered into a First Amendment to Master Lease, dated as of June 1, 2018 (the "First Amendment to Master Lease") pursuant to Article XIII of the Master Lease and Section 16.109(d) of the Charter; the Master Lease, as supplemented by the First Amendment to Master Lease, is referred to herein as the "Lease"; and

WHEREAS, pursuant to the Lease, the City leases the Facilities and the Site, including any property added or substituted pursuant to this First Amendment to Facilities Lease, from the Corporation; and

WHEREAS, the Corporation and U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States, as successor trustee (the "Trustee"), previously entered into a Master Trust Agreement dated as of

March 1, 2009 (the "Master Trust Agreement") in connection with the issuance by the Corporation of \$34,265,000 in principal amount of Lease Revenue Bonds, Series 2009A (Branch Library Improvement Program) (the "Series 2009A Bonds"), proceeds of which Series 2009A Bonds were used to design and construct certain improvements (the "2009 Project"); and

WHEREAS, the Corporation will issue its \$[xx,xxx],000 principal amount of Refunding Lease Revenue Bonds, Series 2018B (Branch Library Improvement Program) (the "Series 2018 Bonds") pursuant to the Master Trust Agreement as supplemented by the First Supplemental Trust Agreement of even date herewith, between the Corporation and the Trustee (the "First Supplemental Trust Agreement" and, together with the Master Trust Agreement, the "Trust Agreement"); and

WHEREAS, the Corporation and the City intend to use a portion of the proceeds from the sale of the Series 2018 Bonds to redeem and refund the Series 2009A Bonds (and thereby refinance the 2009 Project); and

WHEREAS, the Corporation will lease the Facilities and the Site to the City and use amounts received from the City as Base Rental (as defined in the Lease) under the Lease to pay debt service on the Series 2018 Bonds and any additional Parity Bonds (collectively, the "Bonds"); and

WHEREAS, pursuant to and in accordance with certain provisions of the Trust Agreement and the Lease, the Corporation may issue additional Parity Bonds payable from Base Rental on a parity with the Series 2018 Bonds, for the purpose of financing and refinancing the construction, reconstruction, rehabilitation and/or improvement of the additional components of the Project; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this First Amendment to Facilities Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this First Amendment to Facilities Lease;

NOW, THEREFORE, in consideration of the mutual promises and agreements herein contained, the parties hereto agree as follows:

Section 1A. Definitions.

All capitalized terms used in this First Amendment to Facilities Lease and not otherwise defined shall have the meanings given to such terms in the Lease and the Trust Agreement.

Section 2A. Lease of Facilities and the Site.

The City hereby leases to the Corporation certain facilities, as more particularly described in Exhibit A hereto and incorporated herein by this reference (the "2018 Facilities"), located on real property located within the City, as more particularly described in Exhibit B hereto and incorporated herein by this reference (the "2018 Site"), subject (i) to the terms hereof and (ii) to Permitted Encumbrances. The term "Facilities" is hereby amended to include the Original Facilities, as modified by this First Amendment to Facilities Lease, comprising the 2018 Facilities.

The term "Site" is hereby amended to include the Original Site, as modified by this First Amendment to Facilities Lease, comprising the 2018 Site. The City also grants to the Corporation such rights of ingress and egress to the 2018 Facilities and the 2018 Site as the Corporation may require in order to fulfill its obligations hereunder and under the Lease.

Section 3A. Removal.

The Corporation does hereby remise, release and terminate and quit claim to the City all of its leasehold interest in and to the real property described in Exhibit C hereto and the improvements thereon.

Section 4A. Ownership.

The City represents that it is the sole owner of and holds fee title to the 2018 Facilities, subject to Permitted Encumbrances.

Section 5A. Term.

a. This First Amendment to Facilities Lease shall commence on the date of recordation hereof in the official records of the City and County of San Francisco and end on the day after the termination of the First Amendment to Lease (other than a termination pursuant to Section 7.01(a) of the Lease).

b. Upon termination of this First Amendment to Facilities Lease, all of the Corporation's and the Trustee's interest in the 2018 Facilities and the 2018 Site shall vest with the City.

Section 6A. Rent.

The Corporation shall pay to the City an advance rent in the amount of \$1.00 as full consideration for this First Amendment to Facilities Lease over its terms, the receipt of which is hereby acknowledged by the City.

Section 7A. Purpose.

The Corporation shall use the 2018 Facilities and the 2018 Site only for the purposes described in the Lease, and for such other purposes as may be incidental thereto.

Section 8A. Expiration.

The Corporation agrees, upon the expiration of this First Amendment to Facilities Lease, to quit and surrender the 2018 Facilities and the 2018 Site; it being the understanding of the parties hereto that upon termination of this First Amendment to Facilities Lease title to the 2018 Facilities and the 2018 Site shall vest in the City free and clear of any interest of the Corporation or any assignee of the Corporation.

Section 9A. Effect of this First Amendment to Facilities Lease.

On and after the Effective Date, each reference in the Original Facilities Lease to the Facilities shall include the "2018 Facilities" as set forth in Exhibit A hereto and each reference in the Original Facilities Lease to the Site shall include the "2018 Site" as set forth in Exhibit B hereto. Except as expressly provided in this First Amendment to Facilities Lease, the Original Facilities Lease shall continue in full force and effect in accordance with the terms and provisions thereof, as amended hereby.

Section 10A. Partial Invalidity.

If any one or more of the terms, provisions, promises, covenants or conditions of this First Amendment to Facilities Lease shall to any extent be adjudged invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, each and all of the remaining terms, provisions, promises, covenants and conditions of this First Amendment to Facilities Lease shall not be affected thereby, and shall be valid and enforceable to the fullest extent permitted by law.

Section 11A. Governing Law.

This First Amendment to Facilities Lease shall be governed by the laws of the State of California.

Section 12A. City Requirements.

The Original Facilities Lease is hereby amended by deleting Sections 19 through 42 thereof and Section 45 thereof, replacing said sections in their entirety by the insertion of the sections set forth below in this Section 12A (i.e., Sections 19 through 39), by renumbering "Section 43" of such Original Facilities Lease as "Section 40," by renumbering "Section 44" of such Original Facilities Lease as "Section 41," and by renumbering "Section 46" of such Original Facilities Lease as "Section 42":

19. Nondiscrimination; Penalties.

(a) Non-Discrimination in Contracts.

The Corporation shall comply with the provisions of Chapters 12B and 12C of the San Francisco Administrative Code. The Corporation 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. The Corporation 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.

The Corporation does not as of the date of this Facilities Lease, and will not during the term of this Facilities Lease, 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 Facilities Lease, the Corporation 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.

20. MacBride Principles—Northern Ireland.

The provisions of San Francisco Administrative Code §12F are incorporated by this reference and made part of this Facilities Lease. By entering into this Facilities Lease, the Corporation 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.

21. Tropical Hardwood and Virgin Redwood Ban.

Under San Francisco Environment Code Section 804(b), the City urges the Corporation not to import, purchase, obtain, or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood or virgin redwood wood product.

22. Alcohol and Drug-Free Workplace.

The City reserves the right to deny access to, or require the Corporation to remove from, City facilities personnel of such Corporation 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.

23. Compliance with Americans with Disabilities Act.

The Corporation shall provide the services specified in the Facilities Lease 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.

24. Sunshine Ordinance.

The Corporation acknowledges that this Facilities Lease and all records related to its formation, such Corporation's performance of services provided under the Facilities Lease, 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.

25. Limitations on Contributions.

By executing this Facilities Lease, the Corporation 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 the Corporation's board of directors; the Corporation'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 Corporation; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by such Corporation. The Corporation 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.

26. Requiring Minimum Compensation for Covered Employees.

The Corporation shall pay covered employees no less than the minimum compensation required by San Francisco Administrative Code Chapter 12P. The Corporation is subject to the enforcement and penalty provisions in Chapter 12P. By entering into this Facilities Lease, the Corporation certifies that it is in compliance with Chapter 12P.

27. Requiring Health Benefits for Covered Employees.

The Corporation shall comply with San Francisco Administrative Code Chapter 12Q. The Corporation shall choose and perform one of the Health Care Accountability options set forth in San Francisco Administrative Code Chapter 12Q.3. The Corporation is subject to the enforcement and penalty provisions in Chapter 12Q.

28. Prohibition on Political Activity with City Funds.

In performing the services provided under the Facilities Lease, the Corporation shall comply with San Francisco Administrative Code Chapter 12G, which prohibits funds appropriated by the City for this Facilities Lease from being expended to participate in, support, or attempt to

influence any political campaign for a candidate or for a ballot measure. The Corporation is subject to the enforcement and penalty provisions in Chapter 12G.

29. Nondisclosure of Private, Proprietary or Confidential Information.

If this Facilities Lease requires the City to disclose "Private Information" to the Corporation within the meaning of San Francisco Administrative Code Chapter 12M, the Corporation shall use such information consistent with the restrictions stated in Chapter 12M and in this Facilities Lease and only as necessary in performing the services provided under the Facilities Lease. The Corporation is subject to the enforcement and penalty provisions in Chapter 12M.

In the performance of services provided under the Facilities Lease, the Corporation 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 the Corporation, such information must be held by such Corporation in confidence and used only in performing the Facilities Lease. The Corporation 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.

30. Consideration of Criminal History in Hiring and Employment Decisions.

The Corporation 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 Facilities Lease. The text of Chapter 12T is available on the web at <http://sfgov.org/olse/fco>. A partial listing of some of the Corporations' obligations under Chapter 12T is set forth in this Section. The Corporation 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 Facilities Lease shall have the meanings assigned to such terms in Chapter 12T.

The requirements of Chapter 12T shall only apply to the Corporation's operations to the extent those operations are in furtherance of the performance of this Facilities Lease, shall apply only to applicants and employees who would be or are performing work in furtherance of this Facilities Lease, 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 which excludes City property. 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.

31. Reserved.

32. 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 Facilities Lease. 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.

33. Conflict of Interest.

By entering into the Facilities Lease, the Corporation 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 Facilities Lease.

34. Assignment.

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

35. Food Service Waste Reduction Requirements.

The Corporation 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.

36. Cooperative Drafting.

This Facilities Lease has been drafted through a cooperative effort of the City and the Corporation, and all parties have had an opportunity to have the Facilities Lease reviewed and revised by legal counsel. No party shall be considered the drafter of this Facilities Lease, 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 Facilities Lease.

37. Laws Incorporated by Reference.

The full text of the laws listed in this Appendix, including enforcement and penalty provisions, are incorporated into this Facilities Lease by reference. The full text of the San

Francisco Municipal Code provisions incorporated by reference in this Appendix are available at www.sfgov.org under "Open Gov."

38. Sugar-Sweetened Beverage Prohibition.

The Corporation 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 Facilities Lease.

39. First Source Hiring Program.

The Corporation 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 Facilities Lease, and the Corporation is subject to the enforcement and penalty provisions in Chapter 83.

Section 13A. Execution in Counterparts.

This First Amendment to Facilities Lease may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same agreement.

[REMAINDER OF PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Corporation and the City have caused this First Amendment to Facilities Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

CITY AND COUNTY OF SAN
FRANCISCO FINANCE CORPORATION

By: _____
President

Attest:

By: _____
Secretary

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Mayor

Attest:

By: _____
Clerk of the Board of Supervisors

APPROVED AS TO FORM:
Dennis J. Herrera
City Attorney

By: _____
Deputy City Attorney

(Signature Page to First Amendment to Facilities Lease)

EXHIBIT A

DESCRIPTION OF THE FACILITIES

The Facilities consist of portions of the Main Library building (consisting of approximately [] square feet) on the lower (i.e., below ground) level and the ground floor of the Main Library located at Civic Center Plaza, 100 Larkin Street, City and County of San Francisco, California.

EXHIBIT B

DESCRIPTION OF THE SITE

The land referred to herein is situated in the State of California, County of San Francisco, City of San Francisco, and described as follows: [~~CONFIRM NO CHANGES SINCE 2009, PER NEW TITLE REPORT~~]

BEGINNING AT A POINT FORMED BY THE INTERSECTION OF THE EASTERLY LINE OF LARKIN STREET AND THE NORTHERLY LINE OF GROVE STREET (EXTENDED EASTERLY) AND RUNNING THENCE NORTHERLY ALONG THE EASTERLY LINE OF LARKIN STREET 275 FEET;

THENCE AT A RIGHT ANGLE EASTERLY 412 FEET 6 INCHES TO THE WESTERLY LINE OF HYDE STREET (EXTENDED SOUTHERLY);

THENCE AT A RIGHT ANGLE SOUTHERLY ALONG SAID LINE OF HYDE STREET (SO EXTENDED) 275 FEET TO THE NORTHERLY LINE OF GROVE STREET (SO EXTENDED); AND

THENCE AT A RIGHT ANGLE WESTERLY ALONG SAID LINE OF GROVE STREET (SO EXTENDED) 412 FEET 6 INCHES TO THE SAID EASTERLY LINE OF LARKIN STREET AND THE POINT OF BEGINNING.

BEING A PORTION OF THE BLOCK OF LAND KNOWN AND DESIGNATED ON THE OFFICIAL MAP OF THE CITY AND COUNTY OF SAN FRANCISCO AS "THE CITY HALL LOT".

APN: LOT 1, BLOCK 354

EXHIBIT C

DESCRIPTION OF THE RELEASED PROPERTY

The facilities consisting of portions of the Main Library building (consisting of approximately 264,530 square feet) on floors 2 through 6 of the Main Library located at Civic Center Plaza, 100 Larkin Street, City and County of San Francisco, California.

CERTIFICATE OF ACCEPTANCE

This is to certify that the interest in real property conveyed by the Facilities Lease, dated as of March 1, 2009, as supplemented by the First Amendment to Facilities Lease, dated as of June 1, 2018, from the City and County of San Francisco to the City and County of San Francisco Finance Corporation (the "Corporation"), is hereby accepted by the undersigned officer on behalf of the Corporation pursuant to authority conferred by Resolution No. 2018-[] adopted by the Board of Directors of the Corporation on [], 2018, and the Corporation consents to recordation thereof by its duly authorized officer.

Dated as of June 1, 2018

CITY AND COUNTY OF SAN FRANCISCO
FINANCE CORPORATION

By: _____

FIRST SUPPLEMENTAL TRUST AGREEMENT

By and Between the

CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION

and

**U.S. BANK NATIONAL ASSOCIATION
as Trustee**

Dated as of June 1, 2018

Relating to
City and County of San Francisco Finance Corporation
Refunding Lease Revenue Bonds, Series 2018B
(Branch Library Improvement Program)

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FIRST SUPPLEMENTAL TRUST AGREEMENT

THIS FIRST SUPPLEMENTAL TRUST AGREEMENT (the "First Supplemental Trust Agreement"), dated as of June 1, 2018, is by and between the CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION, a nonprofit public benefit corporation, duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

RECITALS

WHEREAS, the Corporation is a nonprofit public benefit corporation, duly organized and existing under and pursuant to the California Nonprofit Public Benefit Corporation Law, being Part 2 of Title 1 (commencing with Section 5110) of the California Corporation Code (the "Law"), and is authorized pursuant to the Law and its articles of incorporation to issue bonds for the purpose of financing public capital improvements for the City and County of San Francisco (the "City"); and

WHEREAS, the Corporation has heretofore financed the acquisition, construction, reconstruction, rehabilitation and/or improvement of real property and/or facilities that will be operated by the San Francisco Public Library (the "Library") for Library purposes and for the purchase of equipment relating to such real property and/or facilities (the "2009 Project") on behalf of the City through the issuance of the Series 2009A Bonds (defined below), which Series 2009A Bonds the City and the Corporation wish to refinance; and

WHEREAS, the Corporation entered into the Master Trust Agreement (defined below) pursuant to Section 16.109(d) of the Charter, which provides for obligations payable from any available funds pledged or appropriated by the Board of Supervisors of the City; and

WHEREAS, in connection with the Series 2009A Bonds described below, the City and the Corporation previously entered into a Facilities Lease, dated as of March 1, 2009 (the "Original Facilities Lease"), by and between the City as lessor and the Corporation as lessee;

WHEREAS, in connection with the Series 2009A Bonds described below, the Corporation previously entered into a Master Lease, dated as of March 1, 2009 (the "Master Lease"), by and between the Corporation as lessor and the City as lessee, whereunder the City agreed to make Base Rental payments to the Corporation in respect of the Facilities then subject to the Master Lease and in amounts sufficient to pay debt service on the Series 2009A Bonds;

WHEREAS, the terms of the Master Lease permit the prepayment by the City of all or a portion of the Base Rental payments due in respect of Bonds which are by their terms subject to optional redemption;

WHEREAS, the City and the Corporation now desire to refinance the costs of the 2009 Project by prepaying all of the remaining payments due under the Master Lease and prepaying all of the Outstanding Series 2009A Bonds;

WHEREAS, in connection with the Series 2018 Bonds described below, the City and Corporation have entered into a First Amendment to Facilities Lease, dated as of June 1, 2018 (the "First Amendment to Facilities Lease"), by and between the City as lessor and the Corporation as lessee (together, the Original Site Lease and the First Amendment to Facilities Lease are referred to as the "Facilities Lease");

WHEREAS, in connection with the Series 2018 Bonds described below, the Corporation has entered into a First Amendment to Master Lease, dated as of June 1, 2018 (the "First Amendment to Lease"), by and between the Corporation as lessor and the City as lessee (together, the Master Lease and the First Amendment to Lease are referred to herein as the "Lease"), whereunder the City agreed to make adjusted Base Rental payments to the Corporation in respect of the Facilities subject to the Lease, in amounts sufficient to pay debt service on the Series 2018 Bonds;

WHEREAS, the Corporation and the Trustee previously entered into a Master Trust Agreement dated as of March 1, 2009 (the "Master Trust Agreement") in connection with the issuance by the Corporation of \$34,265,000 principal amount of Lease Revenue Bonds, Series 2009A (Branch Library Improvement Program) (the "Series 2009A Bonds"), of which \$27,030,000 remain Outstanding;

WHEREAS, the Corporation will issue its \$[xx,xxx],000 principal amount of Refunding Lease Revenue Bonds, Series 2018B (Branch Library Improvement Program) (the "Series 2018 Bonds") pursuant to this First Supplemental Trust Agreement (the Master Trust Agreement, as supplemented by this First Supplemental Trust Agreement, is referred to herein as the "Trust Agreement") for the purposes of prepaying all of the remaining payments due under the Master Lease and refunding and redeeming (together with other available funds of the Corporation and certain funds which the San Francisco Library Commission (the "Library Commission") has, by its Resolution No. 2016-01 adopted April 21, 2016, de-appropriated from its general reserves and re-appropriated to pay debt service, which de-appropriation and re-appropriation has been approved by the Board of Supervisors of the City through the adoption of its Ordinance No. []-18 dated [], 2018) the Outstanding Series 2009A Bonds;

WHEREAS, the Corporation will issue the Series 2018 Bonds as Parity Bonds under the Trust Agreement, and upon the deposit with the Trustee, in trust, of money in the amount necessary to pay or redeem the Outstanding Series 2009A Bonds on the redemption date established therefor, such Series 2009A Bonds shall no longer be Outstanding under the Trust Agreement;

WHEREAS, the Corporation may issue additional Parity Bonds under the Trust Agreement, and the Series 2018 Bonds and any such Parity Bonds (collectively, the "Bonds") shall be secured on a parity basis under the Trust Agreement; and

WHEREAS, all conditions, things and acts required by law to exist, happen and be performed precedent to and in connection with the issuance of the Series 2018 Bonds exist, have happened and have been performed in regular and due time, form and manner as required by law, and the Corporation is now duly authorized to issue the Series 2018 Bonds;

NOW, THEREFORE, in order to secure the payment of the Bonds and the performance and observance by the Corporation of all the covenants, agreements and conditions herein and in the Series 2018 Bonds contained, and in consideration of the mutual covenants and agreements contained herein, the Corporation and the Trustee hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01A. Definitions. (a) From and after the effective date of this instrument, the following new definitions shall be added to Section 1.01 of the Trust Agreement, in alphabetical order, to read as follows:

“Refunded Bonds” means all Series 2009A Bonds Outstanding prior to the date of issuance of the Series 2018 Bonds.

“2018 Assignment Agreement” means that certain Assignment Agreement, dated as of June 1, 2018, by and between the Corporation and the Trustee, as such 2018 Assignment Agreement may be amended from time to time.

“2018 Facilities” means the facilities described in Exhibit A attached to the First Amendment to Lease, as such Exhibit A may be amended or revised from time to time.

“2018 Site” means the real property described in Exhibit B attached to the First Amendment to Lease, as such Exhibit B may be amended or revised from time to time.

“2018 Facilities Lease” means the First Amendment to Site Lease dated as of June 1, 2018 between the City, as lessee, and the Corporation, as lessor.

(b) The following definitions are amended and restated in their entirety:

“Bonds” means the Series 2018 Bonds and all Parity Bonds issued in accordance with this Trust Agreement and the Lease.

“Interest Payment Date” means (i) with respect to the Series 2018 Bonds, each June 15 and December 15, commencing on [December, 2018]; and (ii) with respect to Parity Bonds, commencing on such date as provided in a Parity Bond Instrument.

“Principal Payment Date” means (i) with respect to the Series 2018 Bonds any June 15 commencing [June 15, 2019]; and (ii) with respect to Parity Bonds, commencing on such date as provided in a Parity Bond Instrument.

ARTICLE II

PROVISIONS RELATING TO SERIES 2018 BONDS

Section 2.04A. Designation. The Series 2018 Bonds shall be issued by the Corporation as Parity Bonds under and subject to the terms of the Trust Agreement and the Law and shall be

designated as the "City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds, Series 2018B (Branch Library Improvement Program)."

Section 2.05A. Terms of Bonds; Form.

(c) Dated Date and Maturity Dates. The Series 2018 Bonds shall mature on the dates, in the principal amounts, and interest with respect thereto shall be computed at the rates, as shown below:

<u>Maturity Date</u> <u>(June 15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2019	\$ _	—
2020	—	—
2021	—	—
2022	—	—
2023	—	—
2024	—	—
2025	—	—
2026	—	—
2027	—	—
2028	—	—
[2029	—	—
2030		
2031		
2032		
2033		
2034]

Section 2.06A. Issuance of Series 2018 Bonds. The Corporation may execute and the Trustee shall authenticate and, upon the Request of the Corporation, deliver the Series 2018 Bonds in the aggregate principal amount of \$[xx,xxx],000. The Series 2018 Bonds shall be executed and authenticated as provided in Section 2.03 of the Master Trust Agreement.

Section 2.07A. Application of Proceeds of Sale of Bonds and Other Moneys - Allocation Among Funds.

(c) Upon receipt of the [net] proceeds from the sale of the Series 2018 Bonds, being \$[_____], the Trustee shall deposit said proceeds as follows:

(i) the Trustee shall deposit to the Revenue Fund the amount of \$[_____] (of which \$[_____] represents the Good Faith Deposit received from the Purchaser)] to be applied to the prepayment of all of the remaining payments due under the Master Lease, to effect the payment and redemption of the Refunded Bonds, as further described herein below; and

(ii) the Trustee shall deposit into the Costs of Issuance Fund the amount of \$[_____] to be applied as provided in the Requisition of the City submitted

to the Trustee in connection with the issuance of the Series 2018 Bonds and otherwise as provided in Section 3.04 of the Master Trust Agreement[; and

(iii) the Trustee shall deposit into the Reserve Fund the amount of \$[_____], such amount being sufficient to cause the amount on deposit in the Reserve Fund equal to the Reserve Fund Requirements upon issuance of the Series 2018 Bonds].

(d) Furthermore, the Trustee shall transfer \$[_____] of the amount on deposit in the Reserve Fund to the Revenue Fund and apply such amounts to the prepayment of all remaining payments due under the Lease, as amended by the First Amendment to Lease, to effect the payment and redemption of the Refunded Bonds, as further described herein below.

(e) Furthermore, the Library Commission shall transfer, or cause to be transferred, to the Trustee, the de-appropriated and re-appropriated amount of Library general reserve moneys (i.e., in the amount of [\$7,566,391]), for a total amount of \$[_____] to be on deposit in the Revenue Fund held by the Trustee, and the Trustee shall apply such amounts to the prepayment of all remaining payments due under the Lease, to effect the payment and redemption of the Refunded Bonds on [June 15], 2018.

(f) Amounts, if any, remaining in the Revenue Fund after the payment and redemption in full of the Refunded Bonds shall be held therein and applied to the next payment(s) to come due under the Lease.

Section 2.08A. Redemption of Series 2018 Bonds.

(c) The Series 2018 Bonds maturing on or after [June 15, 2027] are subject to optional redemption prior to maturity on or after [June 15, 2026] at the option of the City, as a whole on any date, as is set forth in a Request of the City or in part on any date, as is set forth in a Request of the City, from such maturities as are selected by the City, from amounts deposited with the Trustee from any funds available therefor, at a redemption price equal to the principal amount thereof plus accrued but unpaid interest to the redemption date, without premium.

ARTICLE III

MISCELLANEOUS

Section 3.04A. Series 2018 Bonds Subject to the Trust Agreement; Amendment to Trust Agreement.

(a) Except as expressly provided in this First Supplemental Trust Agreement, every term and condition contained in the Trust Agreement shall apply to this First Supplemental Trust Agreement and to the Series 2018 Bonds with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this First Supplemental Trust Agreement.

This First Supplemental Trust Agreement and all the terms and provisions herein contained shall form part of the Trust Agreement as fully and with the same effect as if all such terms and provisions had been set forth in the Trust Agreement. The Trust Agreement is hereby ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended hereby.

(b) The Trust Agreement is hereby amended to include, in replacement of the definition of “Reserve Fund Requirement” set forth in Section 1.01 thereof, the following definition of such term:

“Reserve Fund Requirement” means, with respect to any series of Parity Bonds issued pursuant to this Trust Agreement and in accordance with the Parity Bond Instrument relating thereto, the amount specified for such series of Parity Bonds within such Parity Bond Instrument, provided that in no event shall such amount exceed the least of (i) 125% of the average annual debt service on such series of Parity Bonds Outstanding as of such date secured by such Reserve Fund (or the series-designated account therein) established therefor, (ii) Maximum Annual Debt Service on such series of Parity Bonds Outstanding as of such date secured by such Reserve Fund (or the series-designated account therein) established therefor, and (iii) 10% of the principal amount of such series of Parity Bonds Outstanding as of such date secured by such Reserve Fund (or the series-designated account therein) established therefor.

(c) The Reserve Fund Requirement for the Series 2018 Bonds shall be \$[].

Section 3.05A. Governing Law. This First Supplemental Trust Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 3.06A. Counterparts. This Supplemental Trust Agreement may be signed in several counterparts, each of which will constitute an original, but all of which shall constitute one and the same instrument.

Section 3.07A. City Requirements. The Master Trust Agreement is hereby amended by deleting Sections 12.14 through 12.37 thereof and Section 12.40 thereof, replacing said sections in their entirety by the insertion of the sections set forth below in this Section 3.07A (i.e., Sections 12.14 through 12.34), by renumbering “Section 12.38” of such Master Trust Agreement as “Section 12.35,” and by renumbering “Section 12.39” of such Master Trust Agreement as “Section 12.36”:

29. Nondiscrimination; Penalties

(a) *Noni-Discrimination in Contracts*. The Trustee shall comply with the provisions of Chapters 12B and 12C of the San Francisco Administrative Code. The Trustee 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. The Trustee 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.* The Trustee does not as of the date of this Trust Agreement, and will not during the term of this Trust Agreement, 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 Trust Agreement, the Trustee 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.

15. MacBride Principles—Northern Ireland. The provisions of San Francisco Administrative Code §12F are incorporated by this reference and made part of this Trust Agreement. By entering into this Trust Agreement, the Trustee 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.

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

17. Alcohol and Drug-Free Workplace. The City reserves the right to deny access to, or require the Trustee to remove from, City facilities personnel of such Trustee 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.

18. Compliance with Americans with Disabilities Act. The Trustee shall provide the services specified in the Trust Agreement 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.

19. Sunshine Ordinance. The Trustee acknowledges that this Trust Agreement and all records related to its formation, such Trustee’s performance of services provided under the Trust

Agreement, 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.

20. Limitations on Contributions. By executing this Trust Agreement, the Trustee 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 the Trustee's board of directors; the Trustee'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 Trustee; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by such Trustee. The Trustee 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.

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

22. Requiring Health Benefits for Covered Employees. The Trustee shall comply with San Francisco Administrative Code Chapter 12Q. The Trustee shall choose and perform one of the Health Care Accountability options set forth in San Francisco Administrative Code Chapter 12Q.3. The Trustee is subject to the enforcement and penalty provisions in Chapter 12Q.

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

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

In the performance of services provided under the Trust Agreement, the Trustee 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 the Trustee, such information must be held by such Trustee in confidence and used only in performing the Trust Agreement. The Trustee 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.

25. Consideration of Criminal History in Hiring and Employment Decisions. The Trustee 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 Trust Agreement. The text of Chapter 12T is available on the web at <http://sfgov.org/olse/fco>. A partial listing of some of the Trustees' obligations under Chapter 12T is set forth in this Section. The Trustee 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 Trust Agreement shall have the meanings assigned to such terms in Chapter 12T.

The requirements of Chapter 12T shall only apply to the Trustee's operations to the extent those operations are in furtherance of the performance of this Trust Agreement, shall apply only to applicants and employees who would be or are performing work in furtherance of this Trust Agreement, 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 which excludes City property. 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.

26. Reserved.

27. 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 Trust Agreement. 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.

28. Conflict of Interest. By entering into the Trust Agreement, the Trustee 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 Trust Agreement.

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

30. Food Service Waste Reduction Requirements. The Trustee 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.

31. Cooperative Drafting. This Trust Agreement has been drafted through a cooperative effort of the City and the Trustee, and all parties have had an opportunity to have the Trust Agreement reviewed and revised by legal counsel. No party shall be considered the drafter of this Trust Agreement, 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 Trust Agreement.

32. Laws Incorporated by Reference. The full text of the laws listed in this Appendix, including enforcement and penalty provisions, are incorporated into this Trust Agreement by reference. The full text of the San Francisco Municipal Code provisions incorporated by reference in this Appendix are available at www.sfgov.org under "Open Gov."

33. Sugar-Sweetened Beverage Prohibition. The Trustee 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 Trust Agreement.

34. First Source Hiring Program. The Trustee 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 Trust Agreement, and the Trustee is subject to the enforcement and penalty provisions in Chapter 83.

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Trust Agreement to be duly executed by their officers duly authorized as of the date first above written.

CITY AND COUNTY OF SAN
FRANCISCO FINANCE CORPORATION

By: _____
President

(SEAL)

ATTEST:

Secretary

Approved As To Form:

Dennis J. Herrera
City Attorney

By: _____
Deputy City Attorney

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

Acknowledged by:

CITY AND COUNTY OF SAN
FRANCISCO

By: _____
Mayor

ATTEST:

Clerk of the Board

(Signature page to First Supplemental Trust Agreement)

S-1

RECORDING REQUESTED BY:
CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION

When Recorded Mail To:

Squire Patton Boggs (US) LLP
275 Battery Street, Suite 2600
San Francisco, California 94111
Attention: Nathan Treu, Esq.

FIRST AMENDMENT TO MASTER LEASE

By and Between the

CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION, as lessor

and the

CITY AND COUNTY OF SAN FRANCISCO, as lessee

Dated as of June 1, 2018

NO DOCUMENTARY TRANSFER TAX

This First Amendment to Master Lease is exempt pursuant to
Section 610.3 of the California Government Code

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THIS FIRST AMENDMENT TO MASTER LEASE (the "First Amendment to Lease"), is made and entered into as of June 1, 2018, by and between the CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION, a nonprofit public benefit corporation, duly organized and existing under and by virtue of the laws of the State of California, as lessor (the "Corporation") and the CITY AND COUNTY OF SAN FRANCISCO, a charter city and county and municipal corporation, duly organized and existing under and by virtue of its Charter and the Constitution of the State of California, as lessee (the "City").

RECITALS

WHEREAS, the Corporation is a nonprofit public benefit corporation, duly organized and existing under and pursuant to the California Nonprofit Public Benefit Corporation Law, being Part 2 of Title 1 (commencing with Section 5110) of the California Corporation Code (the "Law"), and is authorized pursuant to the Law to borrow money for the purpose, among other things, of financing public capital improvements for the City; and

WHEREAS, the City and the Corporation previously entered into a Master Lease, dated as of March 1, 2009 (the "Master Lease"), by and between the Corporation as lessor and the City as lessee pursuant to Section 16.109(d) of the Charter, which provides for the City to enter into obligations, including lease financing obligations, secured by and/or repaid from any available funds pledged or appropriated by the Board of Supervisors of the City for the acquisition, construction, reconstruction, rehabilitation and/or improvement of real property and/or facilities that will be operated by the San Francisco Public Library (the "Library") for Library purposes and for the purchase of equipment relating to such real property and/or facilities; and

WHEREAS, the City is entering into this First Amendment to Lease pursuant to Article XIII of the Master Lease and Section 16.109(d) of the Charter; the Master Lease, as supplemented by this First Amendment to Lease, is referred to herein as the "Lease"; and

WHEREAS, the Corporation and U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States, as successor trustee (the "Trustee"), previously entered into a Master Trust Agreement dated as of March 1, 2009 (the "Master Trust Agreement") in connection with the issuance by the Corporation of \$34,265,000 in principal amount of Lease Revenue Bonds, Series 2009A (Branch Library Improvement Program) (the "Series 2009A Bonds"), proceeds of which Series 2009A Bonds were used to design and construct certain improvements (the "2009 Project"); and

WHEREAS, the Corporation will issue its \$[xx,xxx],000 principal amount of Refunding Lease Revenue Bonds, Series 2018B (Branch Library Improvement Program) (the "Series 2018 Bonds") pursuant to the Master Trust Agreement and the First Supplemental Master Trust Agreement of even date herewith, between the Corporation and the Trustee (the "First Supplemental Trust Agreement" and, together with the Master Trust Agreement, the "Trust Agreement"); and

WHEREAS, the Corporation and the City intend to use a portion of the proceeds from the sale of the Series 2018 Bonds to redeem and refund the Series 2009A Bonds (and thereby refinance the 2009 Project); and

WHEREAS, the City previously entered into a Facilities Lease, dated as of March 1, 2009 (the "Original Facilities Lease"), by and between the City as lessor and the Corporation as lessee under which the Corporation leased certain facilities (the "Original Facilities") and certain real property (the "Original Site") from the City; and

WHEREAS, pursuant to a First Amendment to Facilities Lease dated as of June 1, 2018 (the "First Amendment to Facilities Lease"), which is recorded concurrently herewith, between the City, as lessor, and the Corporation, as lessee, the Corporation will lease certain [additional][substituted] facilities (the "2018 Facilities," which, together with the Original Facilities, as modified by the First Amendment to Facilities Lease, are also referred to herein as the "Facilities") and certain [additional][substituted] real property from the City (the "2018 Site," which, together with the Original Site, as modified by the First Amendment to Facilities Lease, is also referred to herein as the "Site"); the Original Facilities Lease, as supplemented by the First Amendment to Facilities Lease, is referred to herein as the "Facilities Lease"; and

WHEREAS, pursuant to the Lease, the Corporation will lease the Facilities and use amounts received from the City as Base Rental (as hereinafter defined) under the Lease to pay debt service on the Series 2018 Bonds and any additional Parity Bonds (collectively, the "Bonds"); and

WHEREAS, pursuant to and in accordance with certain provisions of the Trust Agreement and the Lease, the Corporation may issue additional Parity Bonds payable from Base Rental on a parity with the Series 2018 Bonds, for the purpose of financing the construction, reconstruction, rehabilitation and/or improvement of the additional components of the Project; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this First Amendment to Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this First Amendment to Lease;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter contained, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01A. Additional Definitions. (a) All capitalized terms used in this First Amendment to Lease and not otherwise defined shall have the meanings given to such terms in the Lease and the Trust Agreement. From and after the effective date of this instrument, the following new definitions shall be added to Section 1.01 of the Lease, in alphabetical order, to read as follows:

"2018 Assignment Agreement" means that certain Assignment Agreement dated as of June 1, 2018, which is recorded concurrently herewith, by and between the Corporation and the Trustee, and amends the Assignment Agreement (as previously amended and supplemented), as such 2018 Assignment Agreement may be amended from time to time.

“2018 Facilities” means the facilities described in Exhibit A attached hereto and made a part hereof.

“2018 Site” means the real property described in Exhibit B attached hereto and made a part hereof.

(b) the following definitions are amended and restated as follows:

“Base Rental Payment Date” means any date on which Base Rental is scheduled to be paid hereunder, being [December 1] and [June 1] of each year, commencing on [December 1, 2018] (subject to the provisions of Section 3.01 hereof).

ARTICLE II

RELEASE OF CERTAIN PROPERTY; LEASE OF FACILITIES; TERM

Section 2.01A. Release of Property. The property described in Exhibit D hereto is hereby released from the Lease and shall no longer constitute part of the Facilities and the Site. The Corporation does hereby remise, release and terminate all of its leasehold interest in and to the real property described in Exhibit D and the improvements thereon. The City does hereby remise, release and terminate all of its sub-leasehold interest (but not its fee interest) in and to the real property described in Exhibit D and the improvements thereon.

Section 2.02A. Lease of Facilities. The Corporation hereby leases to the City, and the City hereby leases from the Corporation, the Facilities and the Site on the terms and conditions set forth herein and in the Master Lease. The Facilities described in this First Amendment to Lease shall be the “Facilities” under the Master Lease and the Site described in this First Amendment to Lease shall be the “Site” under the Master Lease. The City hereby agrees and covenants that during the term hereof, except as provided herein, it will use the Facilities for public purposes, and the City hereby further agrees and covenants that, during the term hereof, it will not abandon or vacate the Facilities or any portion thereof (unless such Facilities are condemned as provided for in Section 8.01 of the Master Lease).

Section 2.03A. Term; Occupancy. The term of this First Amendment to Lease shall commence on the date of issuance and delivery of the Series 2018 Bonds and shall end on [July 15, 20[28][33]].

If on the final maturity date of any of the Series 2018 Bonds, the Series 2018 Bonds shall not have been fully paid, or provision therefor made, then the term of this First Amendment to Lease shall be extended until ten (10) days after all Series 2018 Bonds shall have been fully paid, or provision therefor made, or otherwise discharged, provided that in no event shall the term of this First Amendment to Lease extend beyond [July 15, 20[29][34]].

Section 2.04A. Effect of this First Amendment to Lease. On and after the effective date of this instrument, (i) each reference in the Master Lease to the Facilities shall mean the “Facilities” as defined and described in this First Amendment to Lease; (ii) each reference to Site shall mean the “Site” as defined and described in this Second Amendment to Lease. Except

as expressly provided in this First Amendment to Lease, the Master Lease shall continue in full force and effect in accordance with the terms and provisions thereof, as amended hereby.

ARTICLE III

RENTAL PAYMENTS

Section 3.01A. **Base Rental.** The City shall pay to the Corporation as Base Rental for the use and occupancy of the Facilities (subject to the provisions of Sections 2.02, 3.01 and 7.01 of the Master Lease) the amounts at the times specified in and in accordance with the Base Rental Payment Schedule set forth in Exhibit C hereto which is incorporated herein by this reference. The City's obligation to pay Base Rental payments shall be limited solely to Net Open Space Fund Property Tax Revenues. Base Rental shall be payable commencing on [December 1, 2018] and on each [December 1] and [June 1] thereafter during the term of this First Amendment to Lease. Base Rental shall be for the use and occupancy of the Facilities for the Fiscal Year in which such [December 1] and [June 1] occurs. If the term of this First Amendment to Lease shall be extended pursuant to Section 2.02A hereof, the payments of Base Rental shall continue to and including such time this First Amendment to Lease shall terminate in accordance with Section 2.02A hereof

Section 3.02A. **Fair Rental Value.** The City hereby confirms that the payments of Base Rental and Additional Rental during the term of the Master Lease, as amended by this First Amendment to Lease, shall constitute the total rental for the City's use and occupancy of the Facilities for the Fiscal Year in which such payments are scheduled to be made, and the parties hereto have agreed and determined that such total rental represents the fair rental value of the Facilities. In making such determination, consideration has been given to the costs of refinancing the 2009 Project by the Corporation, the uses and purposes served by the 2009 Project, and the benefits which will accrue to the Corporation, the City and the general public therefrom and from the refinancing thereof.

ARTICLE IV

COVENANTS

Section 4.01A. **Quiet Enjoyment.** The parties hereto mutually covenant that the City, by keeping and performing the covenants and agreements herein contained, shall at all times during the term of this First Amendment to Lease peaceably and quietly have, hold and enjoy the Facilities without suit, trouble or hindrance from the Corporation.

Section 4.02A. **Corporation Not Liable.** The Corporation and its members, officers, agents and employees, shall not be liable to the City or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Facilities. The City shall indemnify and hold the Corporation and its members, officers, agents and employees, and the Trustee and its officers, agents and employees harmless from, and defend each of them against, any and all claims, liens and judgments arising from the construction or operation of the Facilities, including, without limitation, death of or injury to any person or damage to property whatsoever occurring in, on or about the Facilities, but

excepting claims, liens and judgments arising from the active negligence of the person or entity seeking indemnity. The provisions of this section shall survive the termination of this First Amendment to Lease.

Section 4.03A. Assignment. Neither this First Amendment to Lease nor any interest of the City hereunder shall be mortgaged, pledged, assigned, sublet or transferred by the City by voluntary act or by operation by law or otherwise, except with the prior written consent of the Corporation, which shall not be unreasonably withheld.

Section 4.04A. Tax Covenants. The City covenants that it shall not take any action, or fail to take any action, if such action or failure to take such action would result in the interest on the Series 2018 Bonds not being excluded from gross income for federal income tax purposes under Section 103 of the Code. Without limiting the generality of the foregoing, the City covenants that it shall comply with the requirements of the Tax Compliance Certificate, dated as of the date of delivery of the Series 2018 Bonds and executed and delivered by the City and Corporation, which is incorporated herein as if fully set forth herein. This covenant shall survive the payment in full or the defeasance of the Series 2018 Bonds.

(a) In the event that at any time the City is of the opinion that for purposes of this Section 4.04A it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement, the City shall so instruct the Corporation and the Trustee in a Request of the City accompanied by an Opinion of Bond Counsel.

(b) Notwithstanding any provisions of this Section 4.04A, if the City provides an Opinion of Bond Counsel to the effect that any specified action required under this Section 4.04A is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest on the Series 2018 Bonds, the Trustee may conclusively rely on such opinion in complying with the requirements of this Section 4.04A and the Tax Compliance Certificate, and the covenants hereunder shall be deemed to be modified to that extent.

Section 4.05A. Continuing Disclosure. The City, on behalf of the Corporation, hereby covenants and agrees to comply with and carry out all of the provisions of the continuing disclosure certificate for the Series 2018 Bonds (the "Continuing Disclosure Certificate"). Notwithstanding any other provision of this Second Amendment to Lease, failure by the City to comply with the Continuing Disclosure Certificate shall not constitute a default hereunder or under the Trust Agreement or any Parity Bond Instrument; provided, however, that any Participating Underwriter (as defined in each Continuing Disclosure Certificate) or any Owner or beneficial owner of Series 2018 Bonds may take such action as may be necessary and appropriate to compel performance by the City of its obligations under this Section 4.05A, including seeking mandamus or specific performance by court order. All capitalized terms used but not defined in this Section 4.05A shall have the meanings given in the Continuing Disclosure Certificate.

ARTICLE V

DISCLAIMER OF WARRANTIES; USE OF THE PROJECT

Section 5.01A. Disclaimer of Warranties. THE CORPORATION MAKES NO AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE FACILITIES, OR WARRANTY WITH RESPECT THERETO. THE CITY ACKNOWLEDGES THAT THE CORPORATION IS NOT A MANUFACTURER OF ANY PORTION OF THE FACILITIES OR THE PROJECT OR A DEALER THEREIN AND THAT THE CITY LEASES THE FACILITIES AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE CITY. In no event shall the Corporation be liable for any incidental, indirect, special or consequential damage in connection with or arising out of this First Amendment to Lease or the existence, furnishing, functioning or the City's use of the Facilities as provided hereby.

Section 5.02A. Use of the Facilities. The City will not use, operate or maintain the Facilities improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated hereby. The City shall obtain all permits and licenses, if any, necessary for the use of the Facilities. In addition, the City agrees to comply in all respects with all laws of the jurisdictions in which its operations involving any portion of the Facilities may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Facilities; provided, that the City may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Trustee, adversely affect the estate of the Corporation in and to the Facilities or its interest or rights hereunder.

ARTICLE VI

ASSIGNMENT AND INDEMNIFICATION

Section 6.01A. Assignment by Corporation. The parties understand that this First Amendment to Lease and the rights of the Corporation hereunder will be assigned to the Trustee pursuant to the Assignment Agreement, and, accordingly, the City agrees to make all rental payments due hereunder directly to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach hereof or otherwise) that the City may from time to time have against the Corporation. The City agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements, which may be reasonably requested by the Corporation or the Trustee to protect their interests in the Facilities during the term hereof.

Section 6.02A. Indemnification. The City shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the Corporation and its members, officers and employees (other than the negligence or willful misconduct of the Corporation, or its members, officers and employees), and reasonable expenses in connection therewith, including, without limitation, reasonable counsel fees and expenses, penalties and interest arising out of or as the result of the entering into of this First Amendment to Lease, the payment of the costs of the Improvements or any accident in connection with the operation, use,

condition or possession of the Facilities or any portion thereof resulting in damage to property or injury to or death to any person, including, without limitation, any claim alleging latent and other defects, whether or not discoverable by the Corporation or the City; any claim for patent, trademark or copyright infringement; any claim arising out of strict liability in tort; the presence on, under or about, or release from the Facilities, or any portion thereof, of any substance, material or waste which is or becomes regulated or classified as hazardous or toxic under State, local or federal law and the violation of, or non-compliance with, any such laws by the City. The indemnification arising under this Section 6.02A shall continue in full force and effect notwithstanding the full payment of all obligations hereunder or the termination hereof for any reason. The City agrees not to withhold or abate any portion of the payments required pursuant hereto by reason of any defects, malfunctions, breakdowns or infirmities of the Facilities. The Corporation and the City mutually agree to promptly give notice to each other of any claim or liability hereby indemnified against following either's learning thereof.

ARTICLE VII

MISCELLANEOUS

Section 7.01A. Law Governing. This Lease shall be governed exclusively by the laws of the State of California as the same from time to time exist.

Section 7.02A. Validity and Severability. If for any reason this First Amendment to Lease shall be held by a court of competent jurisdiction to be void, voidable, or unenforceable by the Corporation or by the City, or if for any reason it is held by such a court that any of the covenants and conditions of the City hereunder, including the covenant to pay rentals hereunder, is unenforceable for the full term hereof, then and in such event this First Amendment to Lease is and shall be deemed to be a Lease under which the rental payments due in any Fiscal Year of the City are subject to annual appropriation and are to be paid by the City annually in consideration of the right of the City to possess, occupy and use the Facilities, and all of the rental and other terms, provisions and conditions of this First Amendment to Lease, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

Section 7.03A. Net Lease. This Lease shall be deemed and construed to be a "net lease" and the City hereby agrees that the rentals provided for herein shall be an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever.

Section 7.04A. Taxes. The parties understand and agree that the Facilities constitute public property free and exempt from all taxation; however, the Corporation agrees to take whatever steps may be necessary, upon written request by the City, to contest any proposed valuation, the amount of any proposed tax or assessment, or to take steps necessary to recover any tax or assessment paid. The City agrees to reimburse the Corporation for any and all costs and expenses thus incurred by the Corporation.

Section 7.05A. Article and Section Headings. All article and section headings contained herein are for convenience of reference only and are not intended to define or limit the scope of any provision of this First Amendment to Lease.

Section 7.06A. Execution. This Lease may be executed in any number of counterparts, each of which shall be deemed to be an original, but all together shall constitute but one and the same Lease. It is also agreed that separate counterparts of this First Amendment to Lease may separately be executed by the Corporation and the City, all with the same force and effect as though the same counterpart had been executed by both the Corporation and the City.

Section 7.07A. Trustee a Third Party Beneficiary. The Trustee is hereby designated as a third party beneficiary hereunder for the purpose of enforcing any of the rights hereunder assigned to the Trustee under the Assignment Agreement.

Section 7.08A. Amendments. This First Amendment to Lease may be amended in the manner provided in Section 15.09 of the Master Lease.

Section 7.09A. City Requirements. The Master Lease is hereby amended by deleting Sections 15.10 through 15.33 thereof and Section 15.36 thereof, replacing said sections in their entirety by the insertion of the sections set forth below in this Section 7.09A (i.e., Sections 10 through 30), by renumbering "Section 15.34" of such Master Lease as "Section 15.31," by renumbering "Section 15.35" of such Original Facilities Lease as "Section 15.32," and by renumbering "Section 15.38" of such Original Facilities Lease as "Section 15.33":

10. Nondiscrimination; Penalties.

(a) Non-Discrimination in Contracts.

The Corporation shall comply with the provisions of Chapters 12B and 12C of the San Francisco Administrative Code. The Corporation 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. The Corporation 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.

The Corporation does not as of the date of this Lease, and will not during the term of this Lease, 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 Lease, the Corporation 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.

11. MacBride Principles—Northern Ireland.

The provisions of San Francisco Administrative Code §12F are incorporated by this reference and made part of this Lease. By entering into this Lease, the Corporation 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.

12. Tropical Hardwood and Virgin Redwood Ban.

Under San Francisco Environment Code Section 804(b), the City urges the Corporation not to import, purchase, obtain, or use for any purpose, any tropical hardwood, tropical hardwood wood product, virgin redwood or virgin redwood wood product.

13. Alcohol and Drug-Free Workplace.

The City reserves the right to deny access to, or require the Corporation to remove from, City facilities personnel of such Corporation 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.

14. Compliance with Americans with Disabilities Act.

The Corporation shall provide the services specified in the Lease 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.

15. Sunshine Ordinance.

The Corporation acknowledges that this Lease and all records related to its formation, such Corporation's performance of services provided under the Lease, 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.

16. Limitations on Contributions.

By executing this Lease, the Corporation 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 the Corporation's board of directors; the Corporation'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 Corporation; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by such Corporation. The Corporation 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.

17. Requiring Minimum Compensation for Covered Employees.

The Corporation shall pay covered employees no less than the minimum compensation required by San Francisco Administrative Code Chapter 12P. The Corporation is subject to the enforcement and penalty provisions in Chapter 12P. By entering into this Lease, the Corporation certifies that it is in compliance with Chapter 12P.

18. Requiring Health Benefits for Covered Employees.

The Corporation shall comply with San Francisco Administrative Code Chapter 12Q. The Corporation shall choose and perform one of the Health Care Accountability options set forth in San Francisco Administrative Code Chapter 12Q.3. The Corporation is subject to the enforcement and penalty provisions in Chapter 12Q.

19. Prohibition on Political Activity with City Funds.

In performing the services provided under the Lease, the Corporation shall comply with San Francisco Administrative Code Chapter 12G, which prohibits funds appropriated by the City for this Lease from being expended to participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure. The Corporation is subject to the enforcement and penalty provisions in Chapter 12G.

20. Nondisclosure of Private, Proprietary or Confidential Information.

If this Lease requires the City to disclose "Private Information" to the Corporation within the meaning of San Francisco Administrative Code Chapter 12M, the Corporation shall use such information consistent with the restrictions stated in Chapter 12M and in this Lease and only as necessary in performing the services provided under the Lease. The Corporation is subject to the enforcement and penalty provisions in Chapter 12M.

In the performance of services provided under the Lease, the Corporation 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 the Corporation,

such information must be held by such Corporation in confidence and used only in performing the Lease. The Corporation 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.

21. Consideration of Criminal History in Hiring and Employment Decisions.

The Corporation 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 Lease. The text of Chapter 12T is available on the web at <http://sfgov.org/olse/fco>. A partial listing of some of the Corporations' obligations under Chapter 12T is set forth in this Section. The Corporation 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 Lease shall have the meanings assigned to such terms in Chapter 12T.

The requirements of Chapter 12T shall only apply to the Corporation's operations to the extent those operations are in furtherance of the performance of this Lease, shall apply only to applicants and employees who would be or are performing work in furtherance of this Lease, 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 which excludes City property. 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.

22. Reserved.

23. 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 Lease. 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.

24. Conflict of Interest.

By entering into the Lease, the Corporation 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 Lease.

25. Assignment.

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

26. Food Service Waste Reduction Requirements.

The Corporation 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.

27. Cooperative Drafting.

This Lease has been drafted through a cooperative effort of the City and the Corporation, and all parties have had an opportunity to have the Lease reviewed and revised by legal counsel. No party shall be considered the drafter of this Lease, 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 Lease.

28. Laws Incorporated by Reference.

The full text of the laws listed in this Appendix, including enforcement and penalty provisions, are incorporated into this Lease by reference. The full text of the San Francisco Municipal Code provisions incorporated by reference in this Appendix are available at www.sfgov.org under "Open Gov."

29. Sugar-Sweetened Beverage Prohibition.

The Corporation 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 Lease.

30. First Source Hiring Program.

The Corporation 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 Lease, and the Corporation is subject to the enforcement and penalty provisions in Chapter 83.

IN WITNESS WHEREOF, the Corporation and the City have caused this First Amendment to Lease to be executed by their respective officers thereunto duly authorized, all as of the day and year first above written.

CITY AND COUNTY OF SAN FRANCISCO
FINANCE CORPORATION

By: _____
President

[SEAL]

Attest:

By: _____
Secretary

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Mayor

[SEAL]

Attest:

By: _____
Clerk of the Board of Supervisors

APPROVED AS TO FORM:

Dennis J. Herrera
City Attorney

By: _____
Deputy City Attorney

(Signature page to First Amendment to Master Lease)

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CERTIFICATE OF ACCEPTANCE BY CITY AND COUNTY OF SAN FRANCISCO

This is to certify that the interest in real property conveyed by the First Amendment to Master Lease, dated June 1, 2018, from the City and County of San Francisco Finance Corporation to the City and County of San Francisco, a charter city and county and municipal corporation, is hereby accepted by the undersigned on behalf of the Board of Supervisors pursuant to authority conferred by ordinance of the Board of Supervisors adopted on [____], 2018, and the grantee consents to recordation thereof.

Dated: June 1, 2018

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Mayor

[SEAL]

Attest:

By: _____
Clerk, Board of Supervisors

APPROVED AS TO FORM:

Dennis J. Herrera
City Attorney

By: _____
Deputy City Attorney

(Signature page to Certificate of Acceptance)

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EXHIBIT A

DESCRIPTION OF THE FACILITIES

The Facilities consist of portions of the Main Library building (consisting of approximately [] square feet) on the lower (i.e., below ground) level and the ground floor of the Main Library located at Civic Center Plaza, 100 Larkin Street, City and County of San Francisco, California.

EXHIBIT B

DESCRIPTION OF THE SITE

The land referred to herein is situated in the State of California, County of San Francisco, City of San Francisco, and described as follows: [CONFIRM NO CHANGES SINCE 2009, PER NEW TITLE REPORT]

BEGINNING AT A POINT FORMED BY THE INTERSECTION OF THE EASTERLY LINE OF LARKIN STREET AND THE NORTHERLY LINE OF GROVE STREET (EXTENDED EASTERLY) AND RUNNING THENCE NORTHERLY ALONG THE EASTERLY LINE OF LARKIN STREET 275 FEET;

THENCE AT A RIGHT ANGLE EASTERLY 412 FEET 6 INCHES TO THE WESTERLY LINE OF HYDE STREET (EXTENDED SOUTHERLY);

THENCE AT A RIGHT ANGLE SOUTHERLY ALONG SAID LINE OF HYDE STREET (SO EXTENDED) 275 FEET TO THE NORTHERLY LINE OF GROVE STREET (SO EXTENDED); AND

THENCE AT A RIGHT ANGLE WESTERLY ALONG SAID LINE OF GROVE STREET (SO EXTENDED) 412 FEET 6 INCHES TO THE SAID EASTERLY LINE OF LARKIN STREET AND THE POINT OF BEGINNING.

BEING A PORTION OF THE BLOCK OF LAND KNOWN AND DESIGNATED ON THE OFFICIAL MAP OF THE CITY AND COUNTY OF SAN FRANCISCO AS "THE CITY HALL LOT".

APN: LOT 1, BLOCK 354

EXHIBIT C

BASE RENTAL PAYMENT SCHEDULE

Rental Payment Date	Amount Attributable to Principal	Amount Attributable to Interest	Annual Base Rental
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EXHIBIT D

DESCRIPTION OF RELEASED PROPERTY

The facilities consisting of portions of the Main Library building (consisting of approximately 264,530 square feet) on floors 2 through 6 of the Main Library located at Civic Center Plaza, 100 Larkin Street, City and County of San Francisco, California.

RECORDING REQUESTED BY:
CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION

WHEN RECORDED MAIL TO:

Squire Patton Boggs (US) LLP
275 Battery Street, Suite 2600
San Francisco, California 94111
Attention: Nathan Treu, Esq.

APN(s): (Space above for Recorder's Use Only)

[ADDRESS], San Francisco

ASSIGNMENT AGREEMENT

by and between the

**CITY AND COUNTY OF SAN FRANCISCO
FINANCE CORPORATION**

and

U.S. BANK NATIONAL ASSOCIATION,

as Trustee

Dated as of June 1, 2018

NO DOCUMENTARY TRANSFER TAX
This Assignment Agreement is exempt pursuant to
Section 6103 of the California Government Code

TABLE OF CONTENTS

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Section 2. Assignment 2

Section 3. Acceptance..... 2

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Section 5. Protections of the Trustee 3

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Section 8. Severability 4

Section 9. Execution in Counterparts 4

Description of Leased Facilities.....Exhibit A

Description of Leased PropertyExhibit B

ASSIGNMENT AGREEMENT

This Assignment Agreement (the "Assignment Agreement"), dated as of June 1, 2018, by and between the City and County of San Francisco Finance Corporation, a California nonprofit corporation (the "Corporation"), and U.S. Bank National Association, a national banking association duly organized and existing under and by virtue of the laws of the United States, as trustee (the "Trustee"),

WITNESSETH:

WHEREAS, the Corporation and the Trustee (as successor trustee to The Bank of New York Mellon Trust Company, N.A.) previously have entered into a Master Trust Agreement dated as of March 1, 2009 (the "Master Trust Agreement") in connection with the issuance by the Corporation of its \$34,265,000 principal amount of Lease Revenue Bonds, Series 2009A (Branch Library Improvement Program) (the "Series 2009A Bonds");

WHEREAS, the Corporation will issue its \$[xx,xxx],000 principal amount of Refunding Lease Revenue Bonds, Series 2018B (Branch Library Improvement Program) (the "Series 2018 Bonds") pursuant to the Master Trust Agreement and that certain First Supplemental Master Trust Agreement of even date herewith, between the Corporation and the Trustee (the "First Supplemental Trust Agreement" and, together with the Master Trust Agreement, the "Trust Agreement");

WHEREAS, the City and County of San Francisco, a charter city and county and municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City") previously has entered into a Facilities Lease, dated as of March 1, 2009 (the "Facilities Lease"), by and between the City as lessor and the Corporation as lessee;

WHEREAS, in connection with the issuance of the Series 2018 Bonds, the City has entered into a First Amendment to Facilities Lease, dated as of June 1, 2018 (the "First Amendment to Facilities Lease"), by and between the City as lessor and the Corporation as lessee recorded concurrently herewith (together, the Facilities Lease and the First Amendment to Facilities Lease are referred to as the "Amended Facilities Lease"), pursuant to which the City has leased to the Corporation the facilities described in Exhibit A attached hereto and made a part hereof and the real property described in Exhibit B attached hereto and made a part hereof;

WHEREAS, the Corporation previously entered into a Master Lease, dated as of March 1, 2009 (the "Master Lease"), by and between the Corporation as lessor and the City as lessee;

WHEREAS, in connection with the issuance of the Series 2018 Bonds, the Corporation has entered into a First Amendment to Master Lease, dated as of June 1, 2018 (the "First Amendment to Lease"), by and between the Corporation as lessor and the City as lessee recorded concurrently herewith (together, the Master Lease and the First Amendment to Lease are referred to herein as the "Amended Lease"), pursuant to which the Corporation has leased back to the City the facilities described in Exhibit A attached hereto and made a part hereof and the real property described in Exhibit B attached hereto and made a part hereof;

WHEREAS, the Corporation desires to assign to the Trustee without recourse all its rights, title and interest as lessor under the First Amendment to Facilities Lease and the First Amendment to Lease; and

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of the Assignment Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into the Assignment Agreement;

NOW THEREFORE, in consideration of the premises and of the mutual agreements and covenants contained herein and for other valuable consideration, the parties hereto do hereby agree as follows:

SECTION 1. Definitions.

Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Amended Lease or the Trust Agreement as appropriate.

SECTION 2. Assignment.

The Corporation, for the sum of one dollar and other good and valuable consideration, the receipt of which is hereby acknowledged, does hereby unconditionally grant, transfer and assign to the Trustee, without recourse, all its rights, title and interest under the First Amendment to Lease and the First Amendment to Facilities Lease, including without limitation the following: (i) all its rights to receive the Base Rental payments scheduled to be paid by the City under and pursuant to the First Amendment to Lease, (ii) all rents, profits, products and proceeds from the Facilities to which the Corporation has any right or claim whatsoever under the First Amendment to Lease or the First Amendment to Facilities Lease, other than Additional Rental not payable to the Trustee, (iii) the right to take all actions and give all consents under the First Amendment to Lease and the First Amendment to Facilities Lease, (iv) any right of access provided in the First Amendment to Lease and the First Amendment to Facilities Lease, (v) any and all other rights and remedies of the Corporation in the First Amendment to Facilities Lease as lessee thereunder and the First Amendment to Lease as lessor thereunder (other than the right to indemnification under Section 11.02 of the Amended Lease).

SECTION 3. Acceptance.

The Trustee hereby accepts the foregoing assignment for the benefit of the owners of the Series 2018 Bonds and any Parity Bonds, solely in its capacity as Trustee, subject to the conditions and terms of the Trust Agreement, and all such rights and obligations so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

SECTION 4. Termination of Assignment.

When the First Amendment to Facilities Lease and the First Amendment to Lease shall have been terminated, and all amounts paid by or on behalf of the City under the First Amendment to Lease, the Assignment Agreement shall become and be void and of no further force and effect

and the Trustee shall execute any and all certificates or documents reasonably requested by the Corporation to evidence the termination of the Assignment Agreement.

SECTION 5. Protections of the Trustee.

The Trustee may rely upon and shall be protected in acting or refraining from acting upon the basis of any bond, certificate, consent, notice, opinion, order, request, report, resolution or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the City or the Corporation, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted by it hereunder in good faith and in accordance therewith.

Whenever in the administration of the rights, title and interest assigned hereby the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting any action hereunder, such matter may be deemed to be conclusively proved and established by a written certificate of the City or the Corporation, and such certificate shall be full warrant to the Trustee for any action taken or suffered or omitted in good faith under the provisions of the First Amendment to Facilities Lease or the First Amendment to Lease in reliance upon such certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable. The Trustee shall be entitled to the advice of counsel and other professionals concerning all matters of trust and its duty hereunder, but the Trustee shall not be answerable for the professional malpractice of any attorney-at-law or certified public accountant in connection with the rendering of his professional advice if such attorney-at-law or certified public accountant was selected by the Trustee with due care.

The Corporation agrees to indemnify and hold harmless the Trustee from all liabilities whatsoever, including reasonable attorney's fees and legal costs, arising from hazardous waste in connection with the real property leased under the First Amendment to Facilities Lease or the First Amendment to Lease.

Before taking any action or exercising any rights or powers assigned hereby, the Trustee may require that satisfactory indemnity be furnished to it for the reimbursement of all reasonable costs and expenses which it may incur and to indemnify it against all liability, except liability which may result from its negligence or willful misconduct, by reason of any action so taken.

SECTION 6. Amendment.

The Assignment Agreement may be amended in writing signed by the parties hereto, but only if such amendment does not materially adversely affect the owners of the Series 2018 Bonds or any Parity Bonds outstanding.

SECTION 7. California Law.

The Assignment Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of California.

SECTION 8. Severability.

If any agreement, condition, covenant or term hereof or any application hereof should be held by a court of competent jurisdiction to be invalid, void or unenforceable, in whole or in part, all agreements, conditions, covenants and terms hereof and all applications thereof not held invalid, void or unenforceable shall continue in full force and effect and shall in no way be affected, impaired or invalidated thereby.

SECTION 9. Execution in Counterparts.

The Assignment Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same Assignment Agreement.

[REMAINDER OF PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have executed and entered into the Assignment Agreement by their officers thereunto duly authorized as of the day and year first above written.

CITY AND COUNTY OF SAN
FRANCISCO FINANCE CORPORATION

By: _____
President

ATTEST:

Secretary

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

(Signature Page to Assignment Agreement - Library)

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CONSENT BY CITY AND COUNTY OF SAN FRANCISCO

The City and County of San Francisco hereby consents to the assignment of the First Amendment to Facilities Lease and the First Amendment to Lease as set forth herein and further agrees to accept the Trustee as assignee of the lessee under the First Amendment to Facilities Lease and as assignee of the lessor under the First Amendment to Lease.

Dated: June 1, 2018

CITY AND COUNTY OF SAN
FRANCISCO

By: _____
Mayor

ATTEST:

By: _____
Clerk, Board of Supervisors

APPROVED AS TO FORM:

Dennis J. Herrera
City Attorney

By: _____
Deputy City Attorney

(Consent to Assignment)
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A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

STATE OF _____)

COUNTY OF _____)

On _____, before me, _____, Notary Public, personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature (Seal)

EXHIBIT A

DESCRIPTION OF THE FACILITIES

The Facilities consist of portions of the Main Library building (consisting of approximately [] square feet) on the lower (i.e., below ground) level and the ground floor of the Main Library located at Civic Center Plaza, 100 Larkin Street, City and County of San Francisco, California. -

EXHIBIT B

DESCRIPTION OF THE SITE

The land referred to herein is situated in the State of California, County of San Francisco, City of San Francisco, and described as follows: [CONFIRM NO CHANGES SINCE 2009, PER NEW TITLE REPORT]

BEGINNING AT A POINT FORMED BY THE INTERSECTION OF THE EASTERLY LINE OF LARKIN STREET AND THE NORTHERLY LINE OF GROVE STREET (EXTENDED EASTERLY) AND RUNNING THENCE NORTHERLY ALONG THE EASTERLY LINE OF LARKIN STREET 275 FEET;

THENCE AT A RIGHT ANGLE EASTERLY 412 FEET 6 INCHES TO THE WESTERLY LINE OF HYDE STREET (EXTENDED SOUTHERLY);

THENCE AT A RIGHT ANGLE SOUTHERLY ALONG SAID LINE OF HYDE STREET (SO EXTENDED) 275 FEET TO THE NORTHERLY LINE OF GROVE STREET (SO EXTENDED); AND

THENCE AT A RIGHT ANGLE WESTERLY ALONG SAID LINE OF GROVE STREET (SO EXTENDED) 412 FEET 6 INCHES TO THE SAID EASTERLY LINE OF LARKIN STREET AND THE POINT OF BEGINNING.

BEING A PORTION OF THE BLOCK OF LAND KNOWN AND DESIGNATED ON THE OFFICIAL MAP OF THE CITY AND COUNTY OF SAN FRANCISCO AS "THE CITY HALL LOT".

APN: LOT 1, BLOCK 354

OFFICIAL NOTICE OF SALE

and

OFFICIAL BID FORM

\$ _____ *

**CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION
REFUNDING LEASE REVENUE BONDS, SERIES 2018[B]
(BRANCH LIBRARY IMPROVEMENT PROGRAM)**

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

SALE DATE: _____, 2018

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

DELIVERY DATE: _____, 2018*

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 Ipreo at www.newissuehome.i-deal.com and the Parity electronic bid submission system (“Parity”), and in the case of sealed bids, at the Controller’s Office of Public Finance, City and County of San Francisco, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102, by the City and County of San Francisco Finance Corporation (the “Issuer”) for the purchase of \$_____ aggregate principal amount of City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds, Series 2018[B] (Branch Library Improvement Program) (the “Bonds”). Bidding procedures and sale terms are as follows:

- Issue:** The Bonds are described in the Issuer’s Preliminary Official Statement for the Bonds dated _____, 2018 (the “Preliminary Official Statement”).
- Time:** Bids for the Bonds must be received by the Issuer by 8:30 a.m., California time, on _____, 2018.
- Place:** Sealed, hand-delivered bids for the Bonds must be delivered to City and County of San Francisco, 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 _____, 2018, 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/OR 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 either of the Issuer’s Municipal Advisors: (i) Kitahata & Company, 137 Joost Avenue, San Francisco, California 94131; telephone (415) 337-1950, Attention: Gary Kitahata (email: gkitahata@gmail.com); or (ii) Backstrom McCarley Berry & Co., LLC, 115 Sansome St., Mez. A, San Francisco, CA 94104; telephone 415-857-6101, Attention: Vincent McCarley; (email: VMcCarley@bmcaco.com) (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 Issuer 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 Issuer, the City and County of San Francisco (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 _____, 2018*. 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

* Preliminary; subject to change.

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 [July 1, 2018], and semiannually thereafter on January 1 and July 1 of each year (each an “**Interest Payment Date**”). Interest shall be calculated on the basis of a 30-day month, 360-day year from the dated date of the Bonds. Bidders may specify any number of separate rates, and the same rate or rates may be repeated as often as desired, provided:

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

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

Par and Premium Bids; No Net Discount Bids. All bids for the Bonds shall be for par or more, but shall not exceed [107.5]% of the par amount. 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 [July 1] of each year, commencing on [July 1, 2018] as shown below. Subject to the Issuer’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 [July 1, 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 Issuer’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 each series of Bonds in each year is as follows:

Principal
Payment Date

Principal Amount*

Total

Adjustment of Principal Payments. The principal amounts set forth in this Official Notice of Sale reflect certain estimates of the Issuer with respect to the likely interest rates of the winning bid and the premium contained in the winning bid. **The Issuer 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 Issuer. Any such adjustment will not change the average per Bond dollar amount of the underwriter's discount. If there is 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 Issuer'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.

* Preliminary, subject to change.

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 ISSUE 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 [July 1, 20__] will not be subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after [July 1, 20__] will be subject to optional redemption prior to their respective stated maturity dates, at the option of the Issuer, 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 Issuer and by lot within a maturity), on or after [July 1, 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. The Bonds will not be subject to redemption prior to their respective stated maturity dates from mandatory sinking fund payments prior to [July 1, 20__]. Term Bonds, if any, are subject to redemption prior to their respective stated maturity dates, in part, by lot from mandatory sinking fund payments, on each [July 1] on or after [July 1, 20__], designated by the successful bidder as a date upon which a mandatory sinking fund payment is to be made, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. 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, Squire Patton Boggs (US) LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel to the Issuer (“**Co-Bond Counsel**”), will deliver their legal opinions that, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes, subject to the matters described in “TAX MATTERS” in the Preliminary Official Statement; and (ii) interest on the Bonds is exempt from present State of California personal income taxes.

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, but shall not exceed [107.5]% of the par amount. 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 Issuer 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 Issuer at the address set forth on the cover and clearly marked "Bid for the City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds, Series 2018[B] (Branch Library Improvement Program)" or words of similar import, as hereinafter described and received by []: [] a.m., California time, on [] [] [], 2018], at the City and County of San Francisco, Office of Public Finance, c/o Anna Van Degna, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102; telephone: (415) 554-5956. No bid submitted to the Issuer 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 Issuer shall be subject to withdrawal or modification by the bidder. No bid will be accepted after the time for receiving bids. The Issuer 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 Issuer 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 Issuer will attempt to accommodate bids submitted electronically via Parity. However, the Issuer does not endorse or encourage the use of such electronic bidding service. None of the Issuer, Issuer's Counsel, 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 Issuer at the place of bid opening, and the Issuer 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 Issuer will not have any duty or obligation to provide or assure access to Parity to any bidder, and the Issuer 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 Issuer is permitting use of Parity as a communication mechanism, and not as an agent of the Issuer, 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 Issuer; (5) the Issuer is not responsible for ensuring or verifying bidder compliance with any procedures established by Parity; (6) the Issuer 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 Issuer, 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 Issuer 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 Issuer. 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. If two or more bidders offer bids for the Bonds at the same true interest cost, the Issuer will determine by lot which bidder will be awarded the Bonds. Bid evaluations or rankings made by Parity are not binding on the Issuer.

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 Issuer.

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

Good Faith Deposit. To secure the Issuer 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 Issuer by the apparent winning bidder.

Upon the determination by the Issuer 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 Issuer. 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 Issuer, the apparent winning bidder of the Bonds must wire the Good Faith Deposit to the Issuer 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 Issuer 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 Issuer 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 Issuer.

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 Issuer. The Good Faith Deposit will be held and invested for the exclusive benefit of the Issuer. 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 Issuer 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 Issuer 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 Issuer.

Reoffering Prices, Establishment of Issue Price and Certificate.

(a) The winning bidder for the Bonds shall assist the Issuer in establishing the issue price of such Bonds and shall execute and deliver to the Issuer at Closing an “issue price” or similar certificate setting forth the reasonably expected initial offering price to the public or, if the competitive sale requirements (defined below) are not satisfied and the parties agree that the 10% test shall apply to the Bonds the sales price or prices of each maturity of the Bonds, together with the supporting pricing wires or equivalent communications, substantially in the form attached

hereto as Exhibit B, with such modifications as may be appropriate or necessary, in the reasonable judgment of each winning bidder, the Issuer and Co-Bond Counsel.

(b) The Issuer intends that Treasury Regulation Sections 1.148-1(f)(3)(i) and 1.148-1(f)(2)(iii) (providing a special rule for competitive sales and defining the term “competitive sale” for purposes of establishing the issue price of the Bonds) will apply to the initial sale of each Bonds (the “**competitive sale requirements**”) because:

- (1) the Issuer shall disseminate this Official Notice of Sale to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the Issuer may receive bids for each Bonds from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the Issuer anticipates awarding the sale of each Bonds to the bidder who submits a firm offer to purchase such Bonds at the highest price (or lowest interest cost), as set forth in this Official Notice of Sale.

Any bid submitted pursuant to this Official Notice of Sale shall be considered a firm offer for the purchase of the Bonds, as specified in the bid.

(c) In the event that the competitive sale requirements are not satisfied for the Bonds, the Issuer shall so advise the winning bidder. The Issuer may determine to treat (i) the first price at which 10% of any maturity of the Bonds (the “**10% test**”) is sold to the public as the issue price of that maturity and/or (ii) the initial offering price to the public as of the sale date of any maturity of the Bonds as the issue price of that maturity (the “**hold-the-offering-price rule**”), in each case applied on a maturity-by-maturity basis. The winning bidder shall advise the Issuer if any maturity of the Bonds satisfies the 10% test as of the date and time of the award of the Bonds. The Issuer shall promptly advise the winning bidder, at or before the time of award of the Bonds, which maturities of the Bonds shall be subject to the 10% test or shall be subject to the hold-the-offering-price rule. Bids will not be subject to cancellation in the event that the Issuer determines to apply the hold-the-offering-price rule to any maturity of the Bonds. Bidders should prepare their bids on the assumption that some or all of the maturities of the Bonds will be subject to the hold-the-offering-price rule in order to establish the issue prices of the Bonds. For purposes of this section, Bonds maturing on the same date but having different interest rates (and CUSIP numbers) shall be treated as separate maturities of the Bonds.

(d) By submitting a bid for the Bonds, the winning bidder shall (i) confirm that the underwriters have offered or will offer such Bonds to the public on or before the date of award at the offering price or prices (the “**initial offering price**”), or at the corresponding yield or yields, set forth in the bid submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price

that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the Issuer when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

(e) If the competitive sale requirements are not satisfied, then until the 10% test has been satisfied as to each maturity of the Bonds, the winning bidder agrees to promptly report to the Issuer the prices at which the unsold Bonds of that maturity have been sold to the public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold.

(f) The Issuer acknowledges that, in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of such Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of such Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The Issuer further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(g) By submitting a bid for the Bonds, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of such Bonds to the public, together with the related pricing wires; contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% test has been satisfied as to such Bonds of that maturity or all Bonds of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of such Bonds to the public, together with

the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such underwriter that either the 10% test has been satisfied as to such Bonds of that maturity or all Bonds of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

(h) Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Official Notice of Sale. Further, for purposes of this Official Notice of Sale:

- (i) “public” means any person other than an underwriter or a related party,
- (ii) “underwriter” means (A) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) “sale date” means the date that the Bonds are awarded by the Issuer to the winning bidder.

Electronic Bids; Delivery of Form of Bids. If the Issuer 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 Issuer 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 Issuer's right to adjust the payment amounts of the Bonds as provided in "TERMS RELATING TO THE BONDS - Adjustment of Principal Payments" the Issuer 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 Issuer 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 Issuer 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 Issuer 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 _____, 2018*.** Payment for the Bonds (including any premium) must be made at the time of delivery in immediately available funds to the U.S. Bank National Association, as trustee for the Bonds (the "Trustee"). Any expense for making payment in immediately available funds shall be borne

* Preliminary; subject to change.

by the Purchaser. The Issuer 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 OPINION OF CO-BOND COUNSEL” to the Preliminary Official Statement.

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

No Litigation. The Issuer will deliver a certificate stating that no litigation of any nature is pending, or to the knowledge of the officer of the Issuer 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 Issuer, or concerning the validity of the Bonds, the corporate existence of the Issuer, or the entitlement of any officers of the Issuer 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 Issuer 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 CUSIP Global Services managed by Standard & Poor’s Financial Services LLC on behalf of the American Bankers Association. 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 Issuer 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 sixty (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, as amended ("**Rule 15c2-12**"), the Issuer 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 Issuer in writing within two (2) 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 Issuer. 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 Issuer, 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 Issuer 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 Issuer 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 Issuer, prior to the date of closing, a certificate to the following effect:

- (i) The Purchaser has provided to the Issuer 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 Issuer 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. To assist bidders in complying with Rule 15c2-12, the [City/Issuer] 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/Issuer] 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 Issuer.

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: _____, 2018.

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 Issuer 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

[FORM OF ISSUE PRICE CERTIFICATE]

UNDERWRITER'S CERTIFICATE

\$ _____ *

**City and County of San Francisco Finance Corporation
Refunding Lease Revenue Bonds, Series 2018[B]
(Branch Library Improvement Program)**

Dated [Closing Date]

_____ (the "Initial Purchaser"), as underwriter for the bonds identified above (the "Issue"), issued by the City and County of San Francisco Finance Corporation (the "Issuer"), based on its knowledge regarding the sale of the Issue, certifies as of this date as follows:

[If the competitive sale meets the definition in Regulations § 1.148-1(f)(3) by attracting at least three bids from underwriters that have established industry reputations for underwriting new issuances of tax-exempt obligations and as reflected in the representations below):

(1) Issue Price.

(A) As of the Sale Date, the reasonably expected initial offering prices of the Issue to the Public by the Initial Purchaser are the prices listed in the final Official Statement, dated [____], for the Issue (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Issue used by the Initial Purchaser in formulating its bid to purchase the Issue. Attached as Schedule A is a true and correct copy of the bid provided by the Initial Purchaser to purchase the Issue.

(B) The Initial Purchaser was not given the opportunity to review other bids prior to submitting its bid.

(C) The bid submitted by the Initial Purchaser constituted a firm offer to purchase the Issue.

(D) The aggregate of the Expected Offering Prices of each Maturity is \$ _____ (the "Issue Price").]

* Preliminary, subject to change.

[If the competitive sale fails to attract at least three bids from underwriters that have established industry reputations for underwriting new issuances of tax-exempt obligations and the issue price is determined using only the hold-the-offering-price rule in Regulations § 1.148-1(f)(2)(ii):

(1) **Issue Price.**

(A) The Initial Purchaser offered, on or before the Sale Date, each Maturity of the Issue to the Public for purchase at the respective initial offering prices listed in the final Official Statement, dated [____], for the Issue (the “Initial Offering Prices”). A copy of the pricing wire or equivalent communication for the Issue is attached to this certificate as Schedule A. The aggregate of the Initial Offering Prices of each Maturity is \$[_____] (the “Issue Price”).

(B) As set forth in the Notice of Sale and bid award, the Initial Purchaser has agreed in writing that, (i) for each Maturity of the Issue, it would neither offer nor sell any portion of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) any selling group agreement shall contain the agreement of each dealer who is a member of the selling group, and any retail distribution agreement shall contain the agreement of each broker-dealer who is a party to the retail distribution agreement, to comply with the hold-the-offering-price rule. Pursuant to such agreement, no Underwriter has offered or sold any Maturity of the Issue at a price that is higher than the respective Initial Offering Price for that Maturity of the Issue during the Holding Period.]

(C) **Definitions.**

“Holding Period” means, for each Hold-the-Offering-Price Maturity of the Issue, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date ([DATE]), or (ii) the date on which the Initial Purchaser has sold at least 10% of such Maturity of the Issue to the Public at a price that is no higher than the Initial Offering Price for such Maturity.

“Maturity” means bonds of the Issue with the same credit and payment terms. Bonds of the Issue with different maturity dates, or bonds of the Issue with the same maturity date but different stated interest rates, are treated as separate Maturities.

“Public” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

“Sale Date” means the first day on which there is a binding contract in writing for the sale of a Maturity of the Issue. The Sale Date of the Issue is [DATE].

“Underwriter” means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Issue to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale

of the Issue to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Issue to the Public).

All capitalized terms not defined in this Certificate have the meaning set forth in the Issuer's Tax Compliance Certificate or in Attachment A to it.

(2) **Yield.** The Yield on the Issue is _____%, being the discount rate that, when used in computing the present worth of all payments of principal and interest to be paid on the Issue, computed on the basis of a 360-day year and semi-annual compounding, produces an amount equal to the Issue Price of the Issue as stated in paragraph (1) [and computed with the adjustments stated in paragraphs (5) and (6)].

(3) **Weighted Average Maturity.** The weighted average maturity (defined below) of the Issue is _____ years, and the remaining weighted average maturity of the Current Refunded Bonds is _____ years. The weighted average maturity of an issue is equal to the sum of the products of the issue price of each maturity of the issue and the number of years to the maturity date of the respective maturity (taking into account mandatory but not optional redemptions), divided by the issue price of the entire issue.

(4) **Initial Purchaser's Discount.** The Initial Purchaser's discount is \$ _____, being the amount by which the aggregate Issue Price (as set forth in paragraph (1)) exceeds the price paid by the Initial Purchaser to the Issuer for the Issue.

[(5) **Discount Maturities Subject to Mandatory Early Redemption.** No Maturity that is subject to mandatory early redemption has a stated redemption price that exceeds the [Sale][Initial Offering][Expected Offering] Price[, as applicable,] of such Maturity by more than one-fourth of 1% multiplied by the product of its stated redemption price at maturity and the number of years to its weighted average maturity date.]

[Or]

[(5) **Discount Maturities Subject to Mandatory Early Redemption.** The stated redemption price at maturity of the Maturities that mature in the year[s] 20__, which Maturities are the only Maturities of the Issue that are subject to mandatory early redemption [revise as appropriate], exceeds the [Sale][Initial Offering][Expected Offering] Price[, as applicable,] of such Maturities by more than one-fourth of 1% multiplied by the product of the stated redemption price at maturity and the number of years to the weighted average maturity date of such Maturities. Accordingly, in computing the Yield on the Issue stated in paragraph (2), those Maturities were treated as redeemed on each mandatory early redemption date at their present value rather than at their stated principal amount.]

Issue: [(6) **Premium Maturities Subject to Optional Redemption.** No Maturity of the

- Is subject to optional redemption within five years of the Issuance Date of the Issue.
- That is subject to optional redemption has a[n] [Sale][Initial Offering][Expected Offering] Price[, as applicable,] that exceeds its stated redemption price at maturity by more than one-fourth of 1% multiplied by the product of its stated redemption price at maturity and the number of complete years to its first optional redemption date.]

[Or]

[(6) **Premium Maturities Subject to Optional Redemption.** The Maturities that mature in the year[s] 20__ are the only Maturities that are subject to optional redemption before maturity and have a[n] [Sale][Initial Offering][Expected Offering] Price[, as applicable,] that exceeds their stated redemption price at maturity by more than one fourth of 1% multiplied by the product of their stated redemption price at maturity and the number of complete years to their first optional redemption date. Accordingly, in computing the Yield on the Issue stated in paragraph (2), each such Maturity was treated as retired on its optional redemption date or at maturity to result in the lowest yield on that Maturity. No Maturity is subject to optional redemption within five years of the Issuance Date of the Issue.]

[Or]

[(7) **No Discount or Premium Maturities.** No Maturity was sold at an original issue discount or premium.]

[(6 or 8) **No Stepped Coupon Maturities.** No Maturity bears interest at an increasing interest rate.]

The signer is an officer of the Initial Purchaser and duly authorized to execute and deliver this Certificate of the Initial Purchaser. The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Initial Purchaser's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Compliance Certificate and with respect to compliance with the federal income tax rules affecting the Issue, and by Squire Patton Boggs (US) LLP and Amira Jackmon, Attorney at Law, as co-bond counsel to the Issuer, in connection with rendering their opinions that the interest on the Issue is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that co-bond counsel may give to the Issuer from time to time relating to the Issue.

Dated: [Closing Date]

INITIAL PURCHASER

By: _____

Title: _____

If the competitive sale requirements are met:

**SCHEDULE A
COPY OF INITIAL PURCHASER'S BID**

(Attached)

If the issue price is determined using only the hold-the-offering-price rule in Regulations § 1.148-1(f)(2)(ii):

**SCHEDULE A
INITIAL OFFERING PRICES OF THE ISSUE**

(Attached)

**SCHEDULE B
PRICING WIRE OR EQUIVALENT COMMUNICATION**

(Attached)

NOTICE OF INTENTION TO SELL

\$ _____ *

**CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION
REFUNDING LEASE REVENUE BONDS, SERIES 2018[B]
(BRANCH LIBRARY IMPROVEMENT PROGRAM)**

NOTICE IS HEREBY GIVEN that the City and County of San Francisco Finance Corporation (the "Corporation") intends to offer for public sale on _____, 2018, at ____ a.m. (California time) \$ _____* aggregate principal amount of City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds, Series 2018[B] (Branch Library Improvement Program) (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 Corporation 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. In the event that no bid is awarded for the Bonds, the Corporation 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 _____, 2018 (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 _____, 2018 (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 _____, 2018, and may also be obtained from either of the City's Co-Municipal Advisors: (i) Kitahata & Company, 137 Joost Avenue, San Francisco, California 94131; telephone (415) 337-1950, Attention: Gary Kitahata (email: gkitahata@gmail.com); or (ii) Backstrom McCarley Berry & Co., LLC, 115 Sansome St., Mez. A, San Francisco, CA 94104; telephone 415-857-6101, Attention: Vincent McCarley; (email: VMcCarley@bmcaco.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 Corporation 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 Corporation 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: _____, 2018

* Preliminary, subject to change.

§ _____ *

**CITY OF SAN FRANCISCO FINANCE CORPORATION
REFUNDING LEASE REVENUE BONDS, SERIES 2018[B]
(BRANCH LIBRARY IMPROVEMENT PROGRAM)**

PURCHASE CONTRACT

_____, 2018

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

Ladies and Gentlemen:

The undersigned _____, acting on behalf of itself (the "Representative") and the other Underwriters named on the signature page of this Purchase Contract (collectively, the "Underwriters"), offers to enter into the following agreement with the City and County of San Francisco Finance Corporation (the "Issuer") and the City and County of San Francisco (the "City"). Upon the acceptance of this offer by the Issuer, this Purchase Contract will be binding upon the Issuer and the Underwriters. This offer is made subject to the acceptance of this Purchase Contract by the Issuer 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 Issuer at any time prior to the acceptance of this Purchase Contract by the Issuer. If the Underwriters withdraw this offer, or the Underwriters' obligation to purchase the bonds captioned above (the "Bonds") is otherwise terminated pursuant to Section 8(c) hereof, then and in such case the Issuer shall be without any further obligation to the Underwriters, including the payment of any costs set forth under Section 10(b) hereof, and the Issuer 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 Trust Agreement (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 Issuer, and the Issuer agrees to sell and deliver to the Underwriters, all (but not less than all) of the \$ _____ aggregate principal amount of the 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 an original issue premium in

the amount of \$ _____ and less an aggregate underwriters' discount in the amount of \$ _____. The net purchase price due at Closing for the Bonds shall be the purchase price for the Bonds less the amount of the Good Faith Deposit required by Section 9 hereof.

Interest with respect to the Bonds will be excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and 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 Issuer ratifies, approves and confirms the distribution of the Preliminary Official Statement with respect to the Bonds, dated _____, 2018 (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 Issuer 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 Issuer 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 Issuer authorizes and approves the distribution by the Underwriters of the Official Statement in connection with the offering and sale of the Bonds. The Issuer 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. Authorization and Purpose of the Bonds.

The Bonds are being issued for the purpose of providing funds to (a) refund certain outstanding bonds previously issued by the Issuer (the "Refunded Bonds"), and (b) pay costs of issuance of the Bonds.

By Ordinance of the City adopted _____, 20S18, the City has requested, that the Issuer authorize the issuance of the Bonds, in order for the Issuer to refund the Refunded Bonds. The Issuer authorized the issuance of the Bonds by Resolution No. _____, adopted _____, 2018 (the "Resolution"), by the Board of Directors of the Issuer.

The Issuer shall issue the Bonds pursuant to that certain Master Trust Agreement, dated as of March 1, 2009, by and between the Issuer and U.S. Bank National Association, as Trustee (the "Trustee"), as supplemented by a Second Supplemental Trust Agreement, dated as of _____, 2018, by and between the Issuer and the Trustee (the "Trust Agreement"), and use a portion of the proceeds thereof to make the advance rental payment to the City under the Site Lease, dated as of March 1, 2009, by and between the City, as lessor, and the Issuer, as lessee, as amended by a Second Amendment to Site Lease, dated as of _____, 2018 (the "Site Lease"), which the City will in turn use to prepay its payment obligations under the Master Lease (defined below) as amended by the Second Amendment to Lease (defined below).

Pursuant to a Second Amendment to Master Lease, dated as of _____, 2018, between the Issuer and the City (the "Second Amendment to Lease" and, together with the Master Lease, dated as of March 1, 2009 (the "Master Lease"), by and between the City, as lessor, and the Issuer, as lessee, the "Lease"), Issuer shall lease back the Facilities to the City, and the City shall make certain periodic rental payments to the Issuer.

Pursuant to an Assignment Agreement (the "Assignment Agreement"), dated as of _____, 2018, between the Issuer and the Trustee, the Issuer shall assign to the Trustee its right to receive such periodic rental payments in order to provide funds to repay the Bonds.

The Bonds shall be payable, and shall be subject to prepayment prior to their respective stated maturities, as provided in the Trust Agreement and in Schedule I hereto.

This Purchase Contract, the Trust Agreement, the Lease, the Site Lease and the Continuing Disclosure Certificate are sometimes together referred to in this Purchase Contract as the "Issuer Documents."

Section 4. Issuer Representations, Covenants and Agreements. The Issuer represents and covenants and agrees with each of the Underwriters that as of the date hereof:

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

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

(e) If between the date of delivery of the Official Statement and the end of the underwriting period (i) any event occurs or any fact or condition becomes known to the Issuer 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 Issuer shall notify the Representative thereof, and (ii) if in the reasonable opinion of the Issuer or the Representative such event, fact or condition requires the preparation and publication of a supplement or amendment to the Official Statement, the Issuer 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 Issuer 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 Issuer is a party or to which the Issuer 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 Issuer Documents, the adoption of the Resolution and compliance with the provisions of the Issuer Documents and the Resolution 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 Issuer 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 Issuer Documents and the Resolution.

(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 Issuer after due inquiry, threatened by a prospective party or their counsel in writing addressed to the Issuer, (i) in any way questioning the corporate existence of the Issuer or the titles of the officers of the Issuer 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 Resolution, or the Issuer Documents, or contesting the powers of the Issuer or any authority for the issuance and delivery of the Bonds, the approval of the Resolution or the execution and delivery by the Issuer of the Issuer 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 Issuer or 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 Issuer will furnish such information, execute such instruments and take such other action not inconsistent with law or established policy of the Issuer 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 Issuer 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 Issuer Documents when executed or adopted by the Issuer, will be legal, valid and binding obligations of the Issuer 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 Issuer of, its respective obligations under Issuer

Documents and the Resolution 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 Issuer for the fiscal year ended June 30, 2017, set forth as an Appendix to the Official Statement fairly present the financial position of the Issuer 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 Issuer has never defaulted in the payment of principal or interest with respect to any of its general obligation bonds.

(m) The Issuer will undertake, pursuant to the Resolution and a Continuing Disclosure Certificate to provide certain annual financial information and notices of the occurrence of certain enumerated events 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 Issuer 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 Issuer will not supplement or amend the Issuer Documents, the Resolution or the Official Statement in any respect that is material to the obligations of the Issuer under this Purchase Contract without the prior written consent of the Representative, which consent shall not be unreasonably withheld.

Section 5. Underwriters' Representations, Covenants and Agreements. Each of the Underwriters represents and covenants and agrees with the Issuer that:

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

(b) It shall comply with the San Francisco Business Tax Ordinance and shall, if not otherwise exempt from such ordinance, provide to the Issuer 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.

(d) This Purchase Contract, assuming due and legal execution and delivery thereof by, and validity against, the Issuer, when executed by the Representative, will be a legal, valid and binding joint and several obligation of each Underwriter enforceable in accordance with its terms, subject to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally. The Underwriters

represent and warrant to the Issuer that 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.

Section 6. Offering.

(a) It shall be a condition to the Issuer'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 Issuer and purchased, accepted and paid for by the Underwriters at the Closing. On or prior to the Closing, the Representative will provide the Issuer with information regarding the reoffering prices and yields on the Bonds, in such form as the Issuer may reasonably request.

(b) 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.

(c) Issue Price. Notwithstanding any provision of this Purchase Contract to the contrary, the Underwriters and Issuer agree to the following provisions related to the issue price of the Bonds:

(1) For purposes of this section, the following definitions apply:

(i) "*Public*" means any person other than an underwriter or a related party to an underwriter.

(ii) "*underwriter*" means (A) any person that agrees pursuant to a written contract with the Issuer, as accepted and agreed to by its Controller, (or with the lead underwriter for the Bonds to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public).

(iii) "*Related Party*" means a purchaser of any of the Bonds who, along with the underwriter, are both subject, directly or indirectly, to (i) more than 50% common

ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(iv) “*Sale Date*” means the date of execution of this Purchase Contract by all parties.

(2) The Representative, on behalf of the Underwriters, agrees to assist the Issuer in establishing the issue price of the Bonds and shall execute and deliver to the Issuer at Closing an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit A, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Representative, the Issuer and Co-Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds.

(3) The Representative confirms that the Underwriters have offered the Bonds to the public on or before the date of this Purchase Contract at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in Appendix A attached hereto, except as otherwise set forth herein. The Issuer will treat the first price at which 10% of each maturity of the Bonds (the “10% test”) is sold to the public as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Purchase Contract, the Representative shall report to the Issuer the price or prices at which the Underwriters have sold to the public each maturity of Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Representative agrees to promptly report to the Issuer the prices at which Bonds of that maturity have been sold by the Underwriters to the public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold to the public.

(4) Schedule I also sets forth, as of the date of this Purchase Contract, the maturities, if any, of the Bonds for which the 10% test has not been satisfied and for which the Issuer and the Representative, on behalf of the Underwriters, agree that the restrictions set forth in the next sentence shall apply, which will allow the Issuer to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “hold-the-offering-price rule”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Bonds, the Underwriters will neither offer nor sell unsold Bonds of that maturity to any person at a price that is higher than the initial

offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (i) the close of the fifth (5th) business day after the sale date; or
- (ii) the date on which the Underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Representative shall promptly advise the Issuer when the Underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

The Issuer acknowledges that, in making the representation set forth in this Section 1, the Representative will rely on (i) the agreement of each Underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, (iii) in the event that an Underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires, and (iv) each Underwriter's representations contained in a certificate in substantially the form set forth in Exhibit B hereto confirming its compliance with its obligations regarding the hold-the-offering-price rules. The Issuer further acknowledges that each Underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no Underwriter shall be liable for the failure of any other Underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement, to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(5) The Representative confirms that:

- (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the Representative is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the Representative that either the 10% test has been satisfied as to the Bonds of that maturity or all Securities of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each

case if and for so long as directed by the Representative and as set forth in the related pricing wires;

(ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the Representative or the Underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the Representative or the Underwriter and as set forth in the related pricing wires; and

(6) The Underwriters understand that sales of any Bonds to any person that is a Related Party to an underwriter shall not constitute sales to the Public for purposes of this Section 1.

Section 7. Closing. At ____ a.m., California time, on _____, 2018, or at such other time as shall have been mutually agreed upon by the Issuer and the Representative (the "Closing Date" or the "Closing"), the Issuer will deliver or cause to be delivered to the account of the Representative (through DTC) the Bonds duly executed on behalf of the Issuer, 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 Squire Patton Boggs (US) LLP (and, together with and Amira Jackmon, Attorney at Law, "Co-Bond Counsel"), in San Francisco, California, or at such other place as may be mutually agreed upon by the Issuer and the Underwriters. Such payment and delivery is called the "Closing." The Representative shall order CUSIP identification numbers and the Issuer 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 8. Closing Conditions. The Underwriters have entered into this Purchase Contract in reliance upon the representations and warranties of the Issuer contained herein and to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Issuer 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 Issuer 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 Issuer 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 Issuer if at any time after the date of this Purchase Contract and prior to the Closing:

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

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

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

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

(v) there shall have occurred any materially adverse change in the affairs or financial condition of the Issuer, except for changes which the Official Statement discloses are expected to occur; provided however, that any such material adverse change shall have the effect of materially adversely affecting,

directly or indirectly, the market price of the Bonds, the ability of the Underwriters to enforce contracts for the Bonds or the sale at the contemplated offering price by the Underwriters of the Bonds;

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

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

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

(iii) an amendment to the Constitution of the United States or the State of California shall have been passed or legislation shall have been introduced in or enacted by the Congress of the United States or the California legislature or legislation pending in the Congress of the United States shall have been amended or legislation shall have been recommended to the Congress of the United States or to the California legislature or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation shall have been proposed for consideration by either such Committee by any member thereof or presented as an option for consideration by either such Committee by the staff of such Committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or legislation shall have been favorably reported for passage to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or a decision shall have been rendered by a court of the United States or of the State of California or the Tax Court of the United States, or a ruling shall have been made or a regulation or temporary regulation shall have been proposed or made or any other release or announcement shall have been made by the Treasury Department of the United States, the Internal Revenue Service or other federal or State of California authority, with respect to federal or State of California taxation upon revenues or other income of the general character to be derived pursuant to the Resolution which may have the purpose or effect, directly or indirectly, of affecting the tax status of the Issuer, its property or income, its securities (including the Bonds) or any tax exemption granted or authorized by

State of California legislation or, in the reasonable judgment of the Representative, materially and adversely affecting the market for the Bonds or the market price generally of obligations of the general character of the Bonds;

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

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

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

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

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

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

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

(2) copies of the adopted Ordinance, 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) copies of the adopted Resolution, certified by the Secretary of the Board of Directors of the Issuer as having been duly enacted by the Issuer and as being in full force and effect;

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

(5) an opinion of Counsel to the Issuer addressed solely to the Issuer substantially in the form attached hereto as Exhibit C;

(6) opinions of Co-Bond Counsel, in substantially the form set forth in Appendix F to the Official Statement;

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

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

(9) an opinion of _____, Underwriters' Counsel ("Underwriters' Counsel"), dated the Closing Date and addressed to the Underwriters in form and substance acceptable to the Underwriters;

(10) a Tax Certificate of the Issuer regarding the Bonds, in form satisfactory to Co-Bond Counsel;

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

(12) evidence satisfactory to the Representative that Moody's Investors Service, Inc., S&P Global Ratings and Fitch, Inc. have assigned ratings to the Bonds set forth in the Preliminary Official Statement;

(13) the Continuing Disclosure Certificate duly executed by the Issuer; and

(14) 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 Issuer'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 Issuer on or prior to the Closing Date of all agreements then to be performed and all conditions then to be satisfied by the Issuer.

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. If the Issuer 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 Issuer shall be under further obligations hereunder, except that the respective obligations of the Issuer and the Underwriters set forth in Section 10 of this Purchase Contract shall continue in full force and effect.

Section 9. Good Faith Deposit. To secure the Issuer 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 Issuer, in the amount of \$_____,000 (the "Good Faith Deposit"), the receipt of which is hereby acknowledged by the Issuer. The Good Faith Deposit will, immediately upon the Issuer's acceptance of this offer, become the property of the Issuer. The Good Faith Deposit will be held and invested for the exclusive benefit of the Issuer. At the Closing, the Underwriters shall pay or cause to be paid the net aggregate 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 Issuer as and for liquidated damages for such failure by the Underwriters. Retention of the Good Faith Deposit shall constitute the Issuer'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 Issuer against the Underwriters related to such failure and any other defaults by Underwriters hereunder. The Underwriters and the Issuer 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 Issuer would sustain in the event of the Underwriters' failure to purchase and to accept delivery of the Bonds pursuant to the terms of this Purchase Contract. The amount is agreed upon and fixed as liquidated damages because of the difficulty of ascertaining as of the date hereof the amount of damages that would be sustained in such event. Each of the Underwriters waives any right to claim that actual damages resulting from such failure are less than the amount of such liquidated damages.

Section 10. 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 Issuer shall pay, any expenses incident to the performance of the Issuer'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 Backstrom McCarley Berry & Co., LLC, San Francisco, California and Kitahata & Company, San Francisco, California (the "Co-Municipal Advisors"); (ii) the fees and disbursements of any counsel, auditors, engineers, consultants or others retained by the Issuer in connection with the transactions contemplated herein; (iii) the costs of preparing and printing the Bonds; (iv) the costs of the printing of the

Official Statement (and any amendment or supplement prepared pursuant to Section 4(e) of this Purchase Contract); and (v) any fees charged by investment rating agencies for the rating of the Bonds.

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

Section 11. Notices. Any notice or other communication to be given to the Issuer under this Purchase Contract may be given by delivering the same in writing to the Issuer 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:

If to the Issuer:

City and County of San Francisco
Finance Corporation
c/o City and County of San Francisco
Office of Public Finance
City Hall, Room 336
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102
Telephone: (415) 554-5956
Fax: (415) 554-4864

If to the Underwriters:

Telephone: _____
Fax: _____

Section 12. Parties in Interest. This Purchase Contract is made solely for the benefit of the Issuer 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 Issuer 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 13. 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 14. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument. This Purchase Contract may be signed in counterparts, and upon delivery to the other party of such signed Purchase Contract, which delivery may be by facsimile transmission, shall constitute the binding agreement of each party to this Purchase Contract.

Section 15. 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 of San Francisco.

Section 16. City Contracting Requirements. The City Contracting Requirements sets forth in Attachment A attached hereto are incorporated herein by this reference.

Section 17. Headings. The Section headings in this Purchase Contract are inserted for convenience only and shall not be deemed to be a part hereof.

Section 18. Entire Agreement. This Purchase Contract, when accepted by the Issuer, shall constitute the entire agreement between the Issuer and the Underwriters and is made solely for the benefit of the Issuer and the Underwriters (including the successors or assigns of any Underwriter with the consent of the Issuer) and no other person shall acquire or have any right hereunder by virtue hereof. All of the Issuer's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of (a) any investigation made by or on behalf of the Underwriters, (b) delivery of and payment for the Bonds hereunder, and (c) any termination of this Purchase Contract.

Section 19. No Fiduciary or Advisory Role; Arm's Length Transaction. The Underwriters and the Issuer acknowledge and agree that (i) the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm's-length commercial transaction between Issuer, on the one hand, and the Underwriters, on the other hand, (ii) in connection with such transaction, each Underwriter is acting solely as a principal and not as a municipal advisor, a financial advisor, or a fiduciary of the Issuer, and may have financial and other interests that differ from those of the Issuer, (iii) the Underwriters have not assumed (individually or collectively) a fiduciary responsibility in favor of the Issuer with respect to the offering of the Bonds or the discussions, undertakings and procedures leading thereto (whether or not any Underwriter, or any affiliate of an Underwriter, has provided or is currently providing services or advice to Issuer on other matters), and (iv) the Issuer and the Underwriters have consulted with their respective legal, financial and other advisors to the extent they deemed appropriate in connection with the offering of the Bonds. None of the Underwriters is acting as a Municipal Advisor (as defined in Section 15B of the Exchange Act of 1934, as amended) in connection with the matters contemplated by this Purchase Contract.

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

Very truly yours,

[UNDERWRITERS]

By: _____, as Representative

By: _____
[Title]

CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION

By: _____
President

CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION

By: _____
Director of Public Finance

ACCEPTED at [_____] [a.m./p.m.] Pacific Time this ___ day of _____, 2018

APPROVED AS TO FORM:

DENNIS J. HERRERA,
CITY ATTORNEY

By: _____
KENNETH DAVID ROUX
Deputy City Attorney

ATTACHMENT A
CITY CONTRACTING PROVISIONS

Attachment A-1

SCHEDULE I

MATURITY SCHEDULE

\$ _____

Bonds

<u>Maturity Date</u> <u>() 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>
--------------------------------------	-----------------------------------	--------------------------------	--------------	--------------

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

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

EXHIBIT A

FORM OF ISSUE PRICE CERTIFICATE

FORM OF UNDERWRITERS CERTIFICATE

EXHIBIT B

§ _____*
**CITY OF SAN FRANCISCO FINANCE CORPORATION
REFUNDING LEASE REVENUE BONDS, SERIES 2018[B]
(BRANCH LIBRARY IMPROVEMENT PROGRAM)**

FORM OF CERTIFICATE OF THE ISSUER

The undersigned _____, _____ and _____, respectively, of the City and County of San Francisco Finance Corporation (“the Issuer”), acting in their official capacities, hereby certify as follows in connection with the issuance and sale of the bonds captioned above (the “Bonds”):

1. The Issuer is a nonprofit public benefit corporation duly organized and validly existing under the laws 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 Issuer, and (b) enter into and perform all of the transactions contemplated by the Trust Agreement, the Facility Lease, the Site Lease, the Asset Transfer Agreement, the Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”) executed by the Issuer and the Purchase Contract, dated _____, 20__ (the “Purchase Contract”), between the Issuer and _____, acting on its behalf and on behalf of _____, as underwriters (collectively, the “Issuer 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 Issuer holding the offices of the Issuer 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 Issuer contained in the Purchase Contract are true, complete and correct as of the Closing Date as if made on such Closing Date.

4. The Issuer has duly authorized the execution and delivery of the Issuer Documents and is authorized to perform the obligations on its part to be performed under the Issuer Documents, and each of the Issuer Documents constitutes the legal, valid and binding obligation of the Issuer enforceable against the Issuer 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 Issuer 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 Issuer is party or otherwise subject, which breach or default would in any way materially and adversely affect the Issuer Documents or the performance of any of the Issuer'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 Issuer of the Issuer 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 Issuer 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 Issuer, except as expressly provided or permitted by the Resolution.

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 issuance and delivery of the Bonds or the execution of and performance by the Issuer of the Issuer Documents or (b) in any way contesting or affecting the validity of the Bonds, the Issuer Documents or the performance by the Issuer of its obligations under the Issuer Documents.

8. There is no litigation pending (with service of process having been accomplished), or, to the knowledge of the undersigned, threatened against the Issuer or involving any of the property or assets under the control of the Issuer, 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 Issuer or of the Facilities.

9. The Issuer does hereby certify that Resolution No. _____, adopted by the Board of Directors of the Issuer on _____, 2018 was duly adopted at proceedings duly conducted by the Issuer and that such Resolution is in full force and effect and has not been amended, modified or rescinded as of the date hereof.

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

Dated: _____, 2018.

Name

Office

Signature

EXHIBIT C

FORM OF OPINION OF CORPORATION COUNSEL]

EXHIBIT D

FORM OF SUPPLEMENTAL OPINION OF CO-BOND COUNSEL

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 MAY __, 2018

NEW ISSUE – BOOK-ENTRY ONLY

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

In the opinion of Squire Patton Boggs (US) LLP and Amira Jackson, Attorney at Law, Co-Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Series 2018 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; however, interest on the Series 2018 Bonds is included in the calculation of a corporation's adjusted current earnings for purposes of, and thus may be subject to, the corporate alternative minimum tax (applicable only to taxable years beginning before January 1, 2018), and (ii) interest on the Series 2018 Bonds is exempt from State of California personal income taxes. Interest on the Series 2018 Bonds may be subject to certain federal taxes imposed only on certain corporations. For a more complete discussion of the tax aspects, see "TAX MATTERS" herein.



\$[Par Amount]*
CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION
REFUNDING LEASE REVENUE BONDS, SERIES 2018[B]
(BRANCH LIBRARY IMPROVEMENT PROGRAM)

Dated: Date of Delivery

Due: [June 15], as shown on the inside cover

The City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds, Series 2018[B] (Branch Library Improvement Program) (the "Series 2018 Bonds"), will be issued pursuant to a Master Trust Agreement, dated as of March 1, 2009 (the "Master Trust Agreement"), as amended by the First Supplemental Trust Agreement, dated as of June 1, 2018 (the "First Supplemental Trust Agreement," and together with the Master Trust Agreement, the "Trust Agreement"), by and between the City and County of San Francisco Finance Corporation (the "Corporation") and U.S. Bank National Association, as trustee (the "Trustee"), and the Charter of the City and County of San Francisco (the "City"). See "INTRODUCTION – Authority for Issuance." The Series 2018 Bonds are being issued to: (i) redeem all of the Corporation's outstanding Lease Revenue Bonds, Series 2009A (Branch Library Improvement Program) (the "Refunded Bonds"), and (ii) pay costs associated with the issuance of the Series 2018 Bonds and the redemption of the Refunded Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS." The City owns various real property in the City (the "Sites") that will be leased by the City, as lessor, to the Corporation, as lessee, pursuant to a Facilities Lease, dated as of March 1, 2009 (the "Original Facilities Lease"), as amended by the First Amendment to Facilities Lease, dated as of June 1, 2018 (the "First Amendment to Facilities Lease," and together with the Original Facilities Lease, the "Facilities Lease"). The Sites and the improvements thereon (collectively, the "Facilities") will be leased by the Corporation, as lessor, to the City, as lessee, pursuant to a Master Lease, dated as of March 1, 2009 (the "Master Lease"), as amended by the First Amendment to Master Lease, dated as of June 1, 2018 (the "First Amendment to Master Lease," and together with the Master Lease, the "Lease").

The Series 2018 Bonds are primarily payable from rental payments to be made by the City to the Corporation pursuant to the Lease. Under the Lease, so long as the City has beneficial use and occupancy of the Facilities, the City is obligated to make Rental Payments (defined herein), in amounts sufficient, in both time and amount, to pay the principal of and interest on the Series 2018 Bonds. Under the Lease, the City has covenanted to take such action as may be necessary to include all Rental Payments due in its annual budget and to make the necessary annual appropriations therefor. See "SECURITY AND SOURCES OF PAYMENT – Lease Not a Debt of City; Covenant to Appropriate."

The Series 2018 Bonds will be issued only as fully registered bonds without coupons and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Series 2018 Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Beneficial Owners of the Series 2018 Bonds will not receive physical delivery of bond certificates. Payments of principal of and interest on the Series 2018 Bonds will be made by the Trustee, 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 Series 2018 Bonds. See APPENDIX E – "DTC AND THE BOOK-ENTRY ONLY SYSTEM." The Series 2018 Bonds will be dated and bear interest from their date of delivery. Interest on the Series 2018 Bonds will be payable on [June 15] and [December 15] of each year, commencing [December 15, 2018]. **The Series 2018 Bonds are subject to redemption prior to their respective stated maturities.** See "THE SERIES 2018 BONDS – Redemption Provisions."

THE SERIES 2018 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM BASE RENTAL PAYMENTS MADE BY THE CITY TO THE CORPORATION PURSUANT TO THE LEASE AND ANY OTHER AMOUNTS HELD IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED PURSUANT TO THE TRUST AGREEMENT, SUBJECT TO THE PROVISIONS OF THE TRUST AGREEMENT PERMITTING THE APPLICATION OF SUCH AMOUNTS FOR THE PURPOSES AND ON THE TERMS AND CONDITIONS SET FORTH IN THE TRUST AGREEMENT. THE PRINCIPAL OR REDEMPTION PRICE OF, AND INTEREST ON, THE SERIES 2018 BONDS WILL BE PAYABLE ONLY FROM THE FUNDS DESCRIBED IN THE TRUST AGREEMENT AND NEITHER THE CORPORATION NOR ANY MEMBER OF ITS BOARD OF DIRECTORS WILL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT TO THE ISSUANCE OF THE SERIES 2018 BONDS. THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

MATURITY SCHEDULE
(See inside cover)

Bids for the purchase of the Series 2018 Bonds will be received by the Corporation at _____ a.m. California time on May __, 2018, as provided in the Official Notice of Sale inviting bids dated May __, 2018, unless postponed as set forth in such Official Notice of Sale. See "Sale of the Series 2018 Bonds" herein.

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

The Series 2018 Bonds are offered when, as, and if issued by the Corporation and accepted by the purchaser, subject to the approval of legality by Squire Patton Boggs (UC) LLP, San Francisco, California, and Amira Jackson, Attorney at Law, Berkeley, California, Co-Bond Counsel. Certain legal matters will be passed upon for the Corporation by its counsel, Dannis Woliver Kelley, San Diego, California, and the City by the City Attorney and Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel. It is expected that the Series 2018 Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York, on or about June __, 2018.

Dated: May __, 2018.

* Preliminary, subject to change.

\$[Par Amount]*
CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION
REFUNDING LEASE REVENUE BONDS, SERIES 2018[B]
(BRANCH LIBRARY IMPROVEMENT PROGRAM)

MATURITY SCHEDULE

Maturity Date (June 15)	Principal Amount	Interest Rate	Initial Reoffering Price or Yield**	CUSIP*** ()
----------------------------	------------------	---------------	---	-----------------

* Preliminary, subject to change.

** Reoffering prices/yields furnished by the initial purchaser. Neither the Corporation nor the City takes any responsibility for the accuracy thereof.

*** CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers are provided for convenience of reference only. Neither the City nor the Corporation take any responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the City or the Corporation 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 or the Corporation. 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 Series 2018 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 Series 2018 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 and the Corporation, 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, the Corporation, the Facilities or the Projects since the date hereof.

This Official Statement is submitted in connection with the sale of the Series 2018 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 and the Corporation. 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. All capitalized terms used herein, unless noted otherwise, shall have the meanings prescribed in the Trust Agreement.

In connection with the offering of the Bonds, the purchasers 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 purchasers 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 purchasers.

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 Corporation. These forward-looking statements speak only as of the date of this Official Statement. The Corporation 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 Corporation 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 Series 2018 Bonds. Various other websites referred to in this Official Statement also are not incorporated herein by such references.

CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION

Board of Directors

_____, *President*
_____, *Chief Financial Officer*
_____, *Secretary*

CITY AND COUNTY OF SAN FRANCISCO

Mark E. Farrell, *Mayor*

Board of Supervisors

London Breed, *Board President, District 5*

Sandra Lee Fewer, *District 1*
Catherine Stefani, *District 2*
Aaron Peskin, *District 3*
Katy Tang, *District 4*
Jane Kim, *District 6*

Norman Yee, *District 7*
Jeff Sheehy, *District 8*
Hillary Ronen, *District 9*
Malia Cohen, *District 10*
Ahsha Safai, *District 11*

City and County Officials

José Cisneros, *Treasurer*
Naomi M. Kelly, *City Administrator*
Benjamin Rosenfield, *Controller*
Dennis J. Herrera, *City Attorney*
Anna Van Degna, *Director of Public Finance*

PROFESSIONAL SERVICES

Corporation Counsel

Dannis Woliver Kelley
San Diego, California

Co-Bond Counsel

Squire Patton Boggs (US) LLP
San Francisco, California

Amira Jackmon, *Attorney at Law*
Berkeley, California

Co-Municipal Advisors

Backstrom McCarley Berry & Co., LLC
San Francisco, California

Kitahata & Company
San Francisco, California

Disclosure Counsel

Hawkins Delafield & Wood LLP
San Francisco, California

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APPENDIX A –	CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES
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OFFICIAL STATEMENT

\$[Par Amount]*
CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION
REFUNDING LEASE REVENUE BONDS, SERIES 2018[B]
(BRANCH LIBRARY IMPROVEMENT PROGRAM)

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto (this "Official Statement"), provides certain information concerning the issuance of \$[Par Amount]* of the City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds, Series 2018[B] (Branch Library Improvement Program) (the "Series 2018 Bonds"). Any capitalized term not defined herein will have the meaning given to such term as set forth in the Trust Agreement or the Lease (each as defined herein), as applicable. See APPENDIX C – ["SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – DEFINITIONS."] The references to any legal documents, instruments and the Series 2018 Bonds in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions. Copies of all legal documents are available at the principal office of the Trustee.

Authority for Issuance

The Series 2018 Bonds are issued pursuant to Ordinance No. _____, passed by the Board of Supervisors (the "Board of Supervisors") of the City and County of San Francisco (the "City") on _____, 2018 and signed by the Mayor on _____, 2018, Resolution No. _____ adopted by the Board of Directors of the City and County of San Francisco Finance Corporation (the "Corporation") on _____, 2018, the Master Trust Agreement, dated as of March 1, 2009 (the "Master Trust Agreement"), as amended by the First Supplemental Trust Agreement, dated as of June 1, 2018 (the "First Supplemental Trust Agreement," and together with the Master Trust Agreement, the "Trust Agreement"), each by and between the Corporation and U.S. Bank National Association as trustee (the "Trustee"), and the Charter of the City and County of San Francisco (the "Charter").

At an election held on November 6, 2007, the voters of the City adopted Proposition D, amending the Charter by repealing the then-existing Library Preservation Fund, renewing the Library Preservation Fund for 15 years to provide library services and to construct, maintain and operate library facilities and authorizing the issuance of debt for such purposes, all as codified in Section 16.109 of the Charter.

The Library Preservation Fund is administered by the Library Department as directed by the Library Commission. A set-aside from the City's share of the county-wide 1% property tax levy in an amount equal to two and one-half cents (\$0.025) for each \$100 of assessed valuation is required by the Charter to be deposited in the Library Preservation Fund. The authorization to set aside these taxes in the Library Preservation Fund commences in Fiscal Year 2008-09 and extends through July 1, 2024.

The City's Rental Payments (as defined below) are payable from any legally available funds of the City, and may include funds in the Library Preservation Fund or other legally available funds appropriated by the Board of Supervisors for such purpose.

Purpose

The Series 2018 Bonds are being sold to provide funds to: (i) redeem all of the Corporation's outstanding Lease Revenue Bonds, Series 2009A (Branch Library Improvement Program) (the "Refunded

* Preliminary, subject to change.

Bonds”), currently outstanding in the aggregate principal amount of \$27,030,000, and (ii) pay costs associated with the issuance of the Series 2018 Bonds and the redemption of the Refunded Bonds. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.”

Security and Sources of Payment

Pursuant to the Trust Agreement, the Corporation previously issued \$34,265,000 in aggregate principal amount of the Refunded Bonds. All of the outstanding Refunded Bonds will be redeemed upon the issuance of the Series 2018 Bonds. The Corporation may in the future issue additional bonds pursuant to the Master Trust Agreement secured on a parity with the Series 2018 Bonds (the “Parity Bonds”). The Series 2018 Bonds and any Parity Bonds are referred to collectively as the “Bonds.” See “SECURITY AND SOURCES OF PAYMENT – Parity Bonds and Pre-Parity Bonds.”

The City owns various real property (each a “Site” and collectively, the “Sites”) that the City, as lessor, has leased to the Corporation, as lessee, pursuant to a Facilities Lease, dated as of March 1, 2009 (the “Original Facilities Lease”), as amended by the First Amendment to Facilities Lease, dated as of June 1, 2018 (the “First Amendment to Facilities Lease,” and together with the Original Facilities Lease, the “Facilities Lease”). The Sites and the improvements thereon (together, the “Facilities”) will be leased by the Corporation, as lessor, to the City, as lessee, pursuant to a Master Lease, dated as of March 1, 2009 (the “Master Lease”), as amended by the First Amendment to Master Lease, dated as of June 1, 2018 (the “First Amendment to Master Lease,” and together with the Master Lease, the “Lease”). Pursuant to the Lease, the City is required to pay to the Corporation specified Base Rental payments in amounts sufficient to pay, when due, the principal of and interest on the Bonds, and to pay certain Additional Rental payments (together with the Base Rental payments, the “Rental Payments”) for use and possession of the Facilities. The City will pay (but only after payment of Base Rental) as Additional Rental under the Lease such amounts of taxes, assessments administrative costs, insurance premiums, reasonable administrative costs of the Corporation related to the Facilities and other such costs as defined in the Lease. See “SECURITY AND SOURCES OF PAYMENT – Rental Payments.”

Under the Lease, the City has covenanted to take such action as may be necessary to include all Rental Payments due in its annual budget and to make the necessary annual appropriations therefor. The Lease provides that such covenants of the City are deemed by the City to be and will be construed to be duties imposed by law. See “SECURITY AND SOURCES OF PAYMENT – Lease Not a Debt of City; Covenant to Appropriate” and “CERTAIN RISK FACTORS – State Law Limitations on Appropriations.”

No Reserve Fund has been established for the Series 2018 Bonds. The Trust Agreement allows a Reserve Fund to be established for additional Bonds.

Pursuant to an Assignment Agreement, dated as of June 1, 2018 (the “Assignment Agreement”), the Corporation has assigned to the Trustee, for the benefit of the Owners of the Series 2018 Bonds, substantially all of its rights under the Lease, including its right to receive and collect the Base Rental payments from the City under such Lease and its rights as may be necessary to enforce payment of the Base Rental payments.

THE SERIES 2018 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM RENTAL PAYMENTS MADE BY THE CITY TO THE CORPORATION PURSUANT TO THE LEASE AND ANY OTHER AMOUNTS HELD IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED PURSUANT TO THE TRUST AGREEMENT, SUBJECT TO THE PROVISIONS OF THE TRUST AGREEMENT PERMITTING THE APPLICATION OF SUCH AMOUNTS FOR THE PURPOSES AND ON THE TERMS AND CONDITIONS SET FORTH IN THE TRUST AGREEMENT.

THE PRINCIPAL OR REDEMPTION PRICE OF, AND INTEREST ON, THE SERIES 2018 BONDS WILL BE PAYABLE ONLY FROM THE FUNDS DESCRIBED IN THE TRUST AGREEMENT AND NEITHER THE CORPORATION NOR ANY MEMBER OF ITS BOARD OF DIRECTORS WILL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT OF THE ISSUANCE OF

THE SERIES 2018 BONDS. THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

The City

For certain financial information with respect to the City, see APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES” and APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017.”

The Corporation

The Corporation is a non-profit public benefit corporation duly organized and validly existing under the Nonprofit Public Benefit Corporation Law (Section 5110 et seq. of the California Corporations Code). The Corporation was formed in 1991 by the Chief Administrative Officer of the City pursuant to a resolution of the Board of Supervisors. The purpose of the Corporation is to provide a means to finance, through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City’s general governmental purposes. See “THE CORPORATION.”

Risk Factors

For a discussion of certain risk factors associated with the City’s ability to make Rental Payments under the Lease and in making an investment in the Bonds, see “CERTAIN RISK FACTORS.”

Continuing Disclosure

The City has covenanted on behalf of the Corporation and for the benefit of the Owners of the Series 2018 Bonds to provide certain financial information and operating data relating to the City 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 the 2017-18 Fiscal Year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. See “CONTINUING DISCLOSURE.”

THE SERIES 2018 BONDS

General

The Series 2018 Bonds will be executed and delivered in the aggregate principal amount of \$[Par Amount]* only as one fully registered Series 2018 Bond for each maturity. The Series 2018 Bonds will be delivered only in denominations of \$5,000 or an integral multiple thereof and interest thereon will be payable on each [June 15] and [December 15], commencing [December 15, 2018] as long as any Series 2018 Bonds are Outstanding (each an “Interest Payment Date”). Interest on the Series 2018 Bonds will be computed on the basis of a 360-day year composed of twelve months of 30 days each. Interest on the Series 2018 Bonds will accrue from the date of delivery thereof at the rates per annum set forth on the inside cover page hereof. The principal of the Series 2018 Bonds will be payable, subject to redemption, as described below, in each year of the designated years and in the principal amounts set forth on the inside cover page hereof.

The Series 2018 Bonds will be registered initially in the name of “Cede & Co.,” as nominee of The Depository Trust Company, New York, New York (“DTC”), which has been appointed as securities

* Preliminary, subject to change.

depository for the Series 2018 Bonds. Beneficial ownership interests in the Series 2018 Bonds will be available in book-entry form only, in denominations of \$5,000 or integral multiples thereof. Purchasers of beneficial ownership interests in the Series 2018 Bonds (“Beneficial Owners”) will not receive physical certificates representing their interests in the Series 2018 Bonds purchased. While held in book-entry only form, all payments of principal, premium and interest will be made by wire transfer to DTC or its nominee as the sole registered owner of the Series 2018 Bonds. Payments to Beneficial Owners are the sole responsibility of DTC and its Participants. See APPENDIX E – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Transfer and Exchange

The Series 2018 Bonds will be issued only as fully-registered bonds, with the privilege of transfer or exchange for Series 2018 Bonds of other denominations as set forth in the Trust Agreement. All such transfers and exchanges will be without charge to the owner, with the exception of any taxes, fees or other governmental charges. While the Series 2018 Bonds are in book-entry only form, beneficial ownership interests in the Series 2018 Bonds may only be transferred through Direct Participants and Indirect Participants as described in APPENDIX E – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Redemption Provisions

Extraordinary Mandatory Redemption. The Series 2018 Bonds are subject to extraordinary mandatory redemption, as a whole, or in part by lot within any maturity if less than all of the Series 2018 Bonds of such maturity are to be redeemed, from proceeds of insurance or proceeds of eminent domain proceedings, upon the terms and conditions of, and as provided for in the Trust Agreement, at the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium.

Optional Redemption. The Series 2018 Bonds maturing on or before [June 15, 2026] are *not* subject to optional redemption prior to maturity. The Series 2018 Bonds maturing on or after [June 15, 2027] are subject to optional redemption prior to maturity on or after [June 15, 2026] at the option of the City, as a whole or in part on any date from such maturities as are selected by the City, from amounts deposited with the Trustee from any funds available therefor, at a redemption price equal to 100% of the principal amount of Series 2018 Bonds to be redeemed plus accrued but unpaid interest to the date fixed for redemption.

Optional redemption of the Bonds is conditioned upon the prior delivery to the Trustee and the trustees of any Parity Bonds of a Certificate of the City to the effect that the Base Rentals remaining under the Lease after the proposed redemption will be sufficient to pay when due the principal of and interest on the Bonds remaining Outstanding after such proposed redemption.

Notice of Redemption. The Trustee is required to mail notice of redemption by first class mail, postage prepaid, at least 30 but no more than 45 days prior to the redemption date, to the Owners of the Series 2018 Bonds to be redeemed, to DTC and to the Information Services.

So long as the Series 2018 Bonds are in book-entry only form through the facilities of DTC, notice of redemption will be provided to Cede & Co., as the registered owner of the Series 2018 Bonds, and not directly to the Beneficial Owners.

Neither failure to receive any redemption notice nor any defect in such redemption notice so given will affect the sufficiency of the proceedings for redemption of the Series 2018 Bonds.

Cancellation of Redemption. Notwithstanding any other provision of the Trust Agreement, in the event that any Series 2018 Bonds are subject to extraordinary mandatory or optional redemption in accordance with the Trust Agreement and the Trustee does not have on deposit available moneys sufficient to redeem the principal of plus the applicable premium, if any, and interest on all of the Series 2018 Bonds proposed to be redeemed on the date fixed for redemption, on such date, the redemption will be cancelled and in each and

every such case, the Corporation, the Trustee and the Owners, as the case may be, will be restored to their former positions and rights under the Trust Agreement. A cancellation of a redemption does not constitute a default under the Trust Agreement nor an event that with the passage of time of giving of notice or both will constitute a default under the Trust Agreement and the Trustee, the Corporation and the City will have no liability from such cancellation.

Selection of Series 2018 Bonds for Redemption. For purposes of selecting the Series 2018 Bonds for redemption, the Series 2018 Bonds will be deemed to be composed of \$5,000 portions or any integral multiple thereof. Whenever less than all the Outstanding Series 2018 Bonds maturing on any one date are called for optional redemption pursuant to the provisions of the Trust Agreement at any one time, the Trustee will select the Series 2018 Bonds or portions thereof to be redeemed from the Outstanding Series 2018 Bonds maturing on such date not previously selected for redemption, by lot in any manner which the Trustee deems appropriate. If less than all the Outstanding Series 2018 Bonds are called for redemption pursuant to the Trust Agreement at any one time, the City will specify to the Trustee a principal amount in each maturity to be redeemed, provided that if the City specifies the Series 2018 Bonds to be redeemed in a manner that results in other than approximately equal annual debt service on the Series 2018 Bonds Outstanding following such redemption, the City is required to, at the time of such specification, deliver a Certificate of the City to the effect that the resulting Base Rental payments and Additional Rental payable during the remaining term of the Lease will not exceed the fair rental value of the Facilities during each subsequent Fiscal Year. If less than all of the Outstanding Series 2018 Bonds are called for extraordinary mandatory or optional redemption pursuant to the terms of the Trust Agreement, the City will designate the maturity or maturities of the Series 2018 Bonds to be redeemed.

Partial Redemption of Series 2018 Bonds. Upon the surrender of any Series 2018 Bond redeemed in part only, the Trustee will authenticate and deliver to the Owners thereof, at the expense of the City, a new Series 2018 Bond or Series 2018 Bonds of authorized denominations equal to the unredeemed portion of the Series 2018 Bond surrendered and of the same series, interest rate and maturity. Such partial redemption will be valid upon payment or provision for the payment of the amount required to be paid to such Owner, and the Corporation, the City and the Trustee will be released and discharged thereupon from all liability to the extent of such payment.

Effect of Notice of Redemption. Series 2018 Bonds to be redeemed will be due and payable on the date of redemption set forth in the redemption notice with respect thereto. If on the scheduled redemption date money for the redemption of all the Series 2018 Bonds to be redeemed, together with interest to such redemption date, and if a redemption notice is given as described herein, then, from and after such redemption date, no additional interest will become due on the Series 2018 Bonds to be redeemed. All money held by or on behalf of the Trustee for the redemption of the Series 2018 Bonds will be held in trust for the account of the Owners thereof.

Purchase in Lieu of Redemption of Series 2018 Bonds. Unless expressly provided otherwise in the Trust Agreement, money held in the Revenue Fund may be used to reimburse the Corporation for the purchase of the Series 2018 Bonds that would otherwise be subject to redemption from such moneys upon the delivery of such Series 2018 Bonds to the Trustee for cancellation at least 10 days prior to the date on which the Trustee is required to select the Series 2018 Bonds for redemption. The purchase price of any Series 2018 Bonds purchased by the Corporation under the Trust Agreement will not exceed the applicable redemption price of the Series 2018 Bonds that would be redeemed but for the operation of this provision. Any such purchase must be completed prior to the time notice would otherwise be required to be given to redeem the related Series 2018 Bonds. All Series 2018 Bonds so purchased will be surrendered to the Trustee for cancellation and applied as a credit against the obligation to redeem such Series 2018 Bonds from such moneys.

SECURITY AND SOURCES OF PAYMENT

Authority for Issuance

The Series 2018 Bonds are being issued under the authority of, and in compliance with, the Charter, the Trust Agreement, and the statutes of the State of California (the "State") as made applicable pursuant to the Charter.

Source of Payment

The Series 2018 Bonds are special limited obligations of the Corporation payable solely from and secured solely by the Revenues pledged therefor in the Trust Agreement, together with amounts on deposit from time to time in the funds and accounts held by the Trustee (other than the Rebate Fund). "Revenues" are defined as the proceeds of the Bonds, if any, deposited in the Revenue Fund and the Reserve Fund, that portion of the Base Rental payments made by the City which are received by the Trustee for the benefit of the Owners of the Bonds, other amounts received by the Trustee for the benefit of the Owners of the Bonds, and all other revenues, proceeds, charges, income, rents, receipts, profits, and benefits derived by the Corporation as lessor of the Facilities under the Lease or otherwise from the use and operation of the Facilities or arising out of the Facilities (other than Additional Rental) and payable to the Trustee, including interest or profits from the investment of money in any fund or account created under the Trust Agreement (other than the Rebate Fund), any contributions from whatever source, and all rentals received by the Corporation as lessor of the Facilities from any additions or extensions of the Facilities acquired or constructed.

The obligation of the City to make Rental Payments under the Lease is an obligation payable from any legally available funds of the City. For a discussion of the budget and finances of the City, see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET" and APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017."

THE SERIES 2018 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM BASE RENTAL PAYMENTS MADE BY THE CITY TO THE CORPORATION PURSUANT TO THE LEASE AND ANY OTHER AMOUNTS HELD IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED PURSUANT TO THE TRUST AGREEMENT, SUBJECT TO THE PROVISIONS OF THE TRUST AGREEMENT PERMITTING THE APPLICATION OF SUCH AMOUNTS FOR THE PURPOSES AND ON THE TERMS AND CONDITIONS SET FORTH IN THE TRUST AGREEMENT. THE PRINCIPAL OR REDEMPTION PRICE OF, AND INTEREST ON THE SERIES 2018 BONDS WILL BE PAYABLE ONLY FROM THE FUNDS DESCRIBED IN THE TRUST AGREEMENT AND NEITHER THE CORPORATION NOR ANY MEMBER OF ITS BOARD OF DIRECTORS WILL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT TO THE ISSUANCE OF THE SERIES 2018 BONDS. THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

Rental Payments

Under the Lease, Base Rental and Additional Rental payments are to be made by the City to the Corporation with respect to the Facilities. The City's obligation to make Rental Payments in the amount and on the terms and conditions specified in the Lease is absolute and unconditional without any right of set-off or counterclaim, subject only to the provisions of the Lease regarding abatement.

Base Rental. The City has covenanted in the Lease that, so long as the City has the use and occupancy of the Facilities, it will make Base Rental payments to the Corporation from any legally available funds of the

City. The Base Rental payments are calculated to be adequate for the Corporation to pay scheduled debt service on all outstanding Bonds in each year. Base Rental payments are due and payable by the City on [June 1] and [December 1] of each year during the term of the Lease, commencing [December 1, 2018], provided that any such payment will be for that portion of the applicable period that the City has use and occupancy of all or a portion of the Facilities. In the event that during any such period the City does not have use and occupancy of all or a portion of the Facilities due to material damage to, destruction of or condemnation of or defects in the title to the Facilities, Base Rental payments are subject to abatement. See "Base Rental Payments and Abatement." The obligation of the City to make Base Rental payments is payable solely from annual appropriations of the City from any legally available funds of the City and the City has covenanted in the Lease to take such action as may be necessary to include all Rental Payments due under the Lease in its annual budget and to make necessary annual appropriations for all such Rental Payments. Neither the full faith and credit nor the taxing power of the City or the State or any of its political subdivisions is pledged to make Base Rental payments under the Lease.

Pursuant to the Assignment Agreement, the Corporation assigns to the Trustee all its rights, title and interest under the Lease, including, without limitation, the rights to receive the Base Rental payments that are made by the City pursuant to the Lease. Pursuant to the Trust Agreement, the Trustee will deposit the Base Rental payments in the Revenue Fund to be used: *first*, for the payment of the aggregate amount of interest then due and payable on the Outstanding Bonds, *second*, for the payment of principal on the Bonds then due or required to be paid, and *third*, for replenishment of any Reserve Fund in the event its balance is less than the Reserve Fund Requirement. No Reserve Fund has been established for the Series 2018 Bonds. See APPENDIX C – ["SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Trust Agreement – Allocation of Revenues."]

Additional Rental. The City has agreed in the Lease to pay Additional Rental to the Corporation, but only after payment of Base Rental, to cover: (i) all taxes, assessments, or governmental charges of any type or nature charged to the Corporation or affecting the Facilities or the respective interests or estates of the Corporation or the City therein or affecting the amount available to the Corporation from rentals received thereunder for the payment of debt service on the Bonds (including taxes, assessments or governmental charges assessed or levied by any governmental agency or district having power to levy taxes, assessments or governmental charges); (ii) all reasonable administrative costs of the Corporation relating to the Facilities including, but not limited to, all expenses and compensation of the Trustee or any trustee, fiscal agent or paying agent under any Parity Bond Instrument payable by the Corporation under the Trust Agreement or any Parity Bond Instrument (defined in APPENDIX C – ["SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Definitions"]), fees of auditors, rebate analysts, accountants, attorneys, or engineers, and all other necessary and reasonable administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Series 2018 Bonds, any Parity Bonds, the Trust Agreement, or any Parity Bond Instrument or to defend the Corporation and its members, officers, agents and employees; (iii) any amounts required to be deposited by the Corporation pursuant to the Trust Agreement or under any similar provision contained in any Parity Bond Instrument that are not otherwise available to the Corporation under the Trust Agreement; (iv) insurance premiums for all insurance required pursuant to the Lease and not obtained by the City, but only to the extent such City obligation is not otherwise satisfied under the terms specified in the Lease; and (v) all fees, costs, expenses, and other amounts due to any municipal bond insurance company that has provided an insurance policy guaranteeing the payment of the principal of and interest on any series of Bonds.

Pledge of Revenues; Revenue Fund

Under the Trust Agreement, the Corporation pledges and assigns to the Trustee and grants to the Trustee a lien on and security interest in all right, title and interest of the Corporation in and to all of the following, which lien and security interest, except as otherwise expressly set forth in the Trust Agreement, will be prior in right to any other pledge, lien or security interest created by the Corporation therein: (i) the Revenues, (ii) all moneys and investments (excluding moneys on deposit in the Rebate Fund) held from time

to time by the Trustee under the Trust Agreement, (iii) earnings on amounts included in provisions (i) and (ii), and (iv) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time after the date of the Trust Agreement, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security under the Trust Agreement, for the equal and proportionate benefit and security of the Bonds, all of which, regardless of the series, time or times of their authentication and delivery or maturity, will be, with respect to the security provided thereby, of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds. The Revenues will not be used for any other purpose while any of the Bonds remain Outstanding, except that out of Revenues there may be apportioned and paid such sums, for such purposes, as are expressly permitted by the provisions of the Trust Agreement with respect to the allocation of Revenues to special funds.

Except as otherwise provided in the Trust Agreement with respect to investment of moneys in funds, all Revenues to which the Corporation may at any time be entitled will be paid directly to the Trustee and all of the Revenues collected or received by the Corporation will be deemed to be held in trust and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time will be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof, and all such Revenues will thereupon be deposited by the Trustee upon the receipt thereof in a special fund, designated as the "Revenue Fund," which fund is created under the Trust Agreement. The Revenue Fund will be maintained by the Trustee, separate and apart from all other funds, so long as any of the Bonds remain Outstanding. All moneys at any time deposited in the Revenue Fund will be held by the Trustee in trust for the benefit of the Owners from time to time of the Bonds and will be disbursed, allocated and applied solely for the uses and purposes specified in the Trust Agreement. See APPENDIX C – ["SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS–THE TRUST AGREEMENT – Allocation of Revenues."]

No Reserve Fund

No Reserve Fund has been established for the Series 2018 Bonds. The Trust Agreement allows a Reserve Fund to be established for additional Bonds.

Lease Not a Debt of City; Covenant to Appropriate

The obligation of the City to pay Base Rental payments when due is an obligation of the City payable from any legally available funds of the City and does not constitute a debt of the City for which the City is obligated to pledge its general fund. Under the Lease, the City has agreed to take such action as is necessary to include in its annual budget and to appropriate funds sufficient to meet all Rental Payments due under the Lease. The tax rate limitation imposed by the initiative constitutional amendment known as the Jarvis-Gann Amendment (Article XIII A) effectively eliminates the ability of the City to impose new property taxes for new obligations such as payment of rental payments to the Corporation for debt service on the Series 2018 Bonds. For information concerning the City's revenues and expenditures see APPENDIX A – "THE CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES."

Insurance

The Corporation is required to maintain or cause the City to maintain throughout the term of the Lease: (i) general liability insurance against damages occasioned by reason of the construction of improvements to, or operation of, the Facilities in the minimum amount of \$5,000,000 combined single limit for bodily and personal injury and property damage per occurrence, which general liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage maintained or caused by the City to be maintained; (ii) with respect to any Bond Financed Facilities Component, builder's risk insurance throughout the course of construction in an amount equal to the Outstanding principal amount of the Bonds (to the extent commercially available), but in no event less than the completed value of the applicable Bond Financed Facilities Component, which insurance shall be maintained until substantial completion of such Bond

Financed Facilities Component; and (iii) all risk property insurance on all structures constituting any part of the Facilities in an amount equal to the Outstanding principal amount of the Bonds, with such insurance covering, as nearly as practicable, loss or damage by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, including a replacement cost endorsement. The City must also maintain (i) rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City for a period of at least 24 months (such amount may be adjusted to reflect the actual scheduled Base Rental payments due under the Lease for the next succeeding 24 months) to insure against loss of rental income from the Facilities caused by perils covered by the insurance required by the Lease (with respect to a Bond Financed Facilities Component such insurance coverage will commence upon substantial completion of the Bond Financed Facilities Component); and (ii) boiler and machinery insurance, comprehensive form, insuring against accidents to pressure vessels and mechanical and electrical equipment, with a property damage limit not less than \$5,000,000 per accident (with respect to a Bond Financed Facilities Component such insurance coverage will commence upon Substantial Completion).

The City is also required under the Lease to deliver to the Trustee, on the date of issuance and delivery of each Series of Bonds, evidence of the commitment of a title insurance company to issue a CLTA policy of title insurance, in an amount at least equal to the initial aggregate principal amount of such Bonds, showing a leasehold interest in the name of the City and naming the insured parties as the Trustee, for the benefit of the Owners of the Bonds.

The Lease further requires the City to maintain earthquake insurance in an amount equal to the Outstanding principal amount of the Series 2018 Bonds (to the extent commercially available) or the replacement cost of the Facilities; provided that no such earthquake insurance is required if the Risk Manager of the City files a written recommendation annually with the Trustee that such insurance is not obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies. [Based upon current market conditions and the recommendation of the Risk Manager of the City, it has been determined not to be required to obtain earthquake insurance at this time.] *[Confirm.]*

THE CITY MAY SELF-INSURE AGAINST ANY OF THE RISKS REQUIRED TO BE INSURED AGAINST IN THE LEASE, EXCEPT FOR RENTAL INTERRUPTION AND TITLE DEFECT.

Base Rental Payments and Abatement

The Trustee will collect and receive all of the Base Rental payments, and any Base Rental payments collected or received by the Corporation must immediately be paid by the Corporation to the Trustee. All payments of Base Rental received by the Trustee under the Lease will be deposited into the Revenue Fund. The City's obligation to make Rental Payments in the amount and on the terms and conditions specified in the Lease is absolute and unconditional without any right of set-off or counterclaim, subject only to the provisions of the Lease regarding abatement.

Except to the extent of amounts available to the City under the Lease, including without limitation, amounts available pursuant to the Trust Agreement or any Parity Bond Instrument, from any Parity Bond (defined in APPENDIX C – [“SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Definitions”]) reserve fund, and except as otherwise specifically provided in the Lease, during any period in which by reason of material non-completion of any Bond Financed Facilities Component (defined in APPENDIX C – [“SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Definitions”]), material damage to or destruction of the Facilities, or condemnation of or defects in the title of the Facilities, there is substantial interference with the right to the use and occupancy by the City of any portion of the Facilities, Rental Payments due under the Lease will be abated proportionately and the Lease will continue in full force and effect. In the case of abatement relating to the Facilities, the amount of abatement will be equal to that amount by which the Rental Payments exceed the fair rental value of the Facilities. The City is required to calculate such abatement and will provide the Corporation and the Trustee

with a certificate setting forth such calculation and the basis therefor. Such abatement will continue for the period commencing with the date of material non-completion of a Bond Financed Facilities Component or the date of such damage or destruction of Facilities and ending with the substantial completion of a Bond Financed Facilities Component or of the work of repair or replacement of the Facilities so damaged or destroyed; and the term of the Lease will be extended by the period during which the rental is abated under the Lease, except that such extension will in no event extend beyond June 15, 2044.

The City has the option, but not the obligation, to deliver Substitute Facilities (defined under "Substitution of Property") for all or a portion of the Facilities pursuant to the substitution provisions of the Lease during any period of abatement. Any abatement of Base Rental payments could affect the Corporation's ability to pay debt service on the Series 2018 Bonds, although the Lease requires the City to maintain rental interruption insurance. See "CERTAIN RISK FACTORS – Abatement." During any period of abatement with respect to all or any part of the Facilities, the Corporation is required to use the proceeds of the required rental interruption insurance and the moneys on deposit in any reserve funds established with respect to any Parity Bonds to make debt service payments on the Series 2018 Bonds.

Remedies on Default

The Lease provides that the Trustee will exercise any remedies on default. The Trustee is required to exercise the rights and remedies under the Trust Agreement with the same care and skill that a prudent person would exercise under the circumstances in the conduct of his or her own affairs. Upon the occurrence and continuance of the City's failure to deposit with the Trustee any Base Rental and/or Additional Rental when due, or in the event that the City breaches any other terms, covenants, conditions or agreements contained in the Lease (and does not remedy such breach within 30-days' notice thereof) the Trustee may proceed (and, upon written request of the Owners of not less than a majority in aggregate principal amount of Series 2018 Bonds then Outstanding, shall proceed), without any further notice (i) to re-enter the Facilities and without terminating the Lease, re-let the Facilities for library purposes in accordance with the Charter as the agent and for the account of the City upon such terms and conditions as the Trustee may deem advisable; or (ii) to enforce all of its rights and remedies under the Lease, including the right to recover Base Rental payments as they become due, by pursuing any remedy available in law or in equity. See "CERTAIN RISK FACTORS – Limited Recourse on Default" and APPENDIX C – ["SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – THE LEASE – Defaults and Remedies."]

Maintenance and Utilities; Changes to the Facilities

Throughout the term of the Lease, as part of the consideration for rental payments of the Facilities, all improvement, repair, landscaping and maintenance of the Facilities will be the responsibility of the City, and the City is required to pay for or otherwise arrange for the payment of all utility services supplied to the Facilities and will pay or otherwise arrange for payment of the cost of the repair and replacement of the Facilities resulting from ordinary wear and tear or want of care on the part of the City or any assignee or sublessee thereof.

The City has the right during the term of the Lease to make additions, alterations or improvements to or to attach fixtures, structures or signs to the Facilities if said additions, alterations, improvements, fixtures, structures and signs are necessary or beneficial for the use of the Facilities by the City. The City may remove any fixture, structure or sign added by the City; provided that such removal does not materially impair the City's beneficial use of the Facilities, or reduce the annual fair rental value of the Facilities below the maximum annual Base Rental and Additional Rental payable under the Lease.

Substitution of Property

Whenever the City determines that the annual fair rental value of proposed substitute facilities (the "Substitute Facilities") is at least equal to the maximum annual Base Rental payments and Additional Rental

payments yet unpaid under the Lease and that the Substitute Facilities are complete and available for beneficial use and occupancy by the City, the City may, without the consent of the Owners, amend the Lease and the definition of Facilities and Site, as applicable, to substitute (a "Substitution") such Substitute Facilities for all or a portion of the Facilities leased under the Lease upon compliance with all of the conditions set forth in the Lease, and following a Substitution, all or a portion of the Facilities originally leased under the Lease will be released from the leasehold thereunder, as appropriate. The Corporation and the City will also make any amendments needed to be made to the Lease, and will enter into or amend or supplement any necessary site, ground or facilities leases, including, without limitation, the Facilities Lease, in connection with such Substitution. Such amendments may be made without the consent of Owners.

No substitution will take place under the Lease until the City delivers to the Corporation and the Trustee the following:

- (i) A Certificate of the City stating that: (a) the annual fair rental value of the Substitute Facilities as of the date of Substitution is no less than the maximum annual Base Rental and Additional Rental remaining unpaid under the Lease at the time of such Substitution; (b) the City will, at the time of the Substitution, have beneficial use and occupancy of the Substitute Facilities, and (c) the useful life of the Substitute Facilities is equal to or greater than that of the Facilities being replaced;
- (ii) An Opinion of Counsel to the effect that the Lease amendment has been duly authorized, executed, and delivered and the Lease as so amended represents a valid and binding obligation of the City and the Corporation, and an Opinion of Bond Counsel to the effect that the Substitution will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes or the exemption of interest on the Bonds from State personal income tax; and
- (iii) A CLTA standard form policy of title insurance in substantially the same form as delivered in connection with the issuance and delivery of the Series 2018 Bonds in at least the amount of the aggregate principal amount of outstanding Bonds at the time of the Substitution insuring the City's leasehold interest in the Substitute Facilities under the Lease, together with an endorsement to the policy making such policy payable to the Trustee for the benefit of the Owners and to each trustee of Parity Bonds for the benefit of the Owners thereof.

Parity Bonds and Pre-Parity Bonds

Under the Trust Agreement and the Lease, the Corporation may issue additional bonds (the "Parity Bonds") payable from Base Rental on a parity with the Series 2018 Bonds, but only to provide funds (i) for the acquisition, construction, reconstruction, rehabilitation, or improvement of components of the Project, (ii) for the completion of any components of the Project being financed with the proceeds of Bonds, or (iii) to refund Bonds. In connection with the issuance of Parity Bonds or Pre-Parity Bonds (defined below) to provide funds for the acquisition, construction, reconstruction, rehabilitation, or improvement or completion of components of the Project, the following conditions and requirements are required to be satisfied prior to such issuance:

- (i) The Corporation and the City are required to (a) amend as necessary the definition of "Facilities" attached to the Lease to reflect the addition of facilities under the Lease, or, if applicable, to reflect the addition of improvements to be financed with the proceeds of Parity Bonds or which then exist on the real property to be added to the definition of "Site," (b) amend as necessary the definition of "Site" attached to the Lease to reflect the addition of real property to the Site under the Lease, (c) amend the Base Rental Payment Schedule attached to the Lease such that the Base Rental scheduled to be paid under the Lease is sufficient to pay debt service when due on the Bonds Outstanding after the issuance of such Parity Bonds, and (d) make any other amendments necessary in connection with the issuance of the Parity Bonds, provided that no such amendment will cause the ratings on any Outstanding Bonds to be downgraded;

(ii) The City has delivered to the Trustee a Certificate of the City to the effect that the Base Rental scheduled to be paid under the Lease does not exceed the fair rental value of the Facilities as amended in connection with the issuance of such Parity Bonds;

(iii) The Parity Bond Instrument pursuant to which the Parity Bonds are issued provides that the interest payment dates for such Parity Bonds will be [June 15] and [December 15] and the principal payment date for such Parity Bonds will be [June 15]; and

(iv) The Corporation and the Trustee execute a new Assignment Agreement reflecting the issuance of the Parity Bonds.

Notwithstanding the foregoing, if Parity Bonds are issued prior to the completion of a Bond Financed Facilities Component (such bonds being herein referred to as the “Pre-Parity Bonds”), the Corporation and the City may, rather than revising the Base Rental Payment Schedule, provide a separate Base Rental Payment Schedule (the “Pre-Parity Base Rental Schedule”) relating solely to a Bond Financed Facilities Component being financed from the proceeds of such Pre-Parity Bonds. The payments scheduled to be made under such Pre-Parity Base Rental Payment Schedule, together with any available funds set aside for capitalized interest, will be sufficient to pay debt service on such Pre-Parity Bonds and will not exceed the fair rental value of a Bond Financed Facilities Component being financed from the proceeds of such Pre-Parity Bonds. Upon the delivery of the Certificate of Substantial Completion (as defined in the Lease) with respect to a Bond Financed Facilities Component being financed with the proceeds of such Pre-Parity Bonds, the Base Rental Payment Schedule relating to the Series 2018 Bonds and any previously issued Parity Bonds will then be revised as described above. Prior to the delivery of the Certificate of Substantial Completion and the revision of the Base Rental Payment Schedule as described above, the Pre-Parity Bonds will only be secured by the payments to be made under the Pre-Parity Base Rental Payment Schedule. After the delivery of the Certificate of Substantial Completion and the revision of the Base Rental Payment Schedule as set forth above, such Pre-Parity Bonds will become Parity Bonds and will be equally and ratably secured with all Outstanding Bonds by Base Rental to be paid pursuant to the Base Rental Payment Schedule.

If Parity Bonds are issued, they will be entitled, subject to the requirements set forth in the Lease, the Facilities Lease, and the Trust Agreement, to a pledge and assignment of, and security interest in, the Base Rental (including amounts received as insurance or condemnation proceeds) on a parity with the pledge and assignment of, and security interest in, the Base Rental established under the Trust Agreement for the benefit of the Owners of the Series 2018 Bonds.

City Budget and Finances

For a discussion of the budget and finances of the City, see APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – City Budget.” The information contained in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017” is presented for informational purposes only.

City Investment Policy

For a discussion of the City’s investment policy regarding pooled cash, see APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Investment of City Funds.”

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2018 Bonds are expected to be applied as follows:

Sources of Funds:

Series 2018 Bond Principal
Other City Funds
Plus: Net Original Issue Premium
Total Sources

Uses of Funds:

Deposit to Revenue Fund ⁽¹⁾
Deposit to Costs of Issuance Fund⁽²⁾
Purchaser's Discount
Total Uses

⁽¹⁾ Amounts deposited in the Revenue Fund will be used to redeem the Refunded Bonds on _____, 2018.

⁽²⁾ Includes amounts for legal fees, Trustee fees, Municipal Advisor fees, rating agency fees, printing costs and other issuance costs.

DEBT SERVICE SCHEDULE

The Lease requires the City to make Base Rental payments on each [June 1] and [December 1] during the term of the Lease, commencing [December 1, 2018]. Base Rental will be for the use and occupancy of the Facilities for the Fiscal Year in which such [June 1] or [December 1] occurs, provided that the Base Rental paid on any [June 1] or [December 1] will be only for that portion of the applicable period and to the extent that the City has use and occupancy of the Facilities.

The Trust Agreement requires that Base Rental payments be deposited in the Revenue Fund maintained by the Trustee. Pursuant to the Trust Agreement, on [June 15] and [December 15] of each year, commencing on [December 15, 2018], the Trustee will apply such amounts in the Base Rental Fund as are necessary to make principal and interest payments with respect to the Series 2018 Bonds as the same will become due and payable, in the following table:

Debt Service Schedule
City and County of San Francisco Finance Corporation
Lease Revenue Bonds, Series 2018[B]
(Branch Library Improvement Program)

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Fiscal Year Total</u>
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PLAN OF REFUNDING

The Corporation will apply a portion of the proceeds of the Series 2018 Bonds to redeem in full the Refunded Bonds, currently outstanding in the aggregate principal amount of \$27,030,000, on _____, 2018. The proceeds of the Refunded Bonds were used to finance the design, construction, renovation and installation of the following Projects:

Anza Branch Library

Anza Branch Library, built in 1932, is located at 550 37th Avenue (Supervisorial District 1) in the Outer Richmond neighborhood of the City. The Project consisted of renovation of this two-story building include making it seismically safe, fully accessible, and technologically updated.

Bayview/Anna E. Waden Branch Library

The Bayview Branch Library is located at 5075 3rd Street (Supervisorial District 10) in the Bayview Hunters Point neighborhood of the City. The Project consisted of purchasing an adjacent property, demolishing the then-existing building, and building a new one-story, approximately 8,000 – 9,500 square-foot, branch library building.

Golden Gate Valley Branch Library

The Golden Gate Valley Branch Library, built in 1917, is located at 1801 Green Street (Supervisorial District 2) in the Pacific Heights neighborhood of the City. The Project consisted of renovation of the one-story building with a basement, making it seismically safe, fully accessible, and technologically updated.

Merced Branch Library

The Merced Branch Library, built in 1958, is located at 155 Winston Drive (Supervisorial District 7) in the Stonestown neighborhood of the City. The Project consisted of renovating this one-story building to make the branch seismically safe, fully accessible, and technologically updated.

North Beach Branch Library

The North Beach Branch Library Project consisted of building a new two-story library of approximately 8,500 – 8,900 square feet.

Ortega Branch Library

The Ortega Branch Library is located at 3223 Ortega Street (Supervisorial District 4) in the Sunset neighborhood of the City. The Project consisted of demolishing the then-existing building and building a new one-story library of approximately 9,000 square feet.

THE FACILITIES

[*Under review.*] [The Facilities consist of portions of the San Francisco Main Library building (consisting of approximately _____ square feet of usable space on the ground and first floor) located at Civic Center Plaza, which is owned by the City. The City will lease the Facilities to the Corporation pursuant to the Facilities Lease, and the Corporation will lease the Facilities back to the City pursuant to the Lease. The Facilities include easements of access necessary and convenient to the use of the leased portion of the Main Library building. The City has covenanted in the Lease that it will use the Facilities, or cause them to be used, for library purposes throughout the term of the Lease.

Construction of the Main Library building was completed in 1995 at a cost of approximately \$140 million, funded principally from a special general obligation bond measure approved by the voters of the City in 1988. The Main Library is the principal operating library and information resources facility of the City's library system. The Main Library housed _____ books and periodicals in fiscal year 2016-17 and provides library services to over _____ million in-person visitors, in addition to remote users, every year. The Main Library is operated by the Library Commission, which oversees the Library Department.

Pursuant to the Lease, the City may substitute other real property for part of the Facilities from time to time upon making certain filings with the Corporation and the Trustee. See "SECURITY AND SOURCES OF PAYMENT – Substitution of Property."]

Seismic Issues

Generally, within the State, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking and potential for damage to the property located at or near the center of such seismic activity. Each of the Facilities was designed to the seismic standards existing at the later of the time of original construction or renovation. The Lease only requires the City to maintain earthquake insurance with respect to the Facilities if such insurance is obtainable in reasonable amounts at reasonable costs. See also "SECURITY AND SOURCES OF PAYMENT – Insurance," "CERTAIN RISK FACTORS – Abatement" and "– Seismic Risks."

CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

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. A summary of the currently effective limitations is set forth below.

Article XIII A of the California Constitution

Article XIII A of the State Constitution, known as Proposition 13, was approved by State voters in June 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 to reflect the inflation rate, as shown by the consumer price index 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: (i) any indebtedness approved by the voters prior to July 1, 1978; (ii) 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 (iii) 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.

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 disabled persons 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 of the California Constitution limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services rendered by the governmental entity. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the next two years.

See APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017" for information on the City's appropriations limit.

Articles XIII C and XIII D of the California Constitution

Proposition 218, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. 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 either have been 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 not approve initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Other City Tax Revenues" for a discussion of other City taxes that could be affected by Proposition 218.

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 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 matters, 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, (ii) that any new or increased special purpose tax (defined as taxes levied for other than general governmental purposes) be approved by a two-thirds vote of the voters, and (iii) that the revenues from a special tax be used for the purposes or for the services for which the special tax was imposed.

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 or not it should be applied retroactively. In *McBrearty v. City of Brawley* (1997) 59 Cal. App. 4th 1441, the Fourth District Court of Appeal 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 Court of Appeals have held that certain provisions of Proposition 62 do not apply to charter cities. See, *Fiedler v. City of Los Angeles* (1993) 14 Cal. App. 4th 137 and *Fisher v. County of Alameda* (1993) 20 Cal. App. 4th 120.

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, Proposition 62 is subordinate to the authority of charter cities, derived from the State Constitution, to impose taxes. Proposition 218, however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution. For a discussion of taxes affected by Proposition 218 see "Articles XIII C and XIII D of the California Constitution."

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure would be insignificant. 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. 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 a requirement in 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. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Other City Tax Revenues."

Proposition 1A

Proposition 1A, proposed by the State Legislature in connection with the State's Fiscal Year 2004-05 Budget, 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. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by a two-thirds vote of both houses of the State 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 a two-thirds vote of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A also provides that if the State reduces the annual vehicle license fee rate currently in effect, 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, beginning July 1, 2005, 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 spending on other State programs or other action, 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. 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.

Proposition 26

Proposition 26 ("Proposition 26"), which was approved by California voters in November 2010, revises the California Constitution to expand the definition of "taxes." Proposition 26 re-categorizes many State and local fees as taxes.

Proposition 26 requires the approval of two-thirds of both houses of the State Legislature for any proposed change in State statutes, which would result in any taxpayer paying a higher tax. Proposition 26 eliminates the previous practice whereby a tax increase coupled with a tax reduction that resulted in an overall neutral fiscal effect was subject only to a majority vote in the State Legislature. Furthermore, pursuant to Proposition 26, any increase in a fee above the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require such two-thirds vote of approval to be effective. In addition, for State imposed fees and charges, any fee or charge adopted after January 1, 2010 with a majority vote of approval of the State Legislature which would have required a two-thirds vote of approval of the State Legislature if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a "tax" means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (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.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010, unless exempted, as stated above. 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.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the State Constitution, Proposition 62, Proposition 1A, Proposition 22 and Proposition 26 were all adopted pursuant to the State's initiative process. The limitations imposed upon the City by these provisions hinder the City's ability to raise revenues through taxes or otherwise and may therefore prevent the City from meeting increased expenditure requirements. The City expects that other initiative measures will be adopted, some of which may place further limitations on the ability of the State, the City or local districts to increase revenues or to spend money or which could have other financially adverse effects such as requiring the City to undertake new responsibilities. Such other initiatives could have a material adverse effect on the City's financial condition.

California law permits citizens to effect changes to the State's Constitution and statutes, without involvement by the legislature, through the initiative process. Under this process, initiative supporters submit petitions to State election officials, who are required to submit the initiative to voters if the petitions meet statutory requirements. Many provisions of State law have been added or affected by initiatives. Some of these types of initiatives have materially adversely affected the City's ability to raise revenues or spend money.

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 claims presentation ordinances were without effect as to these actions. 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.

CERTAIN RISK FACTORS

The following risk factors should be considered, along with all other information in this Official Statement, by potential investors in evaluating the risks inherent in the purchase of the Series 2018 Bonds. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the Series 2018 Bonds. The order in which this information is presented does not necessarily reflect the relative importance of the various issues. Any one or more of the risk factors discussed below,

among others, could lead to a decrease in the market value and/or in the liquidity of the Series 2018 Bonds. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Rental Payments Not a Debt of the City

The obligation of the City to pay Base Rental does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay Rental Payments from any legally available funds of the City does not constitute an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Additional Obligations

Subject to certain City Charter restrictions, the City may incur other obligations, which may constitute additional charges against its revenues, without the consent of the Owners of the Series 2018 Bonds. To the extent that the City incurs additional obligations, the funds available to make payments of Base Rental may be decreased. The City is currently liable on other obligations payable from its general revenues. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Capital Financing and Bonds – Overlapping Debt,” “– Tax Supported Debt Service,” and “– Lease Payments and Other Long-Term Obligations.” See also APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017.”

Abatement

The obligation of the City under the Lease to make Base Rental payments is in consideration for the use and right of occupancy of the Facilities. The obligation of the City to make Base Rental payments may be abated in whole or in part if the City does not have full use and right of occupancy of the Facilities.

In the event Base Rental payments are abated, no assurances can be given that moneys on deposit in the Base Rental Fund or that the proceeds of rental interruption insurance will be sufficient to pay the debt service on the Series 2018 Bonds.

The amount of Base Rental payments due under the Lease will be abated proportionately during any period in which by reason of damage, destruction, condemnation or title defect there is substantial interference with the use and right of occupancy of the Facilities or any portion thereof. The amount of rental abatement will be that amount by which the Rental Payments exceed the fair rental value of the Facilities. Such abatement will continue for the period commencing with the date of material non-completion of a Bond Financed Facilities Component or the date of such damage or destruction of Facilities and ending with the substantial completion of a Bond Financed Facilities Component or of the work of repair or replacement of the Facilities so damaged or destroyed; and the term of the Lease will be extended by the period during which the rental is abated under the Lease, but in no event beyond June 15, 2044. The Trustee may use proceeds of rental interruption insurance to make payments with respect to the Series 2018 Bonds in the event Base Rental payments received by the Trustee are insufficient to pay principal or interest on the Series 2018 Bonds as such amounts become due; however, there can be no assurance that such proceeds will be sufficient to pay debt service on the Series 2018 Bonds.

If damage, destruction, condemnation or title defect with respect to the Facilities or any portion thereof results in abatement of Base Rental payments and the resulting Base Rental payments, together with any moneys in a Reserve Fund for Parity Bonds and available insurance proceeds, are insufficient to make all payments with respect to the Series 2018 Bonds during the period that the Facilities, or a portion thereof, are being restored, then such payments may not be made in full and no remedy is available to the Trustee or the Owners under the Lease or Trust Agreement for nonpayment under such

circumstances. Failure to pay principal of, premium, if any, or interest on, the Series 2018 Bonds as a result of abatement of the City's obligation to make Rental Payments under the Lease is not an event of default under the Trust Agreement or the Lease. See "SECURITY AND SOURCES OF PAYMENT – Insurance" and " – Maintenance and Utilities; Changes to Facilities" for additional provisions governing damage to the Facilities.

It is not possible to predict the circumstances under which an abatement of Base Rental may occur. In addition, there is no statute, case law or other law specifying how such an abatement of Base Rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the Lease or at the time of the abatement. If the latter, it may be that the value of the Facilities is substantially higher or lower than its value at the time of issuance of the Series 2018 Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Series 2018 Bonds.

Notwithstanding the provisions of the Lease and the Trust Agreement specifying the extent of abatement in the event of the City's failure to have use and possession of the Project, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rental payments of the City may not be sufficient to pay all of that portion of the remaining principal and interest with respect to the Series 2018 Bonds.

Limited Recourse on Default

The Lease and the Trust Agreement provide that, if there is a default by the City, the Trustee may take possession of and re-let the Facilities, provided that the Facilities may only be re-let for library purposes in accordance with the Charter, which might make such remedy impractical. The amounts received from such re-letting may be insufficient to pay the scheduled principal and interest on the Series 2018 Bonds when due. The enforcement of any remedies provided in the Lease and in the Trust Agreement could prove to be both expensive and time-consuming.

The Lease provides that upon the failure of the City to deposit with the Trustee any Base Rental within five calendar days after the same becomes due, or any Additional Rental within 30 calendar days after the same becomes due, or in the event that the City fails to keep, observe or perform any term, covenant, conditions or agreement contained in the Lease (and does not remedy such breach within 30 days or such additional time reasonably required to correct such default following notice thereof by the Corporation to the City), the Trustee may proceed (and, upon written request of the Owners of not less than a majority in aggregate principal amount of Series 2018 Bonds then Outstanding, shall proceed), without any further notice (i) to terminate the Lease, notwithstanding any re-entry or re-letting of the Facilities, and re-enter the Facilities and remove all persons, possessions and personal property therein; or (ii) without terminating the Lease, to collect each installment of Base Rental payments and exercise the right of entry or re-entry and re-let the Facilities, provided that any such re-letting is for library purposes in accordance with the Charter; and (iii) to enforce all of its rights and remedies under the Lease by pursuing any remedy available in law or in equity.

Courts may also be unwilling to enforce any remedies against the City that would compel the City to lease a public facility, such as the Main Library, to a private party, even if for library purposes.

In addition to the limitations on remedies contained in the Lease and the Trust Agreement, the rights and remedies provided in those documents may be limited by and are subject to provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights.

No Acceleration on Default

In the event of a default, there is no remedy of acceleration of the total Base Rental payments for the term of the Lease. The Trustee's remedy would be to either terminate the Lease and re-let the Facilities, or to retain the Lease and sue the City each year for Base Rental due in the year. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State of California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Limitations on Remedies and Bankruptcy

The rights of the Owners of the Series 2018 Bonds are subject to certain limitations on legal remedies against counties and other governmental entities in the State, including but not limited to a limitation on enforcement against funds that are otherwise needed to serve the public welfare and interest. Additionally, the rights of the Owners of the Series 2018 Bonds may be subject to (i) bankruptcy, insolvency, reorganization, moratorium, or similar laws limiting or otherwise affecting the enforcement of creditors' rights generally (as such laws are now or hereafter may be in effect), (ii) equity principles (including but not limited to concepts of materiality, reasonableness, good faith and fair dealing) and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or law, (iii) the exercise by the United States of America of the powers delegated to it by the Constitution, and (iv) the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose.

The City is authorized under California law to file for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs the bankruptcy proceedings for public agencies such as the City. Third parties, however, cannot bring involuntary bankruptcy proceedings against the City. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the rights of the Owners of the Series 2018 Bonds may be materially and adversely affected as follows: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City and could prevent the Trustee from making payments from funds in its possession; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have a priority of payment superior to that of Owners of the Series 2018 Bonds; and (iv) the possibility of the adoption of a plan (an "Adjustment Plan") for the adjustment of the City's various obligations over the objections of the Trustee or all of the Owners of the Series 2018 Bonds and without their consent, which Adjustment Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners of the Series 2018 Bonds if the bankruptcy court finds that such Adjustment Plan is "fair and equitable" and in the best interests of creditors. The City can provide no assurances about the outcome of any bankruptcy case or the nature of any Adjustment Plan if it were to file for bankruptcy.

In addition, if the Lease was determined to constitute a "true lease" by the bankruptcy court (rather than a financing lease providing for the extension of credit), the City could choose to reject the Lease despite any provision therein that makes the bankruptcy or insolvency of the City an event of default thereunder. If the City rejects the Lease, the Trustee, on behalf of the Owners of the Series 2018 Bonds, would have a pre-petition unsecured claim that may be substantially limited in amount, and this claim would be treated in a manner under an Adjustment Plan over the objections of the Trustee or Owners of the Series 2018 Bonds. Moreover, such rejection would terminate the Lease and the City's obligations to make payments thereunder. The City may also be permitted to assign the Lease to a third party, regardless of the terms of the transaction documents. In any event, the mere filing by the City for bankruptcy protection likely would have a material adverse effect on the marketability and market price of the Series 2018 Bonds.

Among other qualifications, the legal opinions to be delivered concurrently with the delivery of the Series 2018 Bonds will be qualified, as to the enforceability of the Series 2018 Bonds, the Trust Agreement, the Lease and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against joint powers authorities and counties in the State.

Substitution, Release and Addition of Leased Property

The Lease permits the release of portions of the Facilities or the substitution of other real property for all or a portion of the Facilities under specified conditions. See "SECURITY AND SOURCES OF PAYMENT – Substitution of Property" and APPENDIX C – ["SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Lease – Substitution, Release and Addition of Leased Property."] Although the Lease requires that the Substitute Facilities have an annual fair rental value upon becoming part of the Facilities equal to the maximum annual amount of the Base Rental payments and Additional Rental Payments yet unpaid under the Lease remaining due with respect to the Facilities being replaced, it does not require that such Substitute Facilities have an annual fair rental value equal to the total annual fair rental value at the time of replacement of the Facilities or portion thereof being replaced. In addition, such Substitute Facilities could be located anywhere within the City's boundaries. Therefore, release or substitution of all or a portion of the Facilities could have an adverse effect on the security for the Series 2018 Bonds.

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 four 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 or larger will occur in the San Francisco Bay Area before the year 2045. Such earthquakes may be very destructive. In addition to the potential damage to City-owned buildings and facilities (on which the City does not generally carry earthquake insurance), due to the importance of San Francisco as a tourist destination and regional hub of commercial, retail and entertainment activity, a major earthquake anywhere in the Bay Area may cause significant temporary and possibly long-term harm to the City’s economy, tax receipts, and residential and business real property values.

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

The Lease requires earthquake insurance only to the extent it is obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies (see “SECURITY AND SOURCES OF PAYMENT – Insurance”). [The City does not currently anticipate obtaining earthquake insurance for the Facilities.] In addition, in the event any Facilities were damaged or destroyed in an earthquake, the rental interruption insurance would not provide coverage for any abatement of Base Rental. Accordingly, the risk that the Facilities may be damaged or destroyed by an earthquake and that Base Rental payments would consequently be abated in whole or in part should be considered. Further, an earthquake could have a material adverse impact on the finances of the City, which in turn could impair the ability of the City to make Base Rental payments under the Lease.

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.

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 forecast 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.

The Lease does not require flood insurance for the Facilities, and [the City does not currently anticipate obtaining flood insurance for the Facilities.] In the event any Facilities were damaged or destroyed in a flooding event, the rental interruption insurance would not provide coverage for any abatement of Base Rental. Accordingly, the risk that the Facilities may be damaged or destroyed by a flooding event and that Base Rental payments would consequently be abated in whole or in part should be considered.

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. Therefore, the attack did not interrupt Muni train services nor did it compromise customer privacy or transaction information. The SFMTA, however, 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 will be 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.

Risk Management and Insurance

The Lease obligates the City to maintain and keep in force various forms of insurance, subject to deductibles, on the Facilities for repair or replacement in the event of damage or destruction to the Facilities. The City is also required to maintain rental interruption insurance in an amount at least equal to 24 months of Base Rental payments. The Lease allows the City to insure against any or all risks, except rental interruption and title defects, through an alternative risk management program such as self-insurance. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Lease and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest on the Series 2018 Bonds when due.

The City employs a full-time Risk Manager, as well as safety and loss control professionals, for the prevention and mitigation of property, liability and employee claims for injury or damage. For information concerning the self-insurance and risk management programs of the City, see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Litigation and Risk Management."

State Law Limitations on Appropriations

Article XIII B of the California Constitution limits the amount that local governments can appropriate annually. The ability of the City to make Base Rental payments may be affected if the City should exceed its appropriations limit. The State may increase the appropriation limit of counties in the State by decreasing the State's own appropriation limit. The City does not anticipate exceeding its appropriations limit in the foreseeable future. See "CONSTITUTIONAL AND STATUTORY TAX LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS – Article XIII B of the California Constitution."

Change in Law

The City cannot provide any assurance that the State Legislature or the City's Board of Supervisors will not enact legislation that will result in a reduction of the City's General Fund revenues and therefore a reduction of the funds legally available to the City to make Base Rental payments. See, for example, APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Articles XIII C and XIII D of the California Constitution" herein.

The security for payment of the principal and interest evidenced and represented by the Certificates also may be adversely affected by actions taken (or not taken) by voters. Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. Under the City's Charter, the voters of the City can restrict or revise the powers of the City through the approval of a Charter amendment. The City is unable to predict whether any such initiatives might be submitted to or approved by the voters, the nature of such initiatives, or their potential impact on the City.

State of California Financial Condition

The City receives a significant portion of its funding from the State. Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the City. The City cannot predict the extent of the budgetary problems the State may encounter in this or in any future fiscal years, nor is it clear what measures could be taken by the State to balance its budget, as required by law. In addition, the City cannot predict the outcome of any elections impacting fiscal matters, the outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors over which the City has no control. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET – Impact of the State of California Budget on Local Finances.”

Federal Funding

The City receives substantial federal funds for assistance payments, social service programs and other programs. A portion of the City’s assets are also invested in securities of the United States government. The City’s finances may be adversely impacted by fiscal matters at the federal level, including but not limited to cuts to federal spending. Changes to or termination or replacement of the Affordable Care Act, for example, could increase costs to the City, and the City’s financial condition may also be impacted by the withholding of federal grants or other funds flowing to “sanctuary jurisdictions.” The City cannot predict the outcome of future federal administrative actions, legislation or budget deliberations. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET – Impact of Federal Government on Local Finances.”

Other Events

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

THE CITY

For information about the City, see APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES.” The City is not obligated to make Rental Payments from the General Fund. Certain financial information with respect to the City is presented for informational purposes only in APPENDIX B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2017.” The information in these appendices has been supplied by the City.

The Series 2018 Bonds are payable solely from Base Rental payments made by the City pursuant to the Lease and certain other amounts held in certain funds or accounts established pursuant to the Trust Agreement, subject to the provisions of the Trust Agreement permitting the application of such amounts for the purposes and on the terms and conditions set forth therein.

NEITHER THE SERIES 2018 BONDS NOR THE OBLIGATION OF THE CITY TO MAKE RENTAL PAYMENTS UNDER THE LEASE CONSTITUTES A DEBT OR GENERAL OBLIGATION OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

THE CORPORATION

The Corporation is a nonprofit public benefit corporation duly organized and validly existing under the Nonprofit Public Benefit Corporation Law (Section 5110 et seq. of the California Corporations Code). The Corporation was formed in 1991 by the Chief Administrative Officer of the City pursuant to a resolution of the Board of Supervisors of the City. The purpose of the Corporation is to provide a means to finance, through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes. The Corporation cannot issue obligations or enter into leases without the City's consent and participation.

The Corporation is governed by a three-member Board of Directors. The initial Board of Directors was appointed by the Chief Administrative Officer of the City. Successive members of the Board of Directors are appointed by the existing Board of Directors to indefinite terms and serve without compensation. The Corporation has no employees. Pursuant to an Administrative Services Agreement dated May 23, 1997, between the City and the Corporation, the City provides administrative services to the Corporation.

Name

Date of Appointment

Outstanding Debt

In addition to the Series 2018 Bonds, the Corporation has issued other bonds secured by separate leases with the City. Additional bonds secured by separate leases with the City may be issued by the Corporation from time to time. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – Overlapping Debt” and “– Lease Payments and Other Long-Term Obligations.” No amount received by or on behalf of the Corporation with respect to any other bonds issued by the Corporation is available to secure payment of the Bonds.

Limited Obligation

THE SERIES 2018 BONDS ARE LIMITED OBLIGATIONS OF THE CORPORATION PAYABLE SOLELY FROM BASE RENTAL PAYMENTS MADE BY THE CITY TO THE CORPORATION PURSUANT TO THE LEASE AND ANY OTHER AMOUNTS HELD IN CERTAIN FUNDS AND ACCOUNTS ESTABLISHED PURSUANT TO THE TRUST AGREEMENT, SUBJECT TO THE PROVISIONS OF THE TRUST AGREEMENT PERMITTING THE APPLICATION OF SUCH AMOUNTS FOR THE PURPOSES AND ON THE TERMS AND CONDITIONS SET FORTH IN THE TRUST AGREEMENT. THE PRINCIPAL OR REDEMPTION PRICE OF, AND INTEREST ON, THE SERIES 2018 BONDS WILL BE PAYABLE ONLY FROM THE FUNDS DESCRIBED IN THE TRUST AGREEMENT AND NEITHER THE CORPORATION NOR ANY MEMBER OF ITS BOARD OF DIRECTORS WILL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION IN RESPECT OF THE ISSUANCE OF THE SERIES 2018 BONDS. THE OBLIGATION OF THE CITY TO MAKE RENTAL

PAYMENTS UNDER THE LEASE DOES NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OR ANY STATUTORY DEBT LIMITATION OR RESTRICTION.

TAX MATTERS

In the opinion of Squire Patton Boggs (US) LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel, under existing law: (i) interest on the Series 2018 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax; however, interest on the Series 2018 Bonds is included in the calculation of a corporation's adjusted current earnings for purposes of, and thus may be subject to, the corporate alternative minimum tax (applicable only to taxable years beginning before January 1, 2018); and (ii) interest on the Series 2018 Bonds is exempt from State of California personal income taxes. Co-Bond Counsel express no opinion as to any other tax consequences regarding the Series 2018 Bonds.

The opinion on federal tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the City and the Corporation contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Series 2018 Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Co-Bond Counsel will not independently verify the accuracy of the City's and the Corporation's certifications and representations or the continuing compliance with the City's and the Corporation's covenants.

The opinion of Co-Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Co-Bond Counsel's legal judgment as to exclusion of interest on the Series 2018 Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Co-Bond Counsel express no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the City or the Corporation may cause loss of such status and result in the interest on the Series 2018 Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2018 Bonds. The City and the Corporation have each covenanted to take the actions required of it for the interest on the Series 2018 Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Series 2018 Bonds, Co-Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Co-Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2018 Bonds or the market value of the Series 2018 Bonds.

Interest on the Series 2018 Bonds is included in the calculation of a corporation's adjusted current earnings for purposes of, and thus may be subject to, the federal corporate alternative minimum tax (applicable only to taxable years beginning before January 1, 2018). In addition, interest on the Series 2018 Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations. Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals

otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Series 2018 Bonds. Co-Bond Counsel will express no opinion regarding those consequences.

Payments of interest on tax-exempt obligations, including the Series 2018 Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Series 2018 Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Co-Bond Counsel's engagement with respect to the Series 2018 Bonds ends with the issuance of the Series 2018 Bonds, and, unless separately engaged, Co-Bond Counsel are not obligated to defend the City or the Corporation, or the owners of the Series 2018 Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2018 Bonds, under current IRS procedures, the IRS will treat the City and the Corporation as the taxpayer and the beneficial owners of the Series 2018 Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Series 2018 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Series 2018 Bonds.

Prospective purchasers of the Series 2018 Bonds upon their original issuance at prices other than the respective prices indicated on the inside cover of this Official Statement, and prospective purchasers of the Series 2018 Bonds at other than their original issuance, should consult their own tax advisors regarding other tax considerations such as the consequences of market discount, as to all of which Co-Bond Counsel express no opinion.

Risk of Future Legislative Changes and/or Court Decisions

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State legislature. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Series 2018 Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Series 2018 Bonds will not have an adverse effect on the tax status of interest on the Series 2018 Bonds or the market value or marketability of the Series 2018 Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), or repeal (or reduction in the benefit) of the exclusion of interest on the Series 2018 Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

For example, the recent federal tax legislation that was enacted on December 22, 2017 reduces corporate tax rates, modifies individual tax rates, eliminates many deductions, repeals the corporate alternative minimum tax (for taxable years beginning after December 31, 2017) and eliminates tax-exempt advance refunding bonds, among other things. Additionally, investors in the Series 2018 Bonds should be aware that future legislative actions may increase, reduce or otherwise change (including retroactively) the financial benefits and the treatment of all or a portion of the interest on the Series 2018 Bonds for federal income tax purposes for all or certain taxpayers. In all such events, the market value of the Series 2018 Bonds may be affected and the ability of holders to sell their Bonds in the secondary market may be reduced. The Series 2018 Bonds are not subject to special mandatory redemption, and the interest rates on the Series 2018 Bonds are not subject to adjustment, in the event of any such change in the tax treatment of interest on the Series 2018 Bonds.

Investors should consult their own financial and tax advisors to analyze the importance of these risks.

Original Issue Discount and Original Issue Premium

Certain of the Series 2018 Bonds (“Discount Series 2018 Bonds”) may be offered and sold to the public at an original issue discount (“OID”). OID is the excess of the stated redemption price at maturity (the principal amount) over the “issue price” of a Discount Series 2018 Bond. The issue price of a Discount Series 2018 Bond is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of the Discount Series 2018 Bonds of the same maturity is sold pursuant to that offering. For federal income tax purposes, OID accrues to the owner of a Discount Series 2018 Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Series 2018 Bond (i) is interest excluded from the owner’s gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Series 2018 Bonds, and (ii) is added to the owner’s tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Series 2018 Bond. The amount of OID that accrues each year to a corporate owner of a Discount Series 2018 Bond is included in the calculation of the corporation’s adjusted current earnings for purposes of, and thus may be subject to, the federal corporate alternative minimum tax (applicable only to taxable years beginning before January 1, 2018). A purchaser of a Discount Series 2018 Bond in the initial public offering at the issue price (described above) for that Discount Series 2018 Bond who holds that Discount Series 2018 Bond to maturity will realize no gain or loss upon the retirement of that Discount Series 2018 Bond.

Certain of the Series 2018 Bonds (“Premium Series 2018 Bonds”) may be offered and sold to the public at a price in excess of their stated redemption price at maturity (the principal amount). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Series 2018 Bond, based on the yield to maturity of that Premium Series 2018 Bond (or, in the case of a Premium Series 2018 Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Series 2018 Bond), compounded semiannually. No portion of that bond premium is deductible by the owner of a Premium Series 2018 Bond. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Series 2018 Bond, the owner’s tax basis in the Premium Series 2018 Bond is reduced by the amount of bond premium that is amortized during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Series 2018 Bond for an amount equal to or less than the amount paid by the owner for that Premium Series 2018 Bond. A purchaser of a Premium Series 2018 Bond in the initial public offering who holds that Premium Series 2018 Bond to maturity (or, in the case of a callable Premium Series 2018 Bond, to its earlier call date that results in the lowest yield on that Premium Series 2018 Bond) will realize no gain or loss upon the retirement of that Premium Series 2018 Bond.

Owners of Discount and Premium Series 2018 Bonds should consult their own tax advisors as to the determination for federal income tax purposes of the existence of OID or bond premium, the determination for federal income tax purposes of the amount of OID or bond premium properly accruable or amortizable in any period with respect to the Discount or Premium Series 2018 Bonds, other federal tax consequences in respect of OID and bond premium, and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

OTHER LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Series 2018 Bonds and with regard to the tax status of the interest on the Bonds (see “TAX MATTERS” herein) are subject to the separate legal opinions of Squire Patton Boggs (US) LLP, San Francisco, California and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel. 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 Series 2018

Bonds, will be delivered to the initial purchaser of the Series 2018 Bonds at the time of original delivery of the Series 2018 Bonds.

The proposed form of the legal opinions of Co-Bond Counsel is set forth in APPENDIX F hereto. The text of the legal opinions to be delivered may vary if necessary to reflect facts and law on the date of delivery. The opinions will speak only as of their date, and subsequent distributions of the opinions by recirculation of this Official Statement or otherwise will create no implication that Co-Bond Counsel have reviewed or expresses any opinion concerning any of the matters referred to in the opinions subsequent to their date. In rendering their separate 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 undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

Certain legal matters will be passed upon for the Corporation by Dannis Woliver Kelley, San Diego, California. 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 Series 2018 Bonds, Disclosure Counsel will deliver a letter to the City and the Corporation which advises the City and the Corporation, subject to the assumptions, exclusions, qualifications and limitations set forth therein, that no facts came to attention of such firm which caused them to believe that this Official Statement as of its date and as of the date of delivery of the Series 2018 Bonds contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. No purchaser or holder of the Series 2018 Bonds, or other person or party other than the City and the Corporation, will be entitled to or may rely on such letter or Hawkins Delafield & Wood LLP's having acted in the role of disclosure counsel to the City.

PROFESSIONALS INVOLVED IN THE OFFERING

Backstrom McCarley Berry & Co., LLC, San Francisco, California and Kitahata & Company, San Francisco, California have served as Co-Municipal Advisors to the City with respect to the sale of the Series 2018 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 Series 2018 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 and Disclosure Counsel will all receive compensation from the City for services rendered in connection with the Series 2018 Bonds contingent upon the sale and delivery of the Series 2018 Bonds.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders and beneficial owners of the Series 2018 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 2017-18, which is due not later than March 27, 2019, 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 Series 2018 Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The ratings on certain obligations of the City were upgraded by Fitch Ratings on March 28, 2013. Under certain continuing disclosure undertakings of the City, the City was required to file a notice of such upgrade with the Electronic Municipal Market Access system of the MSRB by April 11, 2013. The City filed such notice on May 17, 2013.

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

NO LITIGATION

The opinions of the Counsel to the Corporation, which will be addressed solely to the City and the Corporation, will be furnished to the initial purchaser at the time of the original delivery of the Series 2018 Bonds.

Corporation

No litigation is pending with service of process having been accomplished or, to the knowledge of the Counsel to the Corporation, threatened, concerning the validity of the Series 2018 Bonds, the Trust Agreement, the Lease, the Facilities Lease or the Assignment Agreement, or the entitlement to their respective offices of the officers of the City who will execute and deliver the Series 2018 Bonds and other documents and certificates in connection therewith.

City

No litigation is pending or threatened concerning the validity of the Series 2018 Bonds, the Lease, the Facilities Lease, the corporate existence of the City, or the entitlement to their respective offices of the officers of the City who will execute and deliver other documents and certificates in connection with the Series 2018 Bonds.

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 Series 2018 Bonds. Certain information not included in this Official Statement was supplied by the City to the rating agencies to be considered in evaluating the Series 2018 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.moody.com; S&P, at www.spratings.com; and Fitch, at www.fitchratings.com. The information presented on the website of each rating agency is not incorporated by reference as part of this Official Statement. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. No assurance can be given that any rating issued by a rating agency will be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price or marketability of the Series 2018 Bonds. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

SALE OF SERIES 2018 BONDS

The Series 2018 Bonds are scheduled to be sold at competitive bid on May ____, 2018, as provided in the Official Notice of Sale, dated May ____, 2018 (the "Official Notice of Sale"). The Official Notice of Sale provides that all Series 2018 Bonds would be purchased if any were purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Official Notice of Sale, the approval of certain legal matters by Co-Bond Counsel and certain other conditions. The Purchaser will represent to the City that the Series 2018 Bonds have been reoffered to the public at the price or yield to be stated on the inside cover page hereof.

MISCELLANEOUS

References made herein to certain documents and reports are brief summaries thereof that do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof.

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 among the City, the Corporation and the purchasers or Owners of any of the Series 2018 Bonds. The preparation and distribution of this Official Statement have been authorized by the City and the Corporation.

The execution and delivery of this Official Statement has been authorized by the Corporation and the City.

CITY AND COUNTY OF SAN FRANCISCO
FINANCE CORPORATION

By: _____
President

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Benjamin Rosenfield
Controller

CONTINUING DISCLOSURE CERTIFICATE

**§[Par Amount]
CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION
REFUNDING LEASE REVENUE BONDS, SERIES 2018[B]
(BRANCH LIBRARY IMPROVEMENT PROGRAM)**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of San Francisco (the "City") on behalf of the City and County of San Francisco Finance Corporation (the "Corporation") in connection with the issuance of the bonds captioned above (the "Series 2018 Bonds"). The Series 2018 Bonds are issued pursuant to a Master Trust Agreement, dated as of March 1, 2009 (the "Master Trust Agreement"), as amended by the First Supplemental Trust Agreement, dated as of June 1, 2018 (the "First Supplemental Trust Agreement," and together with the Master Trust Agreement, the "Trust Agreement"), each by and between the Corporation and U.S. Bank National Association, as trustee (the "Trustee"), and the Charter of the City. 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 Series 2018 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 Series 2018 Bonds (including persons holding Series 2018 Bonds through nominees, depositories or other intermediaries) including, but not limited to, the power to vote or consent with respect to any Series 2018 Bonds or to dispose of ownership of any Series 2018 Bonds; or (b) is treated as the owner of any Series 2018 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 Series 2018 Bonds, or, if the Series 2018 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 Series 2018 Bonds required to comply with the Rule in connection with offering of the Series 2018 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: *[Under review.]*

(a) The audited general purpose financial statements of the City prepared in accordance with generally accepted accounting principles applicable to governmental entities;

- (b) Summaries of the following for the prior fiscal year:
1. budgeted general fund revenues and appropriations;
 2. assessed valuation of taxable property in the City;
 3. *ad valorem* property tax levy and delinquency rate;
 4. schedule of aggregate annual debt service on tax supported indebtedness of the City; and
 5. 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 Listed Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events numbered 1-9 with respect to the Series 2018 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 Series 2018 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 Series 2018 Bonds or other material events affecting the tax status of the Series 2018 Bonds;
11. Modifications to rights of Series 2018 Bond Holders;
12. Unscheduled or contingent Series 2018 Bond calls;
13. Release, substitution, or sale of property securing repayment of the Series 2018 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 Series 2018 Bonds pursuant to the Trust Agreement.

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 Series 2018 Bonds. If such termination occurs prior to the final maturity of the Series 2018 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 Series 2018 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 Series 2018 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 Series 2018 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 Series 2018 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 Corporation, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Series 2018 Bonds, and shall create no rights in any other person or entity.

Date: June __, 2018.

CITY AND COUNTY OF SAN FRANCISCO

Benjamin Rosenfield
Controller

Approved as to form:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A

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

Name of City: CITY AND COUNTY OF SAN FRANCISCO
Name of Bond Issue: CITY AND COUNTY OF SAN FRANCISCO FINANCE CORPORATION
REFUNDING LEASE REVENUE BONDS, SERIES 2018[A]
(OPEN SPACE FUND – VARIOUS PARK PROJECTS)
Date of Issuance: June __, 2018

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 Series 2018 Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated June __, 2018. 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 A

CITY AND COUNTY OF SAN FRANCISCO
ORGANIZATION AND FINANCES

This Appendix contains information that is current as of March 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 other tax and 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. 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 Mark E. Farrell is the 44th Mayor of San Francisco. The Mayor has responsibility for general administration and oversight of all departments in the executive branch of the City. On January 23, then-Supervisor Farrell was voted in as Mayor by his colleagues on the Board of Supervisors, filling the seat of the late Mayor Edwin M. Lee. Mayor Farrell spent seven years on the Board of Supervisors, serving as the Chair of both the Land Use and Transportation Committee, and the Budget and Finance Committee, where he was the City’s longest-serving Chair. Prior to joining the Board of Supervisors, Mayor Farrell was a small business owner in the finance sector. Mayor Farrell was born and raised in San Francisco.

2018 Mayoral Election

On June 5, 2018, there will be a special election to elect a new mayor to fulfill the remaining term of the late Mayor Lee who was succeeded by the appointment by the Board of Mayor Mark E. Farrell. After the election results are determined, the Board of Supervisors will convene and act to declare the election results prior to the inauguration of the new mayor. The newly elected Mayor will serve until January 2020.

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>	2017	2021
Catherine Stefani, <i>District 2</i>	2018	2019
Aaron Peskin, <i>District 3</i>	2017	2021
Katy Tang, <i>District 4</i>	2013	2019
London Breed, Board President, <i>District 5</i>	2017	2021
Jane Kim, <i>District 6</i>	2010	2019
Norman Yee, <i>District 7</i>	2017	2021
Jeff Sheehy, <i>District 8</i>	2017	2021
Hillary Rohen, <i>District 9</i>	2017	2021
Malia Cohen, <i>District 10</i>	2010	2019
Ahsha Safai, <i>District 11</i>	2017	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 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 Newsom in September 2007.

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

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

Naomi M. Kelly was appointed to a five-year term as City Administrator by the late Mayor Lee on February 7, 2012 and re-appointed for a second five-year term on February 8, 2017. The City Administrator has overall responsibility for the management and implementation of policies, rules and regulations promulgated by the Mayor, the Board of Supervisors and the voters. In January 2012, Mrs. Kelly became Acting City Administrator. From January 2011, she served as Deputy City Administrator where she was responsible for the Office of Contract Administration, Purchasing, Fleet Management and Central Shops. Mrs. Kelly led the effort to successfully roll out the City's new Local Hire program last year by streamlining rules and regulations, eliminating duplication and creating administrative efficiencies. In 2004, Mrs. Kelly served as the City Purchaser and Director of the Office of Contract Administration. Mrs. Kelly has also served as Special Assistant in the Mayor's Office of Neighborhood Services, in the Mayor's Office of Policy and Legislative Affairs and served as the City's Executive Director of the Taxicab Commission.

CITY BUDGET

Overview

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

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, through its annual budget. In July 2017, the City adopted a full two-year budget. The City's fiscal year 2017-18 adopted budget appropriates annual revenues, fund balance, transfers and reserves of approximately \$10.12 billion, of which the City's General Fund accounts for approximately \$5.15 billion. In fiscal year 2018-19 appropriated revenues, fund balance, transfers and reserves total approximately \$10.00 billion, of which \$5.31 billion represents General Fund budget. For a further discussion of the fiscal years 2017-18 and 2018-19 adopted budgets, see "City Budget Adopted for Fiscal Years 2017-18 and 2018-19" herein.

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

Budget Process

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

Under the Charter, following the submission of the Mayor's proposed budget, the City Controller must provide an opinion to the Board of Supervisors regarding the accuracy of economic assumptions underlying the revenue estimates and the reasonableness of such estimates and revisions in the proposed budget (the City Controller's "Revenue Letter"). The City Controller may also recommend reserves that are considered prudent given the proposed resources and expenditures contained in the Mayor's proposed budget. The City Controller's current Revenue Letter can be viewed online at www.sfcontroller.org. The Revenue Letter and other information from 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.

November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle

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

Proposition A requires four significant changes:

1. Specifies a two-year (biennial) budget, replacing the annual budget. Fixed two-year budgets are currently 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. Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The most recent five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the Mayor, Budget Analyst for the Board of Supervisors and Controller's Office on December 16, 2016, for fiscal year 2017-18 through fiscal year 2021-22, to be considered by the Board of Supervisors. See "Five Year Financial Plan" below. This plan was most recently updated on March 23, 2017.
3. Charges the Controller's Office with proposing to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt and financial measures in the case of disaster recovery and requires the City to adopt budgets consistent with these policies once

approved. The Controller's Office may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent fiscal year.

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

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

Role of Controller; Budgetary Analysis and Projections

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

In addition to the five year planning responsibilities established in Proposition A of November 2009 and discussed above, Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued the most recent of these reports, the fiscal year 2017-18 Six Month Report (the "Six Month Report"), on February 14, 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 9, 2017 the Controller released the Discussion of the Mayor's fiscal year 2017-18 and fiscal year 2018-19 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. The information from said website is not incorporated herein by reference.

General Fund Results: Audited Financial Statements

The General Fund portions of the fiscal years 2017-18 and 2018-19 Original Budgets total \$5.15 billion and \$5.31 billion, respectively. This does 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 2014-15 through 2016-17 and the Original Budgets for fiscal years 2017-18 and 2018-19. 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 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.

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TABLE A-2

CITY AND COUNTY OF SAN FRANCISCO
 Budgeted General Fund Revenues and Appropriations for
 Fiscal Years 2014-15 through 2018-19
 (000s)

	2014-15 Final Revised Budget	2015-16 Final Revised Budget	2016-17 Final Revised Budget	2017-18 Original Budget ²	2018-19 Original Budget ³
Prior-Year Budgetary Fund Balance & Reserves	\$941,702	\$1,236,090	\$178,109	\$187,182	\$289,258
<u>Budgeted Revenues</u>					
Property Taxes	\$1,232,927	\$1,291,000	\$1,412,000	\$1,557,000	\$1,620,000
Business Taxes	572,385	634,460	669,450	750,820	762,500
Other Local Taxes	910,430	1,062,535	1,117,245	1,112,570	1,098,110
Licenses, Permits and Franchises	27,129	27,163	28,876	29,964	30,367
Fines, Forfeitures and Penalties	4,242	4,550	4,580	4,579	4,579
Interest and Investment Earnings	6,853	10,680	13,970	18,180	18,390
Rents and Concessions	22,692	15,432	16,140	14,088	14,984
Grants and Subventions	856,336	900,997	959,099	1,019,167	1,024,209
Charges for Services	210,020	219,628	236,102	242,817	241,536
Other	21,532	31,084	61,334	39,959	40,634
Total Budgeted Revenues	\$3,864,545	\$4,197,529	\$4,518,796	\$4,789,144	\$4,855,309
Bond Proceeds & Repayment of Loans	\$1,026	\$918	\$881	\$110	\$87
<u>Expenditure Appropriations</u>					
Public Protection	\$1,158,771	\$1,211,007	\$1,266,148	\$1,331,196	\$1,366,723
Public Works, Transportation & Commerce	89,270	138,288	166,295	170,949	156,079
Human Welfare & Neighborhood Development	828,555	892,069	978,126	995,230	1,017,189
Community Health	703,569	751,416	763,496	884,393	875,974
Culture and Recreation	119,051	125,253	139,473	162,622	163,576
General Administration & Finance	214,958	235,647	252,998	358,588	366,421
General City Responsibilities ¹	116,322	113,672	134,153	152,390	206,528
Total Expenditure Appropriations	\$3,230,496	\$3,467,352	\$3,700,689	\$4,055,368	\$4,152,490
Budgetary reserves and designations, net	\$39,966	\$9,907	\$9,868	\$58,730	\$57,000
Transfers In	\$199,175	\$235,416	\$246,779	\$171,122	\$168,277
Transfers Out	(873,592)	(962,511)	(857,528)	(1,033,460)	(1,103,441)
Net Transfers In/Out	(\$674,417)	(\$727,095)	(\$610,749)	(\$862,338)	(\$935,164)
Budgeted Excess (Deficiency) of Sources Over (Under) Uses	\$862,394	\$1,230,182	\$376,480	\$0	\$1
Variance of Actual vs. Budget	373,696	296,673	249,475		
Total Actual Budgetary Fund Balance ³	\$1,236,090	\$1,526,855	\$625,955	\$0	\$1

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

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

³ 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
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.

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 2016-17¹
(000s)

	2012-13	2013-14	2014-15	2015-16	2016-17
Revenues:					
Property Taxes	\$1,122,008	\$1,178,277	\$1,272,623	\$1,393,574	\$1,478,671
Business Taxes ²	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
Total Revenues	\$3,327,036	\$3,747,361	\$4,112,644	\$4,356,916	\$4,636,787
Expenditures:					
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
Total Expenditures	\$2,794,692	\$2,954,898	\$3,099,553	\$3,324,512	\$3,479,654
Excess of Revenues over Expenditures	\$532,344	\$792,463	\$1,013,091	\$1,032,404	\$1,157,133
Other Financing Sources (Uses):					
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	-	-	-	-	-
Total Other Financing Sources (Uses)	(\$447,198)	(\$497,772)	(\$703,457)	(\$748,438)	(\$715,592)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$85,146	\$294,691	\$309,634	\$283,966	\$441,541
Total Fund Balance at Beginning of Year	\$455,725	\$540,871	\$835,562	\$1,145,196	\$1,429,162
Total Fund Balance at End of Year -- GAAP Basis³	\$540,871	\$835,562	\$1,145,196	\$1,429,162	\$1,870,703
Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End					
-- GAAP Basis	\$135,795	\$178,066	\$234,273	\$249,238	\$273,827
-- Budget Basis	\$240,410	\$294,669	\$390,830	\$435,202	\$545,920

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

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

³ Total fiscal year 2012-13 amount is comprised of \$122.7 million in assigned balance subsequently appropriated for use in fiscal year 2013-14 plus \$117.8 million unassigned balance available for future appropriations.

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

Five-Year Financial Plan

The Five-Year Financial Plan ("Plan") is required under Proposition A, a Charter amendment approved by voters in November 2009. The Charter requires the 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 updates the Plan annually. The most recently adopted Plan, for fiscal years 2017-18 through 2021-22, was adopted by the Board of Supervisors and signed by the Mayor on May 5, 2017.

On December 21, 2017 (the "December 2017 Update"), the Mayor, Budget Analyst for the Board of Supervisors and the Controller's Office issued an update for the remaining four years of the City's Five Year Financial Plan for fiscal year 2018-19 through fiscal year 2021-22. The Plan projects shortfalls of \$88.2 million, \$173.4 million, \$561.2 million, and \$709.3 million cumulatively for fiscal years 2018-19 through 2021-22, respectively. This projection will be updated in March 2018.

The updated Plan projects growth over a four-year period in General Fund revenues of 8.5%, primarily composed of growth in local tax sources, offset by projected expenditure increases of 22.3% 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 \$436.8 million over the Plan period, and expenditure growth of \$1.14 billion. Growth in salaries and benefits account for 49% or \$559.0 million of the cumulative four year shortfall. Growth in citywide operating costs account for 25% or \$282 million of the cumulative four year shortfall. Growth in Charter mandated baselines and reserves account for 16% or \$180.3 million of the cumulative four year shortfall. Growth in individual department costs account for 11% or \$124.9 million of the cumulative four year shortfall. These figures incorporate the key assumptions from the December 2017 update, including:

- **Continued Increases in Employer Contribution Rates to City Retirement System:** Consistent with the May 2017 proposed Plan, the December 2017 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 December 2017 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 December 2017 Update assumes that the 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 Update also assumes retiree health costs will increase by 9% in each year of projection.

- **Voter Adopted Revenue and Spending Requirements:** Consistent with the May 2017 proposed Plan, the December 2017 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).
- **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 budget, assumed significant 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 December 2017 Update adds an additional cost of \$8.8 million in fiscal year 2017-18, bringing the total cost growth in that year to \$19.9 million above prior projections. The cost shift continues to grow in fiscal year 2018-19 to \$36.5 million, \$57.1 million in fiscal year 2019-20, \$ 69.9 million in fiscal year 2020-21, and \$79.6 million in fiscal year 2021-22.

Importantly, the December 2017 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 updated Plan reflect the difference in projected revenues and expenditures over the next five years if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and/or additional revenues. These projections assume no ongoing solutions are implemented. To the extent budgets are balanced with ongoing solutions, future shortfalls will decrease.

The December 2017 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 expansion, and the current economic expansion began over eight years ago. For this reason, the December 2017 update includes a recession scenario, which reflects a revenue shortfall of \$822 million during the forecast period, based on the average rates of revenue declines experienced in major tax revenue sources during the previous two recessions.

Based on the revenue and expenditure projections contained in the December 2017 Update, on December 4, 2017, the Mayor's Office issued budget instructions to departments requiring expenditure reductions of 2.5% in fiscal year 2018-19 and an additional reduction of 2.5% in fiscal year 2019-20.

City Budget Adopted for Fiscal Years 2017-18 and 2018-19

On July 26, 2017, the late Mayor Lee signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for the fiscal years ending June 30, 2018 and June 30, 2019. This is the sixth two-year budget for the entire City. The adopted budget closed the \$119 million and \$283 million General

Fund shortfalls for fiscal year 2017-18 and fiscal year 2018-19 identified in the City's December 2016 Plan update through a combination of increased revenues and expenditures savings.

The Original Budget for fiscal year 2017-18 and fiscal year 2018-19 totals \$10.12 billion and \$10.00 billion respectively, representing a year over year increase of \$532 million in fiscal year 2017-18 and year over year decrease of \$117 million in fiscal year 2018-19. The General Fund portion of each year's budget is \$5.15 billion in fiscal year 2017-18 and \$5.31 billion in fiscal year 2018-19 representing year over year increases of \$83 million and \$138 million. There are 30,835 funded full time positions in the fiscal year 2017-18 Original Budget and 30,938 in the fiscal year 2018-19 Original Budget representing year-over-year increases of 208 and 103 positions, respectively.

Other Budget Updates

On June 9 2017, the Controller's Office issued the Controller's Discussion of the Mayor's fiscal year 2017-18 and fiscal year 2018-19 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 2017-18 and 2018-19 adheres to the City's policy limiting the use of certain nonrecurring revenues to nonrecurring expenses proposed by the Controller's Office and approved unanimously by the Board of Supervisors on November 22, 2011. The policy was approved by the Mayor on December 1, 2011 and can only be suspended for a given fiscal year by a two-thirds vote of the Board. Specifically, this policy limited the Mayor and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance (defined as General Fund prior year unassigned fund balance before deposits to the Rainy Day Reserve or Budget Stabilization Reserve in excess of the average of the previous five years), the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves, acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long term obligations.

Impact of the State of California Budget on Local Finances

Revenues from the State represent approximately 15% of the General Fund revenues appropriated in the budget for fiscal years 2017-18 and 2018-19, and thus changes in State revenues could have a significant impact on the City's finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor's Proposed Budget required to be submitted in January; and 2) the "May Revise" to the Governor's Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget. City policy makers review and estimate the impact of both the Governor's Proposed and May Revise Budgets prior to the City adopting its own budget.

On June 27, 2017, the Governor signed the 2017-18 State Budget, appropriating \$183.3 billion from the General Fund and other State funds. General Fund appropriations total \$125.1 billion, \$3.7 billion or 3% more than the 2016-17 budget. The budget agreement focuses on maintaining fiscal prudence by adding mostly one-time expenditures, paying down past budgetary borrowing and state employee pension

liabilities, and contributing to stabilization reserves. The budget increases funding to K-14 schools and community colleges by adding \$3.1 billion above fiscal year 2016-17 funding levels, including \$1.4 billion through the Local Control Funding Formula. The budget expands the State's Earned Income Tax Credit (EITC) to include a wider income range, as well as self-employed individuals. It also implements the Road Repair and Accountability Act of 2017 (SB1) providing \$54 billion of new transportation infrastructure funding over the next 10 years.

The final fiscal year 2017-18 budget re-bases the In-Home Supportive Services Maintenance-of-Effort "IHSS MOE" agreement negotiated in 2012, as proposed in the Governor's January budget, but provides \$400 million of General Fund support to partially mitigate the increase to counties' costs in fiscal year 2017-18, \$330 million in 2018-19, \$200 million in 2019-20, and \$150 million annually thereafter. The City's fiscal year 2017-18 budget assumes a cost of \$11.1 million to support the IHSS program, partially offset by health and welfare realignment subventions. As more detail has been released, the City and County's projected cost has grown by an additional \$8.8 million in fiscal year 2017-18, bringing the total cost growth to \$19.9 million. On January 10, 2018, the Governor released the State's proposed fiscal year 2018-19 budget. The budget contains no changes to the fundamental structure of the re-based IHSS MOE. The exact impact of the new IHSS funding structure on San Francisco is still uncertain, as the funding structure and formulas are still being developed.

In addition, San Francisco's fiscal year 2017-18 budget assumes \$8.6 million of new street-related capital funding through the Road Repair and Accountability Act of 2017 (SB1). This amount is expected to annualize to approximately \$23 million in fiscal year 2018-19.

Impact of Federal Government on Local Finances

The City is continuing to assess the potential material adverse changes in current and anticipated federal funding under the current presidential administration and Congress. 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" and 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, and the case is currently on appeal at the Ninth Circuit. The fiscal year 2016-17 Original Budget includes about \$1.2 billion in federal payments, of which about \$1 billion is for entitlement programs mostly administered by the City's Human Services Agency and Department of Public Health. The City also receives about \$800 million in multi-year federal grants. 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, or whether the budget will include a reserve against anticipated loss of federal funding.

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; and (3) reduction in the mortgage interest tax deduction.

Budgetary Reserves

Under the Charter, the Treasurer, upon recommendation of the City Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any unencumbered funds then held in

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

The financial policies passed on April 13, 2010 codified the current practice of maintaining an annual General Reserve to be used for current-year fiscal pressures not anticipated during the budget process. The policy set the reserve equal to 1% of budgeted regular General Fund revenues in fiscal year 2012-13 and increasing by 0.25% each year thereafter until reaching 2% of General Fund revenues in fiscal year 2016-17. The Original Budget for fiscal years 2017-18 and 2018-19 includes starting balances of \$107.3 million and \$121.4 million for the General Reserve, respectively. On December 16, 2014, the Board of Supervisors adopted financial policies to further increase the City's General Reserve from 2% to 3% of General Fund revenues between fiscal year 2017-18 and fiscal year 2020-21 while reducing the required deposit to 1.5% of General Fund revenues during economic downturns. The intent of this policy change is to increase reserves available during a multi-year downturn.

In addition to the operating cash and general reserves, the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the Board of Supervisors. These include the Salaries and Benefit Reserve (Original Budget for fiscal years 2017-18 and 2018-19 includes \$14.5 million in fiscal year 2017-18 and \$31.0 million in fiscal year 2018-19), and the Litigation Reserve (Original Budget for fiscal years 2017-18 and 2018-19 includes \$11 million in each year). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

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

Rainy Day Reserve

In November 2003, City voters approved the creation of the City's Rainy Day Reserve into which the previous Charter-mandated cash reserve was incorporated. Charter Section 9.113.5 requires that if the Controller projects total General Fund revenues for the upcoming budget year will exceed total General Fund revenues for the current year by more than five percent, then the City's budget shall allocate the anticipated General Fund revenues in excess of that five percent growth into two accounts within the Rainy Day Reserve and for other lawful governmental purposes. Effective January 1, 2015, Proposition C passed by the voters in November 2014 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. Deposits to the Rainy Day Reserve's Economic Stabilization account are subject to a cap of 10% of actual total General Fund revenues as stated in the City's most recent independent annual audit. Amounts in excess of that cap in any year will be allocated to capital and other one-time expenditures.

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

Budget Stabilization Reserve

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

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

Fiscal year 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 leaving an ending balance to \$323.3 million. The fiscal years 2017-18 and 2018-19 budgets assume no reserve deposits given projected RPTT receipts. The Controller's Office determines deposits in October of each year based on actual receipts during the prior fiscal year.

The maximum combined value of the Rainy Day Reserve and the Budget Stabilization Reserve is 10% of General Fund revenues, which would be approximately \$467 million for fiscal year 2016-17. No further deposits will be made once this cap is reached, and no deposits are required in years when the City is eligible to withdraw. The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve, however, there is no provision for allocations to the SFUSD. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn; in the second year, the maximum withdrawal is 50%; and, in the third year, the entire remaining balance may be drawn.

THE SUCCESSOR AGENCY

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

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

Authority and Personnel

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

The Successor Agency currently employs approximately 47 full-time equivalent positions. The Executive Director, Nadia Sesay, was appointed in October 2017. The other principal full-time staff positions are the Deputy Director, Projects and Programs; the Deputy Director, Finance and Administration; and the Successor Agency General Counsel and Deputy Director. Each project area in which the Successor Agency continues to implement redevelopment plans, is managed by a Project Manager. There are separate staff support divisions with real estate and housing development specialists, architects, engineers and planners, and the Successor Agency has its own fiscal, legal, administrative and property management staffs.

Effect of the Dissolution Act

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

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

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

As discussed below, many actions of the Successor Agency are subject to approval by an "oversight board" and the review or approval by the California Department of Finance, including the issuance of bonds but excludes the CFD bonds that the agency may issue from time to time.

Oversight Board

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

Department of Finance Finding of Completion

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

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

State Controller Asset Transfer Review

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

or less than 1% of transferred assets. The City returned \$666,830 to Office of Community Investment and Infrastructure, ("OCII") to comply with the SCO review.

Continuing Activities

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

Because of the existence of enforceable obligations, the Successor Agency is authorized to continue to implement, through the issuance of tax allocation bonds, four major redevelopment projects that were previously administered by the Former Agency: (i) the Mission Bay North and South Redevelopment Project Areas, (ii) the Hunters Point Shipyard Redevelopment Project Area and Zone 1 of the Bayview Redevelopment Project Area, and (iii) the Transbay Redevelopment Project Area (collectively, the "Major Approved Development Projects"). In addition, the Successor Agency continues to manage Yerba Buena Gardens and other assets within the former Yerba Buena Center Redevelopment Project Area ("YBC"). The Successor Agency exercises land use, development and design approval authority for the Major Approved Development Projects and manages the former Redevelopment Agency assets in YBC in place of the Former Agency. 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 30th, the City Controller issues a Certificate of Assessed Valuation in August which certifies the taxable assessed value for that fiscal year. The Controller also compiles a schedule of tax rates including the 1.0% tax authorized by Article XIII A of the State Constitution (and mandated by statute), tax surcharges needed to repay voter-approved general obligation bonds, and tax surcharges imposed by overlapping jurisdictions that have been authorized to levy taxes on property located in the City. The Board of Supervisors approves the schedule of tax rates each year by ordinance adopted no later than the last working day of September. The Treasurer and Tax Collector prepare and mail tax bills to taxpayers and collect the taxes on behalf of the City and other overlapping taxing agencies that levy taxes on taxable property located in the City. The Treasurer holds and invests City tax funds, including taxes collected for payment of general obligation bonds, and is charged with payment of principal and interest on such bonds when due. The State Board of Equalization assesses certain special classes of property, as described below. See "Taxation of State-Assessed Utility Property" below.

Assessed Valuations, Tax Rates and Tax Delinquencies

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

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor Agency (also known as the Office of Community Investment and Infrastructure or OCII). Property tax revenues attributable to the growth in assessed value of taxable property (known as "tax increment") within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations 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 \$129 million of property tax increment in fiscal year 2016-17, diverting about \$72 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 99.15% for fiscal year 2016-17. This table has been modified from the corresponding table in previous disclosures to make the levy and collection figures consistent with statistical reports provided to the State. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder's Office, numbered 212 for fiscal year 2015-16 compared to 102 for fiscal year 2014-15. 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.

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TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property
Fiscal Years 2012-13 through 2017-18
(000s)

Fiscal Year	Net Assessed ¹ Valuation (NAV)	% Change from Prior Year	Total Tax Rate per \$100 ²	Total Tax Levy ³	Total Tax Collected ³	% Collected June 30
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 ¹	10.7%	1.172	2,744,057	N/A	N/A

¹ Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

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

³ The Total Tax Levy and Total Tax Collected through fiscal year 2016-17 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported to the State of California (available on the website of the California SCO). Total Tax Levy for fiscal year 2017-18 is based on NAV times the 1.1723% tax rate.

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

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 2017-18, the total net assessed valuation of taxable property within the City was \$234.1 billion. Of this total, \$220.1 billion (94.0%) represents secured valuations and \$14.0-billion (6.0%) represents unsecured valuations. See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.

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

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

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in appeals as the economy rebounds. Historically, during severe economic downturns, partial

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

In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary General Fund appeals reserve fund for fiscal years 2011-12 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 2011-12 through 2016-17
(000s)

Fiscal Year	Amount Refunded
2011-12	\$53,288
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 .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 of time. For regular, annual secured property tax assessments, the time period for property owners to file an appeal typically falls between July 2nd and September 15th.

As of September 30, 2017, the total number of open appeals before the AAB was 1,773, compared to 1,860 open AAB appeals as of September 30, 2016. In the first three months of fiscal year 2017-18, there were 1,083 new appeals filed. The difference between the current assessed value and the taxpayers' opinion of values for the open AAB appeals is \$14.5 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all the taxpayers' requests, this represents a negative potential property tax impact of about \$170.3 million with an impact on the General Fund of about \$80.9 million. The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction in assessed valuation that the Assessor may ultimately grant. City revenue estimates take into account projected losses from pending and future assessment appeals.

Tax Levy and Collection

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City's boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the Bay Area Air Quality Management District and BART. The total tax levy for all taxing entities in fiscal year 2017-18 is 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 has 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 are estimated to receive about \$176.3 million and \$33.1 million, respectively, and the local ERAF is estimated to receive \$580.0 million (before adjusting for the vehicle license fees ("VLF") backfill shift). The Successor Agency will receive about \$136 million. The remaining portion is 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 2016-17 were \$1.48 billion, representing an increase of \$66 million (4.7%) over fiscal year 2016-17 Original Budget and \$85.7 million (6.2%) over fiscal year 2015-16 actual revenue. Property tax revenue is budgeted at \$1.56 billion in fiscal year 2017-18 representing an increase of \$78.3 million (5.3%) over fiscal year 2016-17 actual receipts and \$1.62 billion in fiscal year 2018-19 representing an annual increase of \$63.0 million (4.0%) over fiscal year 2017-18 budget. Tables A-2 and A-3 set forth a history of budgeted and actual property tax revenues for fiscal years 2011-12 through 2016-17, and budgeted receipts for fiscal years 2017-18 and fiscal year 2018-19.

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

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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, 2017 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, 2017
(000s)

Assessee	Location	Parcel Number	Type	Total Assessed Value ¹	% of Basis of Levy ²
HWA 555 Owners LLC	555 California St	0259 026	Commercial Office	\$998,450	0.43%
Elm Property Venture LLC	101 California St	0263 011	Commercial Office	965,547	0.41%
PPF Paramount One Market Plaza Owner LP	1 Market St	3713 007	Commercial Office	817,948	0.35%
SFDC 50 Fremont LLC	50 Fremont St	3709 019	Commercial Office	675,803	0.29%
SHR St. Francis LLC	301 - 345 Powell St	0307 001	Commercial Hotel	656,823	0.28%
Sutter Bay Hospitals ³	1101 Van Ness Ave	0695 006	Commercial Hospit	653,432	0.28%
Transbay Tower LLC	415 Mission St	3720 009	Commercial Office	560,825	0.24%
P55 Hotel Owner LLC	55 Cyril Magnin St	0330 026	Commercial Hotel	527,815	0.22%
Union Investment Real Estate GMBH	555 Mission St	3721 120	Commercial Office	483,303	0.21%
Emporium Mall LLC	845 Market St	3705 056	Commercial Retail	456,949	0.19%
					2.90%

¹ Represents the Total Assessed Valuation (TAV) as of the Basis of Levy, which excludes assessments processed during the fiscal year.

TAV includes land & improvements, personal property, and fixtures.

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

³ 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 2016-17 valuation of property assessed by the State Board of Equalization is \$3.5 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 new gross receipts tax ordinance, like the current payroll expense tax, is imposed for the privilege of “engaging in business” in San Francisco. The gross receipts tax will apply to businesses with \$1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. Proposition E also imposes a 1.4% tax on administrative office business activities measured by a company’s total payroll expense within San Francisco in lieu of the Gross Receipts Tax, and increases annual business registration fees to as much as \$35,000 for businesses with over \$200 million in gross receipts. Prior to Proposition E, business registration taxes varied from \$25 to \$500 per year per subject business based on the prior year computed payroll tax liability. Proposition E increased the business registration tax rates to between \$75 and \$35,000 annually.

Business tax revenue in fiscal year 2016-17 was \$702.3 million (all funds), representing an increase of \$41.4 million (6.3%) from fiscal year 2015-16. Business tax revenue is budgeted at \$752.7 million in fiscal year 2017-18 representing an increase of \$50.4 million (7.2%) over fiscal year 2016-17 budgeted revenue. Business tax revenue is budgeted at \$764.4 million in fiscal year 2018-19 representing an increase of \$11.7 million (1.6%) over fiscal year 2017-18.

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Business Tax Revenues
Fiscal Years 2013-14 through 2018-19
All Funds
(000s)

Fiscal Year	Revenue	Change	
2013-14	\$563,406	\$83,276	17.3%
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 budgeted	752,720	50,389	7.2%
2018-19 budgeted	764,400	11,680	1.6%

Includes Payroll Tax, portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and beginning in fiscal year 2013-14, Gross Receipts Tax revenues. Figures for fiscal years 2013-14 through 2016-17 are audited actuals. Figures for fiscal year 2017-18 and 2018-19 are Original Budget amounts.

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

Transient Occupancy Tax (Hotel Tax)

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. Hotel tax revenue growth is a function of changes in occupancy, average daily room rates ("ADR") and room supply. Revenue per available room (RevPAR), the combined effect of occupancy and ADR, experienced double digit growth rates annually 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 partial-year closure was in connection with the construction of Moscone Convention Center Expansion. Hotel tax revenue experienced declines during this period. The Moscone Center re-opened in the second quarter of fiscal year 2017-18, and RevPAR is expected to see a partial recovery during this fiscal year. In fiscal year 2018-19, RevPAR is expected to fully recover, which is reflected in the expected growth in hotel tax revenue. Fiscal year 2016-17 transient occupancy tax was \$375 million, representing a \$17.4 million decrease from fiscal year 2015-16 revenue. Fiscal year 2017-18 is budgeted to be \$377 million, an increase of \$1.8 million (0.5%) from fiscal year 2016-17. Fiscal year 2018-19 is budgeted to be \$402 million, an increase of \$25.7 million (6.8%) from fiscal year 2016-17 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. The City’s appeal is proceeding, but the schedule for that appeal is not yet known.

TABLE A -10

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Revenues
Fiscal Years 2013-14 through 2018-19
(000s)

Fiscal Year ¹	Tax Rate	Revenue	Change	
2013-14	14.0%	\$313,138	\$71,177	29.4%
2014-15 ²	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 budgeted	14.0%	377,150	1,859	0.5%
2018-19 budgeted	14.0%	402,896	25,746	6.8%

¹Figures for fiscal year 2013-14 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. Figures for fiscal year 2017-18 and 2018-19 are original budget amounts.

²Amounts in fiscal year 2014-15 are substantially adjusted due to multi-year audit and litigation resolution.

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 V 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 additional \$39 million in transfer tax revenue in fiscal year 2016-17.

Real property transfer tax (“RPTT”) revenue in fiscal year 2016-17 was \$410.5 million, a \$141.5 million (52.6%) increase from fiscal year 2015-16 revenue. Fiscal year 2017-18 RPTT revenue is budgeted to be \$300 million, approximately \$110.6 million (-26.9%) less than the revenue received in fiscal year 2016-17 primarily due to the assumption that fiscal year 2016-17 represents the peak in high value property transactions during the current economic cycle. This slowing is budgeted to continue into fiscal year 2018-19 with RPTT revenue budgeted at \$245 million, a reduction of \$55 million (-18.3%).

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Real Property Transfer Tax Receipts
Fiscal Years 2013-14 through 2018-19
(000s)

Fiscal Year ¹	Revenue	Change	
2013-14	\$261,925	\$29,195	12.5%
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 budgeted	300,000	(110,561)	-26.9%
2018-19 budgeted	245,000	(55,000)	-18.3%

¹ Figures for fiscal year 2013-14 through 2016-17 are audited actuals. Figures for fiscal year 2017-18 and 2018-19 are Original Budget amounts.

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

Sales and Use Tax

The State collects the City’s local sales tax on retail transactions along with State and special district sales taxes, and then remits the local sales tax collections to the City. The rate of tax is one percent; however, between fiscal year 2004-05 and the first half of fiscal year 2015-16, the State diverted one-quarter of this, 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% local tax is recorded in the General Fund.

Local sales tax collections in fiscal year 2016-17 were \$189.5 million, a decrease of \$14.7 million (-8.7%) from fiscal year 2015-16 sales tax revenue. Moderate revenue growth is expected during fiscal year 2017-18 with \$199.9 million budgeted, an increase of \$10.5 million (5.5%) from fiscal year 2016-17. Fiscal year 2018-19 revenue is budgeted to be \$204.9 million, an increase of \$5 million (2.5%) from fiscal year 2017-18 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. The budget assumes no changes from State laws affecting sales tax reporting for these online retailers. Sustained growth in sales tax revenue will depend on changes to state and federal law and order fulfillment strategies for online retailers.

Table A-12 reflects the City’s actual sales and use tax receipts for fiscal years 2013-14 through 2016-17, and budgeted receipt for fiscal year 2017-18 and 2018-19, as well as the imputed impact of the property tax shift made in compensation for the one-quarter of the sales tax revenue taken by the State through the fiscal year 2016-17.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Revenues
Fiscal Years 2013-14 through 2018-19
(000s)

Fiscal Year*	Tax Rate	City Share	Revenue	Change	
2013-14	8.75%	0.75%	\$133,705	\$11,434	9.4%
2013-14 adj. ¹	8.75%	1.00%	177,299	14,474	8.9%
2014-15	8.75%	0.75%	140,146	6,441	4.8%
2014-15 adj. ¹	8.75%	1.00%	186,891	9,592	5.4%
2015-16	8.75%	0.75%	167,915	27,769	19.8%
2015-16 adj. ²	8.75%	1.00%	204,118	17,227	9.2%
2016-17	8.75%	1.00%	189,473	(14,645)	-8.7%
2017-18 budgeted ³	8.50%	1.00%	199,940	10,467	5.5%
2018-19 budgeted ³	8.50%	1.00%	204,940	5,000	2.5%

*Figures for fiscal year 2013-14 through fiscal year 2016-17 are audited actuals. Figures for fiscal years 2017-18 and 2018-19 are Original Budget amounts.

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

²The 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.

³In November 2012 voters approved Proposition 30, which temporarily increases the state sales tax rate by 0.25% effective January 1, 2013 through December 31, 2016. The City share did not change.

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

Utility Users Tax

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

Fiscal year 2016-17 Utility User Tax revenues were \$101.2 million, representing an increase of \$2.6 million (2.6%) from fiscal year 2015-16 revenue. Fiscal year 2017-18 revenue is budgeted to be \$99.7 million, representing expected decline of \$1.5 million (1.5%) from fiscal year 2016-17. Fiscal year 2018-19 Utility User Tax revenues are budgeted at \$100.8 million, a \$1.1 million (1.1%) increase from fiscal year 2017-18 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 2016-17 was \$46.5 million, a \$3 million (6.8%) increase over the previous fiscal year due 2015-16. In fiscal year 2017-18, Access Line Tax revenue is budgeted at \$49.6 million, a \$3 million (6.5%) increase from fiscal year 2016-17 revenue. Fiscal year 2018-19 revenue is budgeted at \$51.1 million a \$1.6 million (3.1%) increase from fiscal year 2017-18 and 2018-19 budget. Budgeted amounts in fiscal year 2017-18 assume annual inflationary increases to the access line tax rate as required 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 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 2016-17 Parking Tax revenue was \$84.3 million, \$1.7 million (-2.0%) below fiscal year 2015-16 revenue. Parking tax revenue is budgeted at \$82.2 million in fiscal year 2017-18, a decrease of \$2.1 million (-2.5%) below the fiscal year 2016-17 amount. In fiscal year 2018-19, Parking Tax revenue is budgeted at \$83.0 million, \$0.8 million (1%) over the fiscal year 2017-18 budgeted amount.

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 2016-17, the General Fund share of 1991 realignment revenue was \$192.1 million. In fiscal year 2017-18, it is budgeted at \$188.6 million, or \$3.4 million (-1.8%) less than the fiscal year 2016-17 actual. This growth is attributed to a \$2.4 million (1.5%) increase in sales tax distribution and a \$5.8 million (-15.3%) decrease in the VLF distribution due to base allocation changes and projected fiscal year 2016-17 growth payments. The fiscal year 2018-19 General Fund share of revenue is budgeted at \$192.2 million, a net

increase of \$3.5 million (1.9%) in sales tax and VLF distributions based on the projected growth payments.

Increases in both years are net of State allocation reductions due to implementation of the Affordable Care Act (ACA) equal to assumed savings for counties as a result of treating fewer uninsured patients. The State's fiscal year 2017-18 Budget included assumed savings of \$689 million as a result of ACA implementation, and redirects these savings from realignment allocations to cover CalWORKs expenditures previously paid for by the State's General Fund. Reductions to the City's allocation are assumed equal to \$11.9 million. Future budget adjustments could be necessary depending on final State determinations of ACA savings amounts, which are expected in January 2019 and January 2020 for fiscal year 2016-17 and fiscal year 2017-18, respectively. The fiscal year 2017-18 and 2018-19 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 2017-18 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 2016-17, this revenue source totaled \$35.5 million or \$4.4 million (-11%) less than the fiscal year 2015-16 amount. Based on the State's adopted budget, this revenue is budgeted at \$41.3 million in fiscal year 2017-18, a \$5.9 million (17%) increase over the fiscal year 2016-17 actual. This increase reflects increased State funding to support implementation of AB109. The fiscal year 2018-19 budget assumes a \$1.1 million (2.5%) increase from fiscal year 2017-18 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. Revenue from this source for fiscal year 2016-17 was \$100.4 million, an increase of \$3.4 million (3.5%) from fiscal year 2015-16 revenues. This revenue is budgeted at \$101.6 million in fiscal year 2017-18 and \$104.1 million in fiscal year 2018-19, representing annual growth of \$1.2 million (1.2%) and \$2.5 million (2.4%) 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 and 2018-19.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, the City received \$604.6 million of funds in fiscal year 2016-17 from grants and subventions from State and federal governments to fund public health, social services and other programs in the General Fund. This represents a \$16.9 million (2.9%) increase from fiscal year 2015-16. The fiscal year 2017-18 budget is \$687.6 million, an increase of \$82.9 million (13.7%) and fiscal year 2018-19 budget is 685.6 million, a decrease of \$2 million (0.3%).

Charges for Services

Revenue from charges for services in the General Fund in fiscal year 2016-17 was \$220.8 million and is projected to be largely unchanged in the fiscal year 2017-18 and 2018-19 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 \$1.092 billion in fiscal year 2017-18 and \$1.102 billion in fiscal year 2018-19. As noted above, voters approved additional spending requirements on the November 2016 ballot, which are incorporated into five-year projections and included in the fiscal year 2017-18 budget.

General Fund Expenditures by Major Service Area

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

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO					
Expenditures by Major Service Area					
Fiscal Years 2014-15 through 2018-19					
(000s)					
Major Service Areas	2014-15 Final Budget	2015-16 Final Budget	2016-17 Final Budget	2017-18 Original Budget	2018-19 Original Budget
Public Protection	\$1,173,977	\$1,223,981	\$1,298,185	\$1,331,196	\$1,366,723
Human Welfare & Neighborhood Development	799,355	857,055	176,768	995,230	1,017,189
Community Health	736,916	787,554	970,679	884,393	875,974
General Administration & Finance	293,107	286,871	786,218	358,588	366,421
Culture & Recreation	126,932	137,062	158,954	162,622	163,576
General City Responsibilities	158,180	186,068	349,308	152,390	206,528
Public Works, Transportation & Commerce	127,973	161,545	154,344	170,949	156,079
Total*	\$3,416,440	\$3,640,137	\$3,894,456	\$4,055,368	\$4,152,490

*Total may not add due to rounding

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

Public Protection primarily includes the Police Department, the Fire Department and the Sheriff's Office. These departments are budgeted to receive \$459 million, \$246 million and \$176 million of General Fund support respectively in fiscal year 2017-18 and \$467 million, \$249 million, and \$189 million, respectively in fiscal year 2018-19. 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 \$242 million of General Fund support in the fiscal year 2017-18 and \$255 million in fiscal year 2018-19.

The Public Health Department is budgeted to receive \$715 million in General Fund support for public health programs and the operation of San Francisco General Hospital and Laguna Honda Hospital in fiscal year 2017-18 and \$771 million in fiscal year 2018-19.

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 \$65.7 million in fiscal year 2017-18 and \$66.4 million in the fiscal year 2018-19.

Baselines

The Charter requires funding for baselines and other mandated funding requirements. The chart below identifies the required and budgeted levels of appropriation funding for key baselines and mandated funding requirements. Revenue-driven baselines are based on the projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending. This table reflects spending requirements at the time the fiscal year 2017-18 and fiscal year 2018-19 budget was finally adopted.

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TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO
Baselines & Set-Asides
Fiscal Year 2017-18
(millions)

Baselines & Set-Asides	2017-18 Required Baseline	2017-18 Original Budget
<u>Municipal Transportation Agency (MTA)</u>		
Municipal Railway Baseline	\$228.1	\$228.1
Parking and Traffic Baseline	\$85.5	\$85.5
Population Adjustment	\$39.1	\$39.1
Children's Services	\$164.8	\$166.9
Transitional Aged Youth	\$19.8	\$24.6
Library Preservation	\$78.0	\$78.0
Recreation and Park Maintenance of Effort	\$70.2	\$73.0
Dignity Fund	\$44.1	\$44.1
Street Treet Maintenance Fund	\$19.0	\$19.0
City Services Auditor	\$17.4	\$17.4
Human Services Homeless Care Fund	\$17.6	\$17.6
<u>Public Education Enrichment Funding</u>		
Unified School District	\$69.5	\$69.5
Office of Early Care and Education	\$34.8	\$34.8
Public Education Baseline Services		
<u>Property Tax Related Set-Asides</u>		
Municipal Symphony	\$2.9	\$2.9
Children's Fund Set-Aside	\$86.4	\$86.4
Library Preservation Set-Aside	\$57.6	\$57.6
Open Space Set-Aside	\$57.6	\$57.6
<u>Staffing and Service-Driven</u>		
Police Minimum Staffing		Requirement met
Fire Neighborhood Firehouse Funding		Requirement met
Treatment on Demand		Requirement met
Total Baseline Spending	\$1,092.2	\$1,102.0
Source: Office of the Controller, City and County of San Francisco.		

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

EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

The cost of salaries and benefits for City employees represents nearly half of the City's expenditures, totaling \$5.0 billion in the fiscal year 2017-18 Original Budget (all-funds), and \$5.1 billion in the fiscal year

2018-19 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 SFUSD, SFCCD and the San Francisco Superior Court are not City employees.

Labor Relations

The City's budget for fiscal years 2017-18 and 2018-19 includes 30,835 and 30,938 budgeted City positions, respectively. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021 ("SEIU"); the International Federation of Professional and Technical Engineers, Local 21 ("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-Milias-Brown Act, California Government Code Sections 3500-3511) and the City Charter. San Francisco is unusual among California's cities and counties in that nearly all of its employees, 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 June 2013, the City negotiated a contract extension with the Police Officers' Association ("POA"), through June 30, 2018, that includes wage increases of 1% on July 1, 2015; 2% on July 1, 2016; and 2% on July 1, 2017. In addition, the union agreed to lower entry rates of pay for new hires in entry Police Officer classifications. In May 2014, the City negotiated a contract extension with the Firefighters Association through June 30, 2018, which mirrored the terms of POA agreement.

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

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

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 to the Five Year Financial Plan, exceeds \$200 million. 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. Existing agreements with police officers, firefighters, and physicians expire in June 2018; the agreement with supervising nurses expires in June, 2019. Successor labor agreements are expected to be completed prior to the adoption of the fiscal year 2018-19 budget.

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, 2016

Organization	Budgeted Positions	Expriation Date of MOU
Auto Machinist, Lodge 1414	466	30-Jun-19
BrickLayers, Local 3 / Hod Carriers, Local 36	10	30-Jun-19
Building Inspectors Association	92	30-Jun-19
CAIR/CIR (Interns & Residents)	0	30-Jun-19
Carpenters, Local 22	116	30-Jun-19
Carpet, Linoleum & Soft Tile	3	30-Jun-19
Cement Masons, Local 300	43	30-Jun-19
Electrical Workers, Local 6	915	30-Jun-19
Firefighters, Local 798	1,875	30-Jun-18
Glaziers, Local 718	9	30-Jun-19
Hod Carriers, Local 36	8	30-Jun-19
Iron Workers, Local 377	15	30-Jun-19
Laborers, Local 261	1,158	30-Jun-19
Municipal Attorneys Association	465	30-Jun-19
Municipal Exec Assoc - Fire	9	30-Jun-18
Municipal Exec Assoc - Misc	1,330	30-Jun-19
Municipal Exec Assoc - Police	16	30-Jun-18
Operating Engineers, Local 3	65	30-Jun-19
Physician/Dentists, UAPD	203	30-Jun-18
Pile Drivers, Local 34	37	30-Jun-19
Plasterers & Shphnds, Local 66	0	30-Jun-19
Plumbers, Local 38	349	30-Jun-19
Police Officers Association	2,495	30-Jun-18
Prof & Tech Eng, Local 21	6,212	30-Jun-19
Roofers, Local 40	13	30-Jun-19
SEIU 1021, H-1 Paramedics	4	30-Jun-19
SEIU 1021, Misc.	12,509	30-Jun-19
SEIU 1021, Staff & Per Diem RNs	1,720	30-Jun-19
SF City Workers United	131	30-Jun-19
SF Deputy Sheriffs Assn	825	30-Jun-19
SF Probation Off Assoc	152	30-Jun-19
SF Sheriff's Managers and Supv	100	30-Jun-19
SFDA Investigators Assn	45	30-Jun-19
SFIPOA, Op Eng, Local 3	2	30-Jun-19
Sheet Metal Workers, Local 104	43	30-Jun-19
Stationary Engineers, Local 39	690	30-Jun-19
Sup Probation Ofcr, Op Eng 3	31	30-Jun-19
Teamsters, Local 853	173	30-Jun-19
Teamsters, Local 856 Multi-Unit	112	30-Jun-19
Teamsters, Local 856 Spv Nurses	127	30-Jun-19
Theatrical Stage Emp, Local 16	27	30-Jun-19
TWU Local 200	364	30-Jun-19
TWU Local 250-A, AutoServWrkr	126	30-Jun-19
TWU Local 250-A, Misc	111	30-Jun-19
TWU Local 250-A, TranFareInsp	54	30-Jun-19
TWU Local 250-A, TransitOpr	2,659	30-Jun-19
Unrepresented Employees ¹	83	30-Jun-18
	35,990	

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

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

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

History and Administration

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

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

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

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

Membership

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

The Retirement System estimates that the total active membership as of July 1, 2016 is 40,051, compared to 37,821 at July 1, 2015. Active membership at July 1, 2016 includes 6,617 terminated vested members and 1,028 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 28,286 retired members and beneficiaries. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Table A-16 displays total Retirement System participation (City and County of San Francisco, SFUSD, SFCCD, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates, July 1, 2012 through July 1, 2016.

TABLE A-16

SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System
Fiscal Years 2011-12 through 2015-16

As of 7/1	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
2011-12	28,097	4,543	1,015	33,655	25,190	1.115
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

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, 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 will be published in March of 2018. The increase in employer contribution rate from 21.40% to 23.46% results primarily from two reasons: 1) the retroactive grant of 2013 and 2014 Supplemental COLAs after the October 2015 California Court of Appeal determination in *Protect Our Benefits v. City and County of San Francisco* that the "full funding" requirement for Supplemental COLAs adopted under Proposition C does not apply to members who retired on or after November 6, 1996 and were hired prior to January 7, 2012, and 2) 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 2011-12 through 2015-16. 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" are the plan assets with investment returns different than expected smoothed over five years to provide a more stable contribution rate. The "Market Percent Funded" column is determined by dividing the market value of assets by the actuarial accrued liability. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the actuarial accrued liability. "Employee and Employer Contributions" reflects the total of mandated employee contributions and employer contributions received by the Retirement System in the fiscal year ended June 30th prior to the July 1st valuation date.

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TABLE A-17

SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System
Fiscal Years 2011-12 through 2015-16*
(000s)

As of 7/1	Actuarial Liability	Market Value of Assets	Actuarial Value of Assets	Market Percent Funded	Actuarial Percent Funded	Employee & Employer Contributions in prior FY	Employer Contribution Rates ¹ in prior FY
2011-12	\$19,393,854	\$15,293,724	\$16,027,683	78.9%	82.6%	\$608,957	18.09%
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

¹ Employer contribution rates for fiscal years 2016-17 and 2017-18 are 21.40% and 23.46%, 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.

Please note in the table above, that the Market Percent Funded ratio is lower than the Actuarial Percent Funded ratio for the first time in four years. The Actuarial Percent Funded ratio does not yet fully reflect all asset losses from the last five fiscal years.

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

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 a municipal bond rate to the extent that the fiduciary net position is unavailable to make payments. Differences between the discount rate and assumed investment return have ranged from zero to six basis points at the last 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.

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

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

TABLE A-17A

SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System (000s)
GASB 67/68 Disclosures

As of 6/30	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 greater than expected.

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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 estates 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, 2016, see Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2016," Page 72. Although the Fund did not hold hedge funds as of June 30, 2016, the Board approved a 5% allocation to absolute return/hedge funds at its February 2015 meeting. Implementation of this new allocation began during fiscal year 2016-17.

Annualized investment returns (net of fees and expenses) for the Retirement System for the five years ending June 30, 2016 were 7.53%. For the ten-year and twenty-year periods ending June 30, 2016, annualized investment returns were 5.85% and 7.66% respectively.

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

Recent Voter Approved Changes to the Retirement Plan

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

Voters 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 and County employees and those who retired after November 1996 when the Supplemental COLA provisions were originally adopted, but could be applied to SFERS members who retired before November 1996. This decision is now final and 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, 2016, the audited market value of Retirement System assets was \$20.2 billion. As of June 30, 2017, the unaudited market value of SFERS' portfolio was \$22.4 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 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.

Health Care Reform

The description that follows of the implementation of the Patient Protection and Affordable Care Act is current. The election of a Republican President in November 2016 who promised to repeal "Obamacare" (or the Affordable Care Act ("ACA") combined with both Houses of Congress with Republican majorities who are equally set on repealing the ACA puts many of the fees and taxes in limbo until legislation is passed to "repeal and replace Obamacare" by the current Congress and signed by President Trump ("HealthReform 2.0"). The following discussion is based on the current status of the Patient Protection and Affordable Care Act (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 and signed by President Trump in December 2017 and January 2018, have chipped away at many of the fiscal requirements of the law.

In December 2017, Congress passed the Tax Cuts and Jobs Act (ACT) which was immediately signed by President Trump. 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 members documenting compliance to this mandate.

The potential impact with the repeal of the individual mandate may: 1) increase in uncompensated care cost, which are generally passed onto plan sponsors, employers and other payers, 2) destabilize the individual market leading to more employees and dependents electing COBRA 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-54 retirees.

On January 22, 2018 Congress approved the delay of three ACA taxes that impact SFHSS rates for medical coverage. The taxes are discussed below.

- **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**

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. 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. The estimated impact of the HIT tax on the City was \$10.98 million.

- **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). PCORI was factored into the calculation of medical premium rates and premium equivalents for the 2018 plan year and the impact on the City is \$0.31 million.

Local Elections:

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

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

Proposition C (2011) City Pension and Health Care Benefit

On November 8, 2011, the San Francisco voters approved Proposition C, a charter amendment that made additional changes to the way the City and current and future employees share in funding SFERS pension and health benefits. The Proposition limits the 50% coverage for dependents to employees who left the workforces (without retiring) prior to 2001. The 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-Hewitt, without the typical margins added by Blue Shield; however, more risk is assumed by the City and reserves are required to protect against this risk. The flattening is anticipated to continue.

Post-Employment Health Care Benefits and GASB 45

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

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

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 factors, 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
(000s)

Fiscal Year Ended	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

Actuarial projections of the City’s OPEB liability will be affected by Proposition B as well as by changes in the other factors affecting that calculation. For example, the City’s actuarial analysis shows that by 2031, Proposition B’s three-percent of salary funding requirement will be sufficient to cover the cost of retiree health benefits for employees hired after January 10, 2009. See “Retirement System – *Recent Voter Approved Changes to the Retirement Plan*” above. As of June 30, 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 2013-14 to fiscal year 2017-18.

TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO
Employee Benefit Costs, All Funds
Fiscal Years 2013-14 through 2017-18¹
(000s)

	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18 Budget
SFERS and PERS Retirement Contributions	\$535,309	\$593,619	\$531,821	\$554,956	\$597,176
Social Security & Medicare	160,288	171,877	184,530	196,914	207,108
Health - Medical + Dental, active employee:	369,428	383,218	421,864	459,772	480,956
Health - Retiree Medical ²	161,859	146,164	158,939	165,822	180,975
Other Benefits ³	16,106	18,439	20,827	21,388	29,145
Total Benefit Costs	\$1,242,990	\$1,313,318	\$1,317,981	\$1,398,852	\$1,495,360

¹Fiscal year 2013-14 through fiscal year 2016-17 figures are audited actuals. Fiscal year 2017-18 figures are original budget.

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

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

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 September 2017, 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.

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Investment Portfolio

As of January 31, 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 January 31, 2018**

<u>Type of Investment</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasuries	\$775,000,000	\$771,528,747	\$765,573,500
Federal Agencies	4,741,446,000	4,740,421,994	4,699,429,313
State and Local Obligations	165,633,823	167,726,719	164,431,463
Public Time Deposits	960,000	960,000	960,000
Negotiable Certificates of Deposit	1,932,838,000	1,932,838,000	1,932,243,836
Commercial Paper	871,900,000	865,232,951	868,280,421
Medium Term Notes	81,450,000	81,501,816	81,448,935
Money Market Funds	367,827,620	367,827,620	367,827,620
Supranationals	600,300,000	598,961,547	594,896,985
Total	\$9,537,355,443	\$9,526,999,394	\$9,475,092,073

January 2018 Earned Income Yield: 1.60%

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 January 31, 2018**

Maturity in Months			Par Value	Percentage
0	to	1	\$945,417,620	9.9%
1	to	2	595,240,000	6.2%
2	to	3	539,470,000	5.7%
3	to	4	307,710,000	3.2%
4	to	5	579,500,000	6.1%
5	to	6	672,250,000	7.0%
6	to	12	1,578,545,000	16.6%
12	to	24	1,680,548,000	17.6%
24	to	36	1,380,200,000	14.5%
36	to	48	776,899,823	8.1%
48	to	60	481,575,000	5.0%
			\$9,537,355,443	100.0%

Weighted Average Maturity: 499 Days

Sources: Office of the Treasurer and Tax Collector, City and County of San Francisco
From Citibank-Custodial Safekeeping, SunGard Systems-Inventory Control Program.

Further Information

A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board of Supervisors monthly. The monthly reports and annual reports are available on the Treasurer's web page: www.sftreasurer.org. The monthly reports and annual reports are not incorporated by reference herein.

Additional information on the City's investments, investment policies, and risk exposure as of June 30, 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 is 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 March 1, 2018, the City had approximately \$2.07 billion aggregate principal amount of general obligation bonds outstanding.

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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 March 1, 2018^{1 2}

Fiscal Year	Principal	Interest	Annual Debt Service
2017-18	\$123,873,225	\$45,285,258	\$169,158,483
2018-19	124,230,545	84,676,748	208,907,293
2019-20	123,541,232	78,649,111	202,190,343
2020-21	122,085,457	72,700,986	194,786,443
2021-22	128,083,401	67,121,223	195,204,624
2022-23	131,760,251	61,192,905	192,953,156
2023-24	134,366,206	54,907,030	189,273,236
2024-25	135,221,476	48,463,484	183,684,960
2025-26	130,491,279	42,140,369	172,631,648
2026-27	135,690,840	36,402,040	172,092,880
2027-28	140,604,035	30,447,874	171,051,909
2028-29	141,041,751	24,668,943	165,710,694
2029-30	137,285,095	18,856,513	156,141,608
2030-31	99,261,950	13,238,784	112,500,734
2031-32	102,620,000	9,573,281	112,193,281
2032-33	68,105,000	5,848,349	73,953,349
2033-34	43,770,000	3,291,929	47,061,929
2034-35	35,160,000	1,711,971	36,871,971
2035-36	12,680,000	475,476	13,155,476
TOTAL ³	\$2,069,871,743	\$699,652,274	\$2,769,524,017

¹ This table does not reflect any debt other than City direct tax-supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

² Totals reflect rounding to nearest dollar.

³ Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all real and personal assessment district indebtedness or any redevelopment agency indebtedness.

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

General Obligation Bonds

Certain general obligation bonds authorized by the City's voters as discussed below have not yet been issued. Such bonds may be issued at any time by action of the Board of Supervisors, without further approval by the voters.

In November 1992, voters approved Proposition A, which authorized the issuance of up to \$350.0 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program (the "Loan Program"). The purpose of the Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued \$35.0 million in taxable

general obligation bonds to fund the Loan Program and in October 2002, the City redeemed all outstanding bonds remaining from such issuance. In February 2007, the Board of Supervisors approved the issuance of additional indebtedness under this authorization in an amount not to exceed \$35.0 million. Such issuance would be achieved pursuant to the terms of a Credit Agreement with Bank of America, N.A. (the "Credit Bank"), under which the Credit Bank agreed to fund one or more loans to the City from time to time as evidenced by the City's issuance to the Credit Bank of the Taxable General Obligation Bond (Seismic Safety Loan Program), Series 2007A. The funding by the Credit Bank of the loans at the City's request and the terms of repayment of such loans are governed by the terms of the Credit Agreement. Loan funds received by the City from the Credit Bank are in turn used to finance loans to Seismic Safety Loan Program borrowers. In March 2007, the City initiated an initial borrowing of \$2.0 million, and in October 2007, the City borrowed approximately \$3.8 million from the Credit Bank. In January 2008, the City borrowed approximately \$3.9 million and in November 2008, the City borrowed \$1.3 million from the Credit Bank. Further borrowings under the Credit Agreement with the Credit Bank (up to the \$35.0 million not-to-exceed amount) are expected as additional loans to Seismic Safety Loan Program borrowers are approved. 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, which authorized the issuance of up to \$185.0 million in general obligation bonds for the construction, reconstruction, purchase, and/or improvement of park and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition A in the amount of approximately \$42.5 million in August 2008. The City issued the second series in the amount of approximately \$60.4 million in March 2010 and the third series in the amount of approximately \$73.4 million in March 2012. 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, which authorized the issuance of up to \$412.3 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement and retrofitting of neighborhood fire and police stations, the auxiliary water supply system, a public safety building, and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds under Proposition B in the amount of \$79.5 million in December 2010 and the second series of bonds in the amount of \$183.3 million in March 2012. The City issued the third series in the amount of approximately \$38.3 million in August 2012 and the fourth series of bonds in the amount of \$31.0 million in June 2013, and the fifth series in the amount of \$54.9 million was issued in October 2014. The final series was issued in June 2016 in the amount of approximately \$25 million.

In November 2011, voters approved Proposition B, which authorized the issuance of up to \$248.0 million in general obligation bonds to provide funds to repair and repave City streets and remove potholes; strengthen and seismically upgrade street structures; redesign street corridors by adding or improving pedestrian signals, lighting, sidewalk extensions, bicycle lanes, trees and landscaping; construct and renovate curb ramps and sidewalks to increase accessibility and safety for everyone, including persons with disabilities; and add and upgrade traffic signals to improve MUNI service and traffic flow. The City issued the first series of bonds under Proposition B in the amount of approximately \$74.3 million in March 2012 and the second series of bonds in the amount of \$129.6 million in June 2013. The City issued the final series in June 2016 in the amount of approximately \$109 million.

In November 2012, voters approved Proposition B, which authorized the issuance of up to \$195.0 million in general obligation bonds to provide funds for the construction, reconstruction, renovation, demolition, environmental remediation and/or improvement of park, open space and recreation facilities located in

the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition B in the amount of approximately \$71.9 million in June 2013. The City issued the second series of bonds in the amount of \$43 million in January 2016. The third series is expected to be issued in April 2018.

In June 2014, voters approved Proposition A, which authorized the issuance of up to \$400.0 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement and retrofitting of neighborhood fire and police stations, emergency firefighting water system, medical examiner facility, traffic company and forensic services division and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds in the amount of \$100.6 million in October 2014 and the second series of bonds in the amount of \$44 million in June 2016.

In November 2014, voters approved Proposition A, which authorized the issuance of up to \$500 million in general obligation bonds to provide funds to finance the construction, acquisition and improvement of certain transportation and transit related improvements and other related costs. The City issued the first series of bonds under Proposition A in the amount of approximately \$67 million in June 2015. The second series is expected to be issued in April 2018.

In November 2015, voters approved Proposition A which authorized the issuance of up to \$310 million in general obligation bonds to provide funds to finance the construction, development, acquisition and preservation of housing affordable to low- and middle-income households and to assist in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; to repair and reconstruct dilapidated public housing; to fund a middle-income rental program; and to provide for homeownership down payment assistance opportunities for educators and middle-income households. The City issued the first series of bonds under Proposition A in the amount of approximately \$75 million in October 2016.

In June 2016, voters approved Proposition A, 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 Proposition A in the amount of approximately \$173.1 million in January 2017.

Refunding General Obligation Bonds

The Board of Supervisors adopted Resolution No. 272-04 on May 11, 2004 (the "2004 Resolution"). The Mayor approved the 2004 Resolution on May 13, 2004. The 2004 Resolution authorized the issuance of not to exceed \$800.0 million aggregate principal amount of its General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding all or a portion of the City's then outstanding General Obligation Bonds. On November 1, 2011, the Board of Supervisors adopted, and the Mayor approved, Resolution No. 448-11 (the "2011 Resolution," and together with the 2004 Resolution, the "Refunding Resolutions"). The 2011 Resolution authorized the issuance of not to exceed \$1.356 billion aggregate principal amount of the City's General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding certain outstanding General Obligation Bonds of the City. The City has issued four series of refunding bonds currently outstanding under the Refunding Resolutions, as shown on Table A-23.

TABLE A-23

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Refunding Bonds
As of March 1, 2018

Series Name	Date Issued	Principal Amount Issued	Amount Outstanding
2008-R1	May 2008	\$232,075,000	\$6,675,000
2008-R2	May 2008	39,320,000	5,680,000
2008-R3	July 2008	118,130,000	-
2011-R1	November 2011	339,475,000	202,220,000 ¹
2015-R1	February 2015	293,910,000	261,095,000 ²

¹ Series 2004-R1 Bonds were refunded by the 2011-R1 Bonds in November 2011.

² Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015.
 Series 2008-R3 Bonds were partially refunded and are no longer outstanding.

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 March 1, 2018, the City had authorized and unissued general obligation bond authority of approximately \$1.37 billion.

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TABLE A-24

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds
As of March 1, 2018

Description of Issue (Date of Authorization)	Series	Issued	Outstanding ¹	Authorized & Unissued
Seismic Safety Loan Program (11/3/92)	2007A	\$30,315,450	\$21,461,743	
	2015A	24,000,000	24,000,000	\$260,684,550
Clean & Safe Neighborhood Parks (2/5/08)	2010B	24,785,000	5,120,000	
	2010D	35,645,000	35,645,000	
	2012B	73,355,000	50,675,000	
	2016A	8,695,000	7,825,000	
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	10,790,000	
	2010A	120,890,000	24,980,000	
	2010C	173,805,000	173,805,000	
	2012D	251,100,000	163,495,000	
	2014A	209,955,000	169,055,000	
Earthquake Safety and Emergency Response Bond (6/8/10)	2010E	79,520,000	43,175,000	
	2012A	183,330,000	127,945,000	
	2012E	38,265,000	31,400,000	
	2013B	31,020,000	18,320,000	
	2014C	54,950,000	43,665,000	
	2016C	25,215,000	23,260,000	
Road Repaving & Street Safety (11/8/11)	2012C	74,295,000	51,880,000	
	2013C	129,560,000	76,465,000	
	2016E	44,145,000	40,715,000	
Clean & Safe Neighborhood Parks (11/6/12)	2013A	71,970,000	42,490,000	
	2016B	43,220,000	25,395,000	79,810,000
Earthquake Safety and Emergency Response Bond (6/3/14)	2014D	100,670,000	79,970,000	
	2016D	109,595,000	78,475,000	189,735,000
Transportation and Road Improvement (11/4/14)	2015B	67,005,000	45,375,000	432,995,000
Affordable Housing Bond (11/4/15)	2016F	75,130,000	53,060,000	234,870,000
Public Health and Safety Bond (6/7/16)	2017A	173,120,000	125,760,000	176,880,000
SUB TOTALS		\$2,385,205,450	\$1,594,201,743	\$1,374,974,550
General Obligation Refunding Bonds:				
Series 2008-R1 issued 5/29/08		232,075,000	6,675,000	
Series 2008-R2 issued 5/29/08		39,320,000	5,680,000	
Series 2011-R1 issued 11/9/12		339,475,000	202,220,000	
Series 2015-R1 issued 2/25/15		293,910,000	261,095,000	
SUB TOTALS		904,780,000	475,670,000	
TOTALS		\$3,289,985,450	\$2,069,871,743	\$1,374,974,550

¹ Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all taxable real and personal property, located within the City and County.

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

Lease Payments and Other Long-Term Obligations

The Charter requires that any lease-financing agreements with a nonprofit corporation or another public agency must be approved by a majority vote of the City's electorate, except (i) leases approved prior to April 1, 1977, (ii) refunding lease financing expected to result in net savings, and (iii) certain lease financing for capital equipment. The Charter does not require voter approval of lease financing agreements with for-profit corporations or entities.

Table A-25 sets forth the aggregate annual lease payment obligations supported by the City's General

Fund with respect to outstanding lease revenue bonds and certificates of participation as of March 1, 2018. Note that the annual payment obligations reflected in Table A-25 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

TABLE A-25

CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Bonds and Certificates of Participation
As of March 1, 2018

Fiscal Year	Principal	Interest	Annual Payment Obligation
2017-18	\$36,485,000	\$30,609,485	\$67,094,485
2018-19	63,790,000	62,426,217	126,216,217
2019-20	49,630,000	59,788,198	109,418,198
2020-21	58,345,000	57,310,890	115,655,890
2021-22	58,775,000	54,742,504	113,517,504
2022-23	61,390,000	52,119,175	113,509,175
2023-24	63,620,000	49,374,771	112,994,771
2024-25	63,985,000	46,505,114	110,490,114
2025-26	64,500,000	43,645,624	108,145,624
2026-27	67,545,000	40,628,011	108,173,011
2027-28	68,940,000	37,474,005	106,414,005
2028-29	72,160,000	34,218,461	106,378,461
2029-30	72,540,000	30,826,226	103,366,226
2030-31	64,540,000	27,588,665	92,128,665
2031-32	54,320,000	24,737,593	79,057,593
2032-33	55,495,000	22,446,642	77,941,642
2033-34	57,755,000	19,918,261	77,673,261
2034-35	46,410,000	17,650,673	64,060,673
2035-36	45,695,000	15,599,242	61,294,242
2036-37	44,775,000	13,589,230	58,364,230
2037-38	46,595,000	11,612,665	58,207,665
2038-39	48,485,000	9,553,956	58,038,956
2039-40	50,470,000	7,407,472	57,877,472
2040-41	52,520,000	5,172,668	57,692,668
2041-42	19,400,000	3,007,611	22,407,611
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
TOTAL ¹	\$1,418,740,000	\$780,670,359 ²	\$2,199,410,359

¹ Totals reflect rounding to nearest dollar.

² For purposes of this table, the interest rate on the Lease Revenue Bonds Series 2008-1, and 2008-2 (Moscone Center Expansion Project) is assumed to be 3.25%. These bonds are in variable rate mode.

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

The City electorate has approved several lease revenue bond propositions, some of which have authorized but unissued bonds. The following lease programs have remaining authorization:

In 1987, voters approved Proposition B, which authorizes the City to lease finance (without limitation as to maximum aggregate par amount) the construction of new parking facilities, including garages and surface lots, in eight of the City's neighborhoods. In July 2000, the City issued \$8.2 million in lease revenue bonds to finance the construction of the North Beach Parking Garage, which was opened in February 2002. There is no current plan to issue any more bonds under Proposition B.

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of March 1, 2018 the total authorized amount for such financings was \$71.1 million. The total principal amount outstanding as of March 1, 2018 was \$1.4 million.

In 1994, voters approved Proposition B, which authorized the issuance of up to \$60.0 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued \$22.6 million and \$23.3 million of Proposition B lease revenue bonds, respectively, leaving \$14.0 million in remaining authorization. There is no current plan to issue additional series of bonds under Proposition B.

In June 1997, voters approved Proposition D, which authorized the issuance of up to \$100.0 million in lease revenue bonds for the construction of a new football stadium at Candlestick Park, the previous home of the San Francisco 49ers football team. If issued, the \$100.0 million of lease revenue bonds would be the City's contribution toward the total cost of the stadium project and the 49ers would be responsible for paying the remaining cost of the stadium construction project. There is no current plan to issue the Proposition D bonds.

On March 7, 2000, voters approved Proposition C, which extended a two and one half cent per \$100.0 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the "Open Space Fund"). Proposition C also authorizes the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. The City issued approximately \$27.0 million and \$42.4 million of such Open Space Fund lease revenue bonds in October 2006 and October 2007, respectively.

In November 2007, voters approved Proposition D, which amended the Charter and renewed the Library Preservation Fund. Proposition D continues the two and one half cent per \$100.0 in assessed valuation property tax set-aside and establishes a minimum level of City appropriations, moneys that are maintained in the Library Preservation Fund. Proposition D also authorizes the issuance of revenue bonds or other evidences of indebtedness. The City issued the first series of lease revenue bonds in the amount of approximately \$34.3 million in March 2009.

Commercial Paper Program

The Board authorized on March 17, 2009 and the Mayor approved on March 24, 2009 the establishment of a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "CP Program"). Commercial Paper Notes (the "CP Notes") are issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles in anticipation of long-term or other take-out financing to be issued when market conditions are favorable. Projects are eligible to access the CP Program once the Board and the Mayor have approved the project

and the long-term, permanent financing for the project. The former 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 expired in June 2016. In May 2016, the City obtained renewal credit facilities securing the CP Notes issued by State Street Bank and Trust Company with a maximum principal amount of \$75 million and by U.S. Bank National Association with a maximum principal amount of \$75 million. The renewal credit facilities will expire in May 2021.

The Board authorized on July 16, 2013 and the Mayor approved on July 25, 2013 an additional \$100.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 3 and 3-T and Series 4 and 4-T that increases the total authorization of the CP Program to \$250.0 million. The Series 3 and 3-T and 4 and 4-T are secured by a letter of credit issued by State Street Bank and Trust Company expiring February 2019.

As of February 1, 2018, the outstanding principal amount of CP Notes is \$21.0 million. The weighted average interest rate for CP Notes is approximately 1.04%.

Transbay Transit Center Interim Financing

The Board authorized on May 3, 2016 and the Mayor approved on May 13, 2016 the establishment of a not-to-exceed \$260.0 million Lease Revenue Commercial Paper Certificates of Participation (“short-term certificates”) to meet cash flow needs during the construction of the Transbay Transit Center. The short-term certificates are expected to be repaid in part from Transbay Transit Center CFD special taxes and tax increment. 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 consists of \$160 million direct placement revolving certificates with Wells Fargo, expiring January 10, 2020 and \$100 million direct placement revolving certificates with Bay Area Toll Authority expiring September 1, 2021.

As of February 1, 2018, the TJPA had drawn a total of \$103,000,000 from the Wells Fargo financing facility, at a weighted average interest rate of 1.85%.

Board Authorized and Unissued Long-Term Obligations

The Board of Supervisors authorized October 8, 2013 and the Mayor approved October 11, 2013 the issuance of not to exceed \$13.5 million of City and County of San Francisco Certificates of Participation (Treasure Island Improvement Project) to finance the cost of additions and improvements to the utility infrastructure at Treasure island.

The Board of Supervisors authorized on November 29, 2016 and the Mayor approved on December 1, 2016 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.

The Board of Supervisors authorized on June 6, 2017 and the Mayor approved on June 15, 2017 the issuance of not to exceed \$321.8 million of City and County of San Francisco Certificates of Participation (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 March 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 March 1, 2018

<u>2017-18 Assessed Valuation</u> (net of non-reimbursable & homeowner exemptions):	\$234,074,596,933	
<u>DIRECT GENERAL OBLIGATION BOND DEBT</u>		
General City Purposes Carried on the Tax Roll	<u>\$2,069,871,743</u>	
GROSS DIRECT DEBT	\$2,069,871,743	
<u>DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS</u>		
San Francisco Finance Corporation, Equipment LRBs Series 2012A, and 2013A	\$1,450,000	
San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1	9,975,000	
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2	96,020,000	
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007	43,940,000	
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A	27,030,000	
San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital)	125,570,000	
San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project)	31,190,000	
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)	36,815,000	
San Francisco COPs, Series 2013BC Port Facilities	31,170,000	
San Francisco COPs, Series 2014-R1 (Courthouse Project), 2014-R2 (Juvenile Hall Project)	38,350,000	
San Francisco COPs, Series 2015AB War Memorial Veterans Building Seismic Upgrade and Improvements	127,810,000	
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	15,170,000	
San Francisco COPs Series 2017A (Hope SF)	28,320,000	
San Francisco COPs Series 2017B (Moscone Convention Center Expansion)	<u>412,355,000</u>	
LONG-TERM OBLIGATIONS	\$1,418,740,000	
GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS	\$3,488,611,743	
<u>OVERLAPPING DEBT & LONG-TERM OBLIGATIONS</u>		
Bayshore Hester Assessment District	\$510,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	72,628,333	
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B	100,763,400	
San Francisco Community College District General Obligation Bonds (2001, 2005)	247,520,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds (2011)	30,995,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	920,054,677	
San Francisco Redevelopment Agency Obligations (Special Tax Bonds)	148,875,249	
Association of Bay Area Governments Obligations (Special Tax Bonds)	17,795,000	
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)	1,021,010,000	
San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) Series 2017A, 2017B	<u>207,500,000</u>	
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	\$2,770,558,283	
GROSS COMBINED TOTAL OBLIGATIONS	\$6,259,170,026 ¹	
<u>Ratios to Assessed Valuation:</u>	<u>Actual Ratio</u>	<u>Charter Req.</u>
Gross Direct Debt (General Obligation Bonds)	0.88%	< 3.00% ²
Gross Direct Debt & Long-Term Obligations	1.49%	n/a
Gross Combined Total Obligations	2.67%	n/a

¹ Excludes revenue and mortgage revenue bonds and non-bonded third party financing lease obligations. Also excludes tax allocation bonds sold in August, 2009.

² Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all taxable real and personal property, located within the City and County.

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

On November 4, 2003, voters approved Proposition A. Proposition A of 2003 authorized the SFUSD to issue up to \$295.0 million of general obligation bonds to repair and rehabilitate school facilities, and various other improvements. The SFUSD issued \$58.0 million of such authorization in October 2004, \$130.0 million in October 2005, and \$92.0 million in October 2006, leaving \$15.0 million authorized but unissued. In March 2012, the SFUSD issued \$116.1 million in refunding general obligation bonds that refunded \$137.4 million in general obligation bonds authorized under Proposition A of 2003.

On November 2, 2004, voters approved Proposition AA. Proposition AA authorized the San Francisco BART to issue general obligation bonds in one or more series over time in an aggregate principal amount not to exceed \$980.0 million to strengthen tunnels, bridges, overhead tracks and the underwater Transbay Tube for BART facilities in Alameda and Contra Costa counties and the City. Of the \$980.0 million, the portion payable from the levy of *ad valorem* taxes on property within the City is approximately 29.0% or \$282.0 million. Of such authorization, BART issued \$100.0 million in May 2005 and \$400.0 million in July 2007, of which the allocable City portion is approximately \$29.0 million and \$116.0 million, respectively.

On November 7, 2006, voters approved Proposition A. Proposition A of 2006 authorized the SFUSD to issue an aggregate principal amount not to exceed \$450.0 million of general obligation bonds to modernize and repair up to 64 additional school facilities and various other improvements. The SFUSD issued the first series in the aggregate principal amount of \$100 million under the Proposition A authorization in February 2007. The SFUSD issued the second series in the aggregate principal amount of \$150.0 million under the Proposition A authorization in January 2009. The SFUSD issued the third series in the aggregate principal amount of \$185.0 million under the Proposition A authorization in May 2010.

On November 8, 2011, voters approved Proposition A. Proposition A of 2011 authorized the SFUSD to issue an aggregate principal amount not to exceed \$531.0 million of general obligation bonds to repair and rehabilitate school facilities to current accessibility, health, safety and instructional standards, and where applicable, replace worn-out plumbing, electrical and other major building systems, replace aging heating, ventilation and air handling systems, renovate outdated classrooms and training facilities, construct facilities to replace aging modular classrooms. The SFUSD issued the first series in the aggregate principal amount of \$115.0 million under the Proposition A of 2011 authorization in March 2012.

On November 8, 2016, voters approved Proposition A. Proposition A of 2016 authorized the SFUSD to issue an aggregate principal amount not to exceed \$744.25 million of general obligation bonds to repair and rehabilitate San Francisco Unified School District facilities to current accessibility, health, safety, seismic and instructional standards, replace worn-out plumbing, electrical, HVAC, and major building systems, renovate outdated classrooms and training facilities, construct school facilities and replace aging modular classrooms, improve information technology systems and food service preparation systems. The SFUSD issued the first series in the aggregate principal amount of \$180.0 million under the Proposition A of 2016 authorization in March 2017.

MAJOR ECONOMIC DEVELOPMENT PROJECTS

Numerous development and construction projects are in progress throughout the City at any given time. This section describes several of the most significant privately owned and managed real estate developments currently under way in the City in which there is City participation, generally in the form of a public/private partnership. The information in this section has been prepared by the City based on City-approved plans as well as unofficial plans and representations of the developer in each case, and includes forward-looking statements. These forward-looking statements consist of expressions of opinion, estimates, predictions, projections, plans and the like; such forward-looking statements in this section are

those of the developers and not of the City. The City makes no prediction, representation or assurance that the plans and projects described will actually be accomplished, or the time frame in which the developments will be completed, or as to the financial impact on City real estate taxes, developer fees, other tax and fee income, employment, retail or real estate activity, or other consequences that might be expected or projected to result from the successful completion of each development project. Completion of development in each case may depend on the local economy, the real estate market, the financial health of the developer and others involved in the project, specific features of each development and its attractiveness to buyers, tenants and others, as well as the financial health of such buyers, tenants, and others. Completion and success of each development will also likely depend on other factors unknown to the City.

Hunters Point Shipyard (Phase 1 and 2) and Candlestick Point

The Hunters Point Shipyard Phase 1 and 2 and Candlestick Point project area will deliver approximately 12,100 new homes, approximately 32 percent of which will be below market rate and will include the rebuilding of the Alice Griffith public housing development consistent with the City's HOPE SF program, up to 3 million square feet of research and development space, and more than 350 acres of new parks in the southeast portion of San Francisco (the "Project"). In total, the Project will generate over \$6 billion of new economic activity to the City, more than 12,000 permanent jobs, hundreds of new construction jobs each year, new community facilities, new transit infrastructure, and provide approximately \$90 million in community benefits. The Project's full build out will occur over 20 to 30 years. In the next five years over 1,000 units of housing and 26 acres of parks will be completed in the first phase of the Shipyard.

The first phase of development has begun at the Hunters Point Shipyard site with 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 sf 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, 25% of which will be offered at below-market rates; up to 500 hotel rooms; a 400 slip marina; restaurants; retail and entertainment venues; and a world-class 300-acre parks and open space system. The compact mixed-use transit-oriented development is centered around a new ferry terminal connecting the island to downtown San Francisco and is designed to prioritize walking, biking and public transit. The development plans include green building standards and best practices in low-impact development.

The first major land transfer from the Navy to the Treasure Island Development Authority ("TIDA") occurred in May 2015 and included the northern half of Yerba Buena Island and more than half of the area of Treasure Island. The developer, Treasure Island Community Development ("TICD"), received its first land transfer in February 2016, and demolition and initial infrastructure improvements under contract are currently underway. The first phase of development will include extensive horizontal

infrastructure improvements (utilities, roadway improvements, site preparation, etc.) as well as the initial vertical developments. The complete build-out of the project is anticipated to occur over 15 to 20 years.

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, 16th 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, and trigger the construction of a new 5 acre Bay Front Park between the new event center and the Bay. 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

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 commence operations in Spring 2018. Demolition of existing structures on the site was completed in August 2011.

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, 1,400 to be affordable below-market rate homes, over 2 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, two parcels are fully complete and six parcels are in various stages of development and pre-development. Five of those parcels are current under construction and will provide over 1600 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.

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 \$6 billion 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.

Mission Bay

The development plans for Mission Bay include a new University of California-San Francisco (“UCSF”) research campus containing 3.15 million square feet of building space on 46 acres of land, of which 43 acres were donated by the Mission Bay Master Developer and the City; UCSF’s 550-bed hospital; 3.4 million square feet of biotech, ‘cleantech’ and health care office space; 6,400 housing units, with 1,850 (29%) affordable to moderate-, low-, and very low-income households; 425,000 square feet of retail space; a 250-room hotel with up to 25,000 square feet of retail entertainment uses; 49 acres of public open space, including parks along Mission Creek and San Francisco Bay and eight acres of open space within the UCSF campus; a new 500-student public school; and a new fire and police station and police headquarters. Mission Bay is approximately 50% complete.

Over 5,296 units have been completed with an additional 493 units under construction, along with several new parks. Another 119 affordable housing units, a 250-room hotel and the mixed-use Chase Event Center project will house the Golden State Warriors broke ground in 2017.

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. In spring 2018, the project team will seek State Lands Commission approvals, which has jurisdiction over tidelands and submerged lands in the State. Site preparation and ground improvement work is planned for fall 2018 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 anticipates breaking ground on Phase 1 in the first half of 2018.

Moscone Convention Center

The Moscone Center Expansion Project will add approximately 300,000 square feet and repurpose an additional 120,000 square feet to the portion of the existing Moscone Center located on Howard Street between 3rd and 4th Streets in the Yerba Buena Gardens neighborhood of San Francisco. Nearly 140,000 square feet of this additional space would be created by excavating and expanding the existing below-grade exhibition halls that connect the Moscone North and South buildings under Howard Street, with the remaining consisting of new and repurposed lobby area, new multi-purpose/meeting room area, and new and repurposed building support area.

In addition to adding new rentable square footage, the project architects propose an iconic sense of arrival that enhances Moscone's civic presence on Howard Street and reconnects it to the surrounding neighborhood through the creation of reintroduced lost mid-block passageways. As such, the project proposes a new mid-block pedestrian entrance from Third 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 lose up to \$2 billion in foregone revenue over the next decade if Moscone was not expanded. The project allows the City to recover approximately \$734 million of this future revenue and create 3,480 local jobs through a phased construction schedule that keeps Moscone in continuous revenue generating operation.

The proposed project is a joint partnership between the City and the hotel industry, acting through the Tourist Improvement District Management Corporation, with the City paying approximately one-third of all expansion costs and the hotel community paying approximately two-thirds. The Board of Supervisors unanimously approved the creation of the Moscone Expansion District and the issuance of \$507 million in Certificates of Participation on February 5, 2013 and the Planning Commission unanimously approved the project on August 15, 2014. Project development began in December 2012, with major construction starting in November 2014. The project is expected to reach completion by the end of 2018.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limit the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. However, *ad valorem* property

taxes required to be levied to pay debt service on general obligation bonds was authorized and approved in accordance with all applicable constitutional limitations. A summary of the currently effective limitations is set forth below.

Article XIII A of the California Constitution

Article XIII A of the California Constitution, known as "Proposition 13," was approved by the California voters in June of 1978. It limits the amount of *ad valorem* tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when "purchased, newly constructed or a change in ownership has occurred" (as such terms are used in Article XIII A) after the 1975 assessment. Furthermore, all real property valuation may be increased or decreased to reflect the inflation rate, as shown by the CPI or comparable data, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on 1) indebtedness approved by the voters prior to July 1, 1978, 2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or 3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district voting on the proposition, but only if certain accountability measures are included in the proposition.

The California Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher or lower than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate persons with disabilities and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII B of the California Constitution

Article XIII B was enacted by California voters as an initiative constitutional amendment in November 1979. Article XIII B limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population, and services rendered by the governmental entity. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the next two years.

Articles XIII C and XIII D of the California Constitution

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles 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 *Felder 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 Certificates, its General Fund lease or other debt obligations, nor materially impair the City's ability to fund current operations. 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 Retention 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's policy in this regard is based on its analysis that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing covenants and for other limited purposes. The City actuarially determines liability and workers' compensation risk exposures as permitted under State law. The City does not maintain commercial earthquake coverage, with certain minor exceptions.

The City's property risk management approach varies depending on various factors including whether the facility is currently under construction or if the property is owned by a self-supporting enterprise fund

department. For new construction projects, the City has utilized traditional insurance, owner-controlled insurance programs or contractor-controlled insurance programs. Under the latter two approaches, the insurance program provides coverage for the entire construction project. When a traditional insurance program is used, the City requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory limits to protect the City from risk exposure. The majority of the City's commercial insurance coverage is purchased for enterprise fund departments and other similar revenue-generating departments (the Airport, MTA, the SF Public Utilities Commission, the Port and Convention Facilities, etc.). The remainder of the commercial insurance coverage is for General Fund departments that are required to provide coverage for bond-financed facilities, coverage for collections at City-owned museums and to meet statutory requirements for bonding of various public officials, and other limited purposes where required by contract or other agreement.

Through coordination with the City Controller and the City Attorney's Office, the City's general liability risk exposure is actuarially determined and is addressed through appropriations in the City's budget and also reflected in the CAFR. The appropriations are sized based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The City actuarially estimates future workers' compensation costs to the City according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the department's payroll. The administration of workers' compensation claims and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. The Workers' Compensation Division determines and allocates workers' compensation costs to departments based upon actual payments and costs associated with a department's injured workers' claims. Statewide workers' compensation reforms have resulted in 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 16 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 Public Finance 

SUBJECT: Ordinance approving the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (the "Corporation") to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program in an amount not-to-exceed \$26,530,000

DATE: Monday, April 9, 2018

Recommended Action

The Office of Public Finance respectfully requests that the Board of Supervisors consider for review and adoption the ordinance approving the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (the "Corporation") to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program.

In connection with this request, we would like to respectfully request consideration of the resolution at the May 10, 2018 Budget and Finance Committee meeting.

Background

The proposed ordinance authorizes the issuance and sale of refunding lease revenue bonds by the Corporation to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program in an amount not-to-exceed \$26,530,000. The Corporation is a non-profit public benefit corporation duly organized and validly existing under the Nonprofit Public Benefit Corporation Law (Section 5110 et seq. of the California Corporations Code). The Corporation was formed in 1991 by the Chief Administrative Officer of the City and County of San Francisco (the "City") pursuant to a resolution of the Board of Supervisors. The purpose of the Corporation is to provide a means, to finance, through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

On November 6, 2007 voters in the City approved Proposition D "Renewing Library Preservation Fund" which amended the City Charter and renewed the property tax set-aside and the Library Preservation Fund (the "Library Fund") for 15 years. First enacted in 1994, the Library Fund receives an annual set aside from the property tax levy of \$0.025 per \$100 of assessed valuation of property in the City and a Baseline amount. The monies in the Library Fund are used by the Public Library to provide library services and materials and to operate library facilities. Proposition D also authorized the issuance of revenue bonds or other forms of indebtedness, or the incurrence of lease financing or other obligations, for the acquisition, construction, reconstruction, rehabilitation and/or improvement of real property and/or facilities that will be operated by the Public Library, primarily to provide additional revenue sources to the Branch Library Improvement Program ("BLIP") projects. Any debt issued pursuant to Proposition D is repaid from available funds pledged or appropriated by the Board of Supervisors which amounts may include monies in the Library Fund.

In 2009, the City and the Corporation entered into lease arrangements (further described below) obligating the City to make base rental payments (and certain other payments) to the Corporation, and the Corporation issued a series of revenue bonds (the "2009A Bonds") under this authority and a trust agreement (further described below) in an aggregate principal amount of \$34,265,000, pursuant to Ordinance No. 286-08 and Resolution No. 538-08. The base rental payments to the Corporation, appropriated and paid by the City, provide the Corporation with sufficient funds to pay debt service on the 2009A Bonds.

The 2009A Bonds were issued to finance the design, construction, renovation and installation of various BLIP projects, including:

- *Anza Branch Library*
- *Bayview/Anna E. Waden Branch Library*
- *Golden Gate Valley Branch Library*
- *Merced Branch Library*
- *North Beach Branch Library*
- *Ortega Branch Library*

The 2009A Bonds are currently refundable; and market conditions provide for savings with the issuance and sale of City and County of San Francisco Finance Corporation Refunding Lease Revenue Bonds (Branch Library Improvement Program) (the "Refunding Bonds"). The ordinance imposes, among others, the following terms and conditions:

- i) the Refunding Bonds must achieve 3% net present value savings;
- ii) the true interest cost of the Refunding Bonds must not exceed 12%;
- iii) the term of any lease agreement shall not be extended beyond its current term.

The Refunding Bonds

Under the proposed ordinance, the City will structure the Refunding Bonds using a lease-lease back structure between the City and the Corporation pursuant to the existing Facilities Lease, Master Lease, and Trust Agreement, each as amended. Pursuant to an Assignment Agreement, the Corporation will assign its right to the third-party trustee (the "Trustee") under the amended Trust Agreement, for the

benefit of the owners of the Refunding Bonds, substantially all of the Corporation's rights under the amended Master Lease, including the right to receive and collect the base rental payments from the City under such Master Lease (and such rights as may be necessary to enforce payment of the base rental payments).

Facilities Lease and Master Lease. Pursuant to the Facilities Lease, the City leases a City-owned property (or portion thereof comprising certain facilities, such as specific floors of the City's Main Library building) to the Corporation. Pursuant to the Master Lease, the City leases back the leased property from the Corporation. The City makes annual base rental payments to the Trustee, as the Corporation's assignee under the Assignment Agreement, in amounts required to repay the Refunding Bonds. When the Refunding Bonds are finally paid, the Facilities Lease and the Master Agreement terminate (assuming no other lease revenue bonds have been issued for Library improvement purposes under these Lease Agreements and the Trust Agreement). In addition to the Library Preservation Fund, the City's general fund is the source of funding for the repayment of the Refunding Bonds (see "The Current Plan of Finance" section below).

Trust Agreement. Pursuant to the Trust Agreement and the Assignment Agreement between the Corporation and the Trustee acting on behalf of and for the benefit of Refunding Bond holders, the Trustee administers and disburses bond payments and enforces the covenants and remedies in the event of a default. The Trust Agreement provides for the terms of the Refunding Bonds, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The Trustee holds proceeds derived from the sale of the Refunding Bonds and will disburse the proceeds to pay off the 2009A Bonds and to pay costs of issuance, as directed by authorized City representatives. The ordinance delegates selection of the Trustee to the Director of Public Finance.

The Trust Agreement requires that the base rental payments be deposited semi-annually in the revenue fund established in the Trust Agreement and maintained by the Trustee. The Trustee will apply such amounts as is necessary to make debt service (i.e., semi-annual interest and annual principal or sinking fund) payments with respect to the Refunding Bonds.

The Leased Property. It is anticipated that portions of the San Francisco Main Library building located at Civic Center Plaza, which is owned by the City (the "Leased Asset") will serve as the leased asset for the transaction, which consistent with the leased asset for the 2009A Bonds.

Assignment Agreement. An agreement that assigns specified rights (including the Corporation's right to receive lease revenues) as well as title and interest to the Leased Assets until the Refunding Bonds are repaid in full.

The Current Plan of Finance

The proposed ordinance authorizes the sale and issuance of Refunding Bonds in a par amount not to exceed \$26,530,000. Based on current market estimates, the Office of Public Finance anticipates issuing \$26,005,000 in Refunding Bonds that together with other sources of monies would refund \$25,975,000 of outstanding 2009A Bonds. The additional authorized amount above the expected issuance amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of

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the sale of the Refunding Bonds, any increased deposits for the debt service reserve fund, and possible other increased delivery date expenses.

Based upon a conservative estimate of 3.332% for an all-in true interest cost as defined in the proposed ordinance, the Office of Public Finance estimates that maximum fiscal year debt service on the Refunding Bonds will be approximately \$2,095,388. The anticipated total par value of \$26,005,000 is estimated to result in approximately \$7,474,253 in interest payments over the life of the Refunding Bonds. The total principal and interest payment over the approximate 10-year life of the Refunding Bonds is approximately \$33,479,253. It is anticipated that the term of the Refunding Bonds may be shortened by up to 6 years compared to the existing term of the 2009A Bonds.

Based on current market conditions, the refunding transaction is estimated to result in aggregate savings to the City of about \$6,035,892 on a gross basis. On a net present value (NPV) basis, the Office of Public Finance estimates the debt service savings to be approximately \$4,286,401 or 16.5% of the outstanding par amount of the 2009A Bonds to be refunded. This NPV percent savings of refunded par meets the City's debt policy objective of 3% or higher.

Table 1 outlines anticipated sources and uses for the Refunding Bonds, based on an estimate provided by Backstrom McCarley Berry & Co., LLC, 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.

Table 1. Estimated Sources and Uses of Refunding Bonds (Branch Library Improvement Program)

Estimated Sources

Estimated Par Amount	\$	26,005,000
Other Sources - Prior Debt Service Reserve Fund (2009A Bonds)	\$	<u>2,471,798</u>
<u>Total Estimated Sources</u>	\$	28,476,798

Estimated Uses

Refunding Fund Deposit (2009A Bonds)	\$	26,035,947
Debt Service Reserve Fund	\$	2,095,388
Cost of Issuance	\$	250,000
Underwriter's Discount	\$	<u>95,463</u>
<u>Total Estimated Uses</u>	\$	28,476,798

In addition, approximately \$2,095,388 may be allotted to fund a Debt Service Reserve Fund, to be funded if recommended by the Director of the Office of Public Finance. Approximately \$345,463 will be allotted to cover costs associated with the issuance of the Refunding Bonds. This includes amounts for underwriter compensation, legal fees, financial advisory fees, rating agency fees, printing costs, and other issuance costs.

In April 2016, the Library Commission appropriated \$7,556,391 of the Library Preservation Fund sources to pay down a portion of its existing debt tied to the 2009A Bonds, pursuant to San Francisco Library

Commission Resolution No. 2016-01. The impact of these additional sources allows the San Francisco Public Library to pay off its debt sooner, resulting in greater overall savings to the City.

Additional Information

The related financing documents—including the Notice of Intention to Sell, Official Notice of Sale, Official Statement, Appendix A and Continuing Disclosure Certificate and related documents—will also be submitted.

Official Notice of Sale. The Official Notice of Sale for the Refunding Bonds announces the date and time of the competitive bond sale, including the terms relating to the Refunding Bonds; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents. Pending market conditions, the Refunding Bonds may be bid separately by series or bids may be received for all of the Refunding Bonds.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Refunding Bonds. Pursuant to the Ordinance, the Controller is authorized to award the Refunding Bonds to the bidder whose bid represents the lowest true interest cost to the Corporation 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 Corporation's intention to sell the Refunding Bonds. Such Notice of Intention to Sell will be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

Official Statement. The Official Statement provides information for prospective bidders and investors in connection with the public offering by the Corporation of the Refunding Bonds. The Official Statement describes the Refunding Bonds, including sources and uses of funds; security for the Refunding 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 Refunding 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 Refunding Bonds.

The Board of Supervisors and the Mayor, in adopting and approving the ordinance, approve and authorize the use and distribution of the Official Statement by the co-municipal advisors with respect to the Refunding 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 certificates, 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 as appropriate, including the Appendix A.

Continuing Disclosure Certificate. The City covenants, on behalf of the Corporation, 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 Refunding Bonds in complying with the Securities and Exchange Commission Rule 15c212(b)(5).

Financing Timeline

Schedule milestones in connection with the financing may be summarized as follows:

<u>Milestone</u>	<u>Date*</u>
Introduction of authorizing ordinance to the Board of Supervisors	April 10, 2018
Consideration by the Board of Supervisors Budget & Finance Committee	May 10, 2018
Issuance and sale of Refunding Bonds	June 2018

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact Anna Van Degna at 415-554-5956 or Jamie Querubin at 415-552-6902 if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Andres Powers, Mayor's Office
Kelly Kirkpatrick, Mayor's Acting Budget Director
Harvey Rose, Budget Analyst
Ben Rosenfield, Controller
Kenneth Roux, Deputy City Attorney
Michael Lambert, Acting City Librarian, San Francisco Public Library
Maureen Singleton, Acting Chief Operating Officer, San Francisco Public Library

OFFICE OF THE MAYOR
SAN FRANCISCO



MARK FARRELL
MAYOR

TO:  Angela Calvillo, Clerk of the Board of Supervisors
FROM:  Mayor Farrell
RE: San Francisco Finance Corporation Refunding Lease Revenue Bonds
(Library Projects)
DATE: April 10, 2018

Attached for introduction to the Board of Supervisors is an ordinance approving the issuance and sale of refunding lease revenue bonds by the City and County of San Francisco Finance Corporation (the "Corporation") to refinance lease revenue bonds previously issued to finance various projects under the Branch Library Improvement Program, as further described herein; approving the form of a First Amendment to Facilities Lease by and between the Corporation and the City and County of San Francisco (the "City") relating to certain real property described herein; approving the form of a First Amendment to Master Lease by and between the Corporation and the City; approving the form of a First Supplemental Trust Agreement by and between the Corporation and a trustee (including certain indemnities contained therein); approving the form of an Assignment Agreement by and between the Corporation and a trustee; authorizing the sale of the refunding lease revenue bonds by competitive or negotiated sale; approving the form of an Official Notice of Sale and a Notice of Intention to Sell the refunding lease revenue bonds; directing the publication of the Notice of Intention to Sell the refunding lease revenue bonds; approving the form of a Purchase Contract and authorizing the appointment of one or more underwriters for the refunding lease revenue bonds; approving the form of an Official Statement in preliminary and final form; approving the form of a Continuing Disclosure Certificate; authorizing the payment of costs of issuance; granting general authority to City officials to take certain actions in connection with the refunding lease revenue bonds; approving modifications to documents; and ratifying previous actions taken in connection therewith.

I respectfully request a waiver of the 30-day hold and that this item be calendared in Budget & Finance Committee on April 19, 2018.

Should you have any questions, please contact Andres Power (415) 554-5168.

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2018 APR 10 PM 2:00
BOARD OF SUPERVISORS
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