

APPENDIX A

RECENT DEVELOPMENTS

The following information regarding certain recent developments in the finances and operations of the City supplements and amends the information set forth in Appendix A as of the date of this Official Statement. **Certain of the information provided below regarding the recent and ongoing COVID-19 Emergency (as defined below) is expected to have material adverse impacts on the projections and budget information provided in APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES,” which information in certain cases was prepared and released by the City prior to the COVID-19 Emergency.** Investors are advised to carefully consider the information presented below, together with other information presented in this Official Statement, in order to make an informed investment decision. Certain of the information provided below, and elsewhere in this Official Statement, involves forward-looking statements, which are based on current expectations and 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. See “CERTAIN RISK FACTORS – Public Health Emergencies.”

General

On February 11, 2020 the World Health Organization (“WHO”) announced the official name for the outbreak of a new disease (“COVID-19”) caused by a strain of novel coronavirus, an upper respiratory tract illness which has since spread across the globe. The spread of COVID-19 is having significant adverse health and financial impacts throughout the world, including the City. The WHO has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the Mayor of the City, the Governor of the State and the President of the United States.

To date there have been over 2,000 confirmed cases of COVID-19 in the City, and health officials expect the number of confirmed cases to grow. The outbreak has resulted in the imposition of restrictions on mass gatherings and widespread temporary closings of businesses, universities and schools (including the San Francisco Unified School District) throughout the United States. In addition, stock markets in the United States and globally have been volatile, with significant declines in market value.

Several counties in the Bay Area (including the City) announced shelter-in-place (“Shelter-in-Place”) emergency orders, which direct individuals to stay home, except for certain limited travel for the conduct of essential services. Most retail establishments (e.g., restaurants, bars and nightclubs, entertainment venues, gyms, etc.) were closed in response to the Shelter-in-Place order. The Governor of the State has announced a similar Shelter-in-Place emergency order (N-33-20) effective for the entire state. The Governor’s order states that it will remain in place “until further notice.” On April 27, 2020 Mayor London Breed announced that the Shelter-in-Place order would be extended through the end of May 2020. On May 14, 2020, Mayor Breed amended the Shelter-in-Place order and issued guidelines to allow retail businesses and associated manufacturers, warehouses and logistical businesses to operate storefront pickup operations.

The City has announced emergency relief measures for local businesses that will defer collection of certain tax revenues and increase City expenditures, with potential offsets from federal and State emergency funds. Existing and potential impacts to the City associated with the COVID-19 outbreak include, but are

not limited to, increasing costs and challenges to the City's public health system, reductions in tourism and disruption of the regional and local economy, including triggering an economic recession of unknown duration, widespread business closures and significantly higher levels of unemployment, with corresponding decreases in City revenues.

The adverse effects of the COVID-19 outbreak will likely also have an adverse impact on the City's retirement system. See "May Update Report" below. While the City's retirement system is structured for long term performance, it is likely that the current market value of the City's retirement fund has been materially adversely affected given the recent volatility and deterioration in global stock market values. These declines in market value could result in future increases in required pension fund contributions.

Modifications to Budget Calendar

On March 31, 2020, Mayor Breed announced in a press release that due to the current COVID-19 pandemic, the City's budget timeline will be delayed for two months. This delay will allow the City to focus on responding to the public health crisis and provide enough time for City budget staff to develop a plan to bring current year expenditures into alignment with projected lower revenues and prepare for the upcoming budget cycle. The additional time is intended to ensure the City's response to the significant current year shortfall and upcoming budget deficits are thoughtful and responsible.

Mayor Breed also announced that she will reissue Budget Instructions to departments in May, and Departments will be instructed to submit new department proposals to aid the Mayor in developing her balanced budget in June and July. By June 1, 2020, the Mayor plans to introduce a balanced interim budget to the Board of Supervisors. The Mayor plans to introduce a two-year balanced budget to the Board of Supervisors by August 1, 2020 for fiscal years 2020-21 and 2021-22. Following the Budget and Finance Committee Phase and the full Board phase, the budget is planned to go to Mayor Breed for her approval and signature by October 1, 2020. Also, see "May Update Report" below.

March Joint Report Update

On March 31, 2020, the Mayor, Board of Supervisors Budget Analyst, and Controller released an update (the "March Joint Report Update") to the City's Five-Year Financial Plan (the "Plan" or the "January Joint Report"). The January Joint Report forecasts City expenditures and revenues for the next five fiscal years. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET – Five-Year Financial Plan." The March Joint Report Update updated the previous projections in the January Joint Report with new information since January, notably the impacts on the City's local tax revenues resulting from the COVID-19 public health emergency (the "COVID-19 Emergency"). Generally, the March Joint Report Update has been updated and superseded by the May Update described below.

May Update Report

On May 13, 2020, the City released the May Update. The May Update report summarizes current projections of the City's General Fund revenue and expenditures for the five-year period from fiscal year 2019-20 through fiscal year 2023-24, and was prepared jointly by the Mayor's Budget Office, the Board of Supervisors Budget & Legislative Analyst, and the Controller's Office. A copy of the May Update may be found on the City's investor information website located at <https://sfcontroller.org/continuing-secondary-market-disclosure>. Neither the copy of the May Update on the City's investor relations website nor any other content on the City's investor relations website is incorporated by reference herein.

The report’s assessment of the severity and duration of economic and financial losses have worsened and changed in some aspects since the March Joint Report Update. In the City’s upcoming budget cycle, the Mayor and Board of Supervisors will be required to close projected shortfalls totaling \$1.7 billion during the remaining months of the current fiscal year and the upcoming two-year budget period (through fiscal year 2021-22).

In addition to the projected shortfalls through fiscal year 2021-22, the May Update report projects annual shortfalls of \$1.0 billion in fiscal year 2022-23 and \$1.1 billion in fiscal year 2023-24, the last two fiscal years of the five-year forecast period:

**Cumulative Changes in General Fund Supported
Revenues and Expenditures
(\$ in millions)**

	Fiscal Year				
	2019-20	2020-21	2021-22	2022-23	2023-24
Current fiscal year	(246.2)				
Future fiscal years		(753.9)	(735.4)	(1,016.4)	(1,088.5)
Projected shortfalls	(246.2)	(753.9)	(735.4)	(1,016.4)	(1,088.5)
FY 2019-20 through FY 2021-22 total			(1,735.5)		

While the March Joint Report Update presented the impacts of both an extended and limited recession, the May Update report no longer includes a more rapid recovery underpinning a limited impact scenario. Further, numerous factors, known and unknown, could cause actual results to differ materially from the projections, including but not limited to a delayed economic and revenue recovery scenario, emergency expenditures being required for a longer duration and/or loss of expected federal or State aid.

Economic and Revenue Recovery Delayed. As mentioned above, the May Update projections assume a slower economic recovery begins later in 2020 and continues into subsequent fiscal years. To the extent that the recovery occurs later or more gradually than assumed in the May Update, tax revenue losses will exceed those projected in the May Update report. Deeper losses would occur if continued community exposure to COVID-19 requires a slower resumption of economic activity, or subsequent outbreaks require re-imposition of public health measures that had been lifted.

Property, business, hotel, and sales tax revenue account for \$3.6 billion of the City’s General Fund revenues. More significant economic losses that drive either a deeper loss or slower recovery of these revenue sources than assumed in the May Update would worsen the projections significantly.

Emergency Expenditures Required for Longer Duration. The City’s response to the public health emergency has been expansive, and the City projects emergency response expenditures to total approximately \$375 million during the current fiscal year alone. These costs include extensive procurement of protective equipment for medical staff and first responders, operation and augmentation of the City’s public health system, new congregate and non-congregate housing alternatives for vulnerable residents, and economic and social support programs for those effected by both the public health and economic emergencies.

Given uncertainty regarding the duration of the public health emergency and nascent financial planning regarding the need to sustain response programs in upcoming fiscal years, these projections assume no additional General Fund cost for these programs beyond June 30, 2020. However, sustained emergency and public health responses will be required.

Reliance on Federal and State Support. The May Update notes that the City is reliant on federal and State revenues to support a variety of public health, social, and other government services. These funds account for approximately 20% of total General Fund revenues. The reliance on federal funds is heightened in the current emergency, as Federal Emergency Management Agency (“FEMA”) and other federal grant programs are needed to offset the costs of the City’s emergency response. The May Update projects that federal sources, including a significant allocation provided under the federal CARES Act for state and local governments, will offset the majority of emergency costs during the current fiscal year. However, absent additional allocations from the federal government, CARES Act funds will be largely exhausted in the current fiscal year. Similarly, the duration of reimbursements from FEMA are unknown and tied to the duration of the federal emergency. As these federal programs expire, it will significantly decrease non-City revenues available to offset future local emergency response costs.

Additionally, the City receives funding through the State for a number of human welfare, public health, and other programs. The public health emergency has significantly weakened the State’s financial condition. On May 14, 2020, the Governor released a proposed State budget to bridge a projected \$54 billion shortfall for the current and upcoming fiscal year. See “Impact of the State of California Budget on Local Finances.” To the extent that the State’s budget challenge results in reductions in funding for local governments, it may increase General Fund shortfalls accordingly. Projections in the May Update report assume no loss of federal or State aid.

Other Key Assumptions. The May Update report includes projections of all General Fund expenditures and revenues for fiscal years 2019-20 through 2023-24 and assumes current service levels and adopted policies. The City is required to adopt and maintain balanced budgets.

The Mayor’s Office has indicated they intend to submit a plan to offset projected revenue losses in the current fiscal year (fiscal year 2019-20) in the coming weeks. The Board Budget and Appropriations Committee has scheduled a hearing in May to review this plan. In its projections of fund balance available to support future fiscal years, the May Update assumes that a plan to bridge the \$246 million projected fiscal year 2019-20 shortfall will be enacted in the current year.

Nine-Month Report for Fiscal Year 2019-20. The May Update includes the Controller’s nine-month update on fiscal year 2019-20 revenue and expenditures as required by Charter Section 3.105, with information and projections as of April 15, 2020 (“Nine Month Report”). The Nine Month Report shows a fiscal year 2019-20 mid-year shortfall of \$246.2 million, as shown in the table below.

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**FY 2019-20 Project General Fund Variances to Budget
(\$ in millions)**

	FY 2018-19 Ending Fund Balance	504.7
	Appropriation in the FY 2019-20 Budget	(210.6)
A.	FY 2019-20 Starting Fund Balance	294.0
	Citywide Revenue Surplus / (Shortfall)	(436.0)
	Baseline Contributions	103.8
	Departmental Operations	123.7
	Approved Supplemental Appropriations	2.2
	Projected Use of General Reserve	(2.2)
B.	Current Year Revenues and Expenditures	(208.5)
	Deposit to Budget Stabilization Reserve	(66.8)
	Deposit to Budget Stabilization One-Time Reserve	66.8
	Deposit to Budget Savings Incentive Fund	-
C.	Withdrawals from / (Deposits) to Reserves	-
D.	FY 2019-20 Projected Ending Balance	85.5
E.	Previously Projected Available for Budget Years	331.7
F.	FY 2019-20 Mid-Year Shortfall	(246.2)

Citywide revenues are anticipated to be \$436.0 million below budget, a decline of \$542.8 million from the budget status update on revenues and expenditures through the first six months of the year issued by the Controller’s Office in February 2020 (the “Six Month Report”). Formula-driven voter-mandated baseline spending requirements are projected to be \$103.8 million below budget as a result of projected revenue declines.

The Controller’s Office projects a net departmental operating surplus of \$123.7 million. At the time of the Six-Month report, several departments anticipated requesting overtime supplemental appropriations in annual operating funds, as required by Administrative Code Section 3.17. This requirement is currently superseded by the Mayor’s Emergency Declaration.

Given a significant projected revenue shortfall and as permitted by the authorizing legislation, the Controller has suspended deposits to the Citywide Budget Savings Incentive Fund, and no deposits to other reserves are projected. The funded level of the City’s economic stabilization reserves remains at the target of 10% of General Fund revenue, absent appropriation of these reserves by policymakers. Due to revenue losses in the current year and high levels of excess ERAF revenues received in the prior fiscal year, the value of the 10% cap has fallen by \$66.8 million in the current year, which causes the \$66.8 million in excess of the cap to be shifted into the Budget Stabilization One-Time Reserve.

Based on the above assumptions and projections, the Nine-Month Report anticipates an ending available General Fund balance for fiscal year 2019-20 of \$85.5 million.

The budget outlook for fiscal years 2020-21 to 2023-24 described below assumes \$331.7 million in available fund balance is drawn down to reduce shortfalls in those years. This balance is based upon

estimates of available balance as of the City’s January 2020 projection report for those years.

The difference between current and previous estimates of ending available fund balance for fiscal year 2019-20 totals \$246.2 million. The Mayor’s Office has stated they intend to implement a rebalancing plan to bridge this loss in May 2020. To the extent that this plan offsets this projected loss of fund balance, the ending balance for the current fiscal year will be restored to \$331.7 million, consistent with assumptions for subsequent fiscal year projections below.

FY 2020-21 – FY 2023-24 Budget Outlook. The table below describes the changes since the City’s January Joint Report:

**Summary Changes to Updated Projected Budgetary Surplus / (Shortfall),
cumulative, as compared to January 2020 Projection
(\$ in millions)**

	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Sources - Revenue and Fund Balance	(739.2)	(534.2)	(479.2)	(419.1)
Uses - Baselines & Reserves	138.4	75.5	97.9	77.1
Uses - Salaries & Benefits	43.0	(37.8)	(76.6)	(87.0)
Uses - Citywide Operating Budget Costs	1.4	6.2	0.9	(0.9)
Uses - Departmental Costs	(2.1)	(20.9)	(28.4)	(28.0)
Total Cumulative Change	(558.6)	(511.2)	(485.3)	(457.9)

Change in Two Year Deficit (1,069.8)

Certain of the explanations provided in the May Update regarding changes to projected revenue sources and uses are summarized below.

SOURCES – Revenue and Fund Balance:

- *Use of Fund Balance.* The current projection is the same as the January projection, assuming the use of \$331.7 million of fund balance, as well as the entirety of the fund balance draw down reserve. To achieve this level of fund balance, the May Update notes that policymakers will need to eliminate the current year shortfall of \$246.2 million, as described above.
- *Citywide Revenue.* The current projection includes significant downward revisions of revenue. Changes to major sources of revenue are detailed below:
 - Property Tax Revenue. Changes in property tax revenues lag other recessionary revenue losses due to statutory deadlines. Current fiscal year taxable values reflect the lower of either the current market value of the property as of the January 1, 2019 lien date or the property’s base year value (when first acquired or new construction improvements completed) plus accumulated annual inflation (capped at 2% per year) since that base year. Taxable values for fiscal 2020-21 were set as of the January 1, 2020 lien date. The first upcoming fiscal year that may reflect negative economic conditions is fiscal year 2021-22 with a lien date of January 1, 2021.

Over two-thirds of the fiscal 2019-20 secured taxable value of San Francisco real

estate is comprised of either single or multi-unit residential properties. Due to Proposition 13 limitations on reassessments, the median taxable value of single-family dwellings of \$590,000 in San Francisco is well below recent median market sales prices above \$1 million, and most valuations will continue to increase with California Consumer Price Index (CPI). The revenue risk from declining residential property market values would stem largely from new construction and recently sold properties with taxable base year valuations set near their full market values. Given restrictions on travel and commerce and the move toward telecommuting, hotel and commercial retail property values appear to be at greatest risk of reduction, followed by office space.

Although there is little argument for reductions to values as of the January 1, 2020 lien date, there is a risk that legislators may approve changes (e.g. SB 1431) that would allow the COVID-19 public health emergency to be considered a misfortune and calamity for commercial properties such as hotels, retail, and office that could result in material losses of property tax revenue. Multi-unit residential buildings values would not be immune from downward revision if harmed by the emergency.

Fiscal year 2021-22 General Fund property tax revenues are projected to be \$1,819.0 million. This is the first fiscal year that COVID-19 is anticipated to substantially impact property tax revenues. Automatic inflationary increases to taxable values, usually assumed at the 2% Prop 13 limit, have been reduced to 1%, and hotel, retail, and office assessed values are assumed reduced by \$8.5 billion, reflecting declines of about 20%, 20%, and 7%, respectively. A 20% reduction in unsecured business property tax assessments is included in the projection, reflecting the possibility that many businesses will dissolve prior to the January 1, 2021 lien date.

Fiscal year 2022-23 and fiscal year 2023-24 General Fund property tax revenues are projected to be \$1,922 million and \$2,037 million, respectively, assuming California CPI will provide the Proposition 13 capped 2% growth in secured property taxable valuations along with 2% growth from changes in ownership that result taxable values set to higher market rates.

- Business Tax. Business tax revenue in fiscal year 2019-20 will be negatively affected by COVID-19. The May Update projection of fiscal year 2019-20 business tax revenue is \$843.5 million rather than the March Joint Report Update amount of \$1,056.9 million for three main reasons. First, the due date for business registration fees was delayed from May 31 to September 30. There will now be two years of business registration fees received in fiscal year 2020-21. Second, the payroll tax is calculated based on work performed within San Francisco. With the Shelter-in-Place order, more people are telecommuting from home rather than commuting into the City. Because far more workers commute into the City than out of it, Shelter-in-Place reduces payroll tax revenue. Moreover, more than half of San Francisco businesses use their San Francisco payroll as a factor to determine their gross receipts subject to the gross receipts tax. As their San Francisco payroll falls, gross receipts tax revenue will also fall. Third, businesses have the option of paying the first and second quarter payments for tax year 2020 that businesses remit in April and July 2020 for revenue in fiscal year 2019-20 based on their current year liability, if it is lower than the prior year.

Because of the shift in business registration fees from fiscal year 2019-20 to fiscal year 2020-21 offset by a continued decline in business tax revenue due to telecommuting, the City's projection for fiscal year 2020-21 revenue will increase \$136.5 million over the prior year, from \$843.5 million to \$980.0 million. It is expected that COVID-19 will continue to impact business tax revenue beyond fiscal year 2020-21 and the May Update projects fiscal year 2021-22 business tax revenue of \$995.5 million, an increase of 1.6% over the prior year; fiscal year 2022-23 revenue of \$1,011.7 million, an increase of 1.6%; and fiscal year 2023-24 revenue of \$1,026.4 million, an increase of 1.5%.

There remains significant short-term and long-term uncertainty in business tax revenue due to the effects of COVID-19. In the short-term, Shelter-in-Place rules could be extended, to varying degrees, until more therapeutics are developed to treat the disease. Businesses could expand their use of telecommuting even after Shelter-in-Place rules have ended, which would lower both payroll and gross receipts revenue. The long-term risk is that the economy will be subject to future closings and even after, recover very slowly, given the magnitude of job losses to date and expected business closures.

- Local Sales Tax and State Sales Tax Subventions. In fiscal year 2020-21, the May Update projection assumes a more moderate sales decrease from pre-COVID-19 levels in July to September to a 50% reduction for restaurants and bars and 25% for all other sectors, and a 25% reduction for restaurants and bars and 10% for all other sectors into December. Beyond fiscal 2020-21, consumer spending is expected to slowly recover, and sales tax is anticipated to rise to \$190.0 million by fiscal year 2023-24, which would still be 11.1% below the fiscal year 2018-19 peak.
- Hotel Room Tax. The May Update projection assumes a decline in revenue per available room (RevPAR) of 38% in the first quarter (January to March), and a 90% decrease into September 2020, 75% in the fourth quarter (October to December), 30% through June 2022, and 20% through the end of FY 2022-23. The hotel industry is anticipated to slowly recover; hotel tax across all funds is projected to be \$402.3 million in fiscal year 2023-24, still below the prior peak, with \$363.2 million in the General Fund, \$29.2 million (7.4%) less than that in fiscal year 2018-19.
- Real Property Transfer Tax. In fiscal year 2020-21, the May Update continues to assume dampened commercial real estate activity through the first half of the fiscal year, with monthly receipts of \$15 million, rising to \$21 million per month in the second half of the year. Transfer tax is assumed to return its long-term historical average of \$253.4 million by fiscal year 2021-22 and remain at that level through fiscal year 2023-24.
- Department of Public Health Revenue. In addition to the January assumptions, the current projection includes a new one-time reduction of public health revenues of \$80.2 million in fiscal year 2020-21, recovering in the following year. This amount mostly represents lost patient and Medi-Cal revenue due to the cancellation and deferral of elective medical visits as a result of the health emergency.

USES – Salaries and Benefits

- *Labor Agreements.* The May Update assumes contracts for Police and Firefighter unions remain closed through fiscal year 2020-21, and contracts for miscellaneous unions remain closed through fiscal year 2021-22. The May Update assumes the six-month delay of wage increases set to go into effect in July 2020 and December 2020, consistent with language in negotiated memorandums of understanding (MOUs) regarding current fiscal conditions.
- *Retirement Benefits – Employer Contribution Rates.* Changes in the assumed employer contribution rates for SFERS are a significant driver in the change in salary and benefits costs as compared to the January 2020 report. The projection reflects the employer contribution rate set by the Retirement Board in February 2020 for the upcoming fiscal year 2020-21, resulting in a savings of \$5.6 million compared to January. For the remaining years of the projection, the report assumes investment returns of -5.0% in the current year as a result of poor market performance due to the COVID-19 emergency, as opposed to the 7.4% rate of returns assumed in January. These losses result in projected increased year-over-year costs of \$26.9 million in fiscal year 2021-22 and an additional \$30.7 million in fiscal year 2022-23 versus the January projection.
- *Health Benefits for Active Employees and Retirees.* The update includes a number of changes to the cost of health benefits for active employees and retirees. In January 2020, the average health rate increases for active and retirees was approximately 6.0% across the projection period; in this update, average health rates are projected to increase to 6.7%. For active employees, health rates were increased modestly from the January report to account for projected increases in health care costs. For retirees, the update includes increased retiree health costs in fiscal year 2020-21 to reflect actual retiree health costs in the current fiscal year, and then assumes increased rates in the final three years of the projection. The May Update report also assumes the elimination of the so-called Cadillac Tax, which was repealed by Congress in December 2019, reducing expected costs of health care. Together, these changes result in an additional year-over-year increase of \$8.7 million in fiscal year 2020-21, \$2.1 million in fiscal year

USES – Departmental Costs

- These changes are primarily due to a projected increased General Fund subsidy for the Moscone Convention Center and increased cost for entitlements and other benefits, offset by some savings in the annualization of current year supplementals.

Emergency Expenditure and Revenue. The City's response to the COVID-19 public health emergency has been extensive, and has involved significant public health, emergency management, shelter and temporary housing, and social and economic support programs. The May Update summarizes projection of these costs during the current fiscal year and provides a preliminary assessment of possible spending levels in fiscal year 2020-21.

City costs and encumbrances for the effort in the current fiscal year ending June 30, 2020 are projected to total \$372.2 million. These expenses are expected to be offset in part by projected FEMA reimbursements, local philanthropy, and other sources of approximately \$231.9 million. The remaining projected shortfall of \$140.8 million will likely be covered by one-time allocations available from the CARES Act, but largely deplete the value of those allocations available to support those expenditures in coming fiscal years.

City costs for fiscal year 2020-21, and potentially beyond, are largely unknown at this time, but are likely to be significant. The level of costs will depend on the intensity and duration of local health risks in the next phases of the COVID-19 emergency and the investment in strategies to mitigate this risk. For illustration, if current spending rates are sustained for the coming fiscal year, local costs remaining after FEMA reimbursement would total approximately \$470 million. If costs drop to 25% of current spending levels, the local share after FEMA reimbursement would total approximately \$85 million. Local costs pressures will rise if the duration of FEMA reimbursements, which is tied to the federally-declared national emergency, is shortened.

The table below summarizes projected expenditures and revenues related to the City’s emergency response efforts to mitigate, prepare for, and respond to the spread of COVID-19, and to provide immediate relief and assistance to San Francisco residents and workers. The figures represent projected expenditures and revenues for the current fiscal year ending on June 30, 2020. The City projects current year expenditures and encumbrances totaling \$372.7 million, offset by projected claims to FEMA, local philanthropic allocations to date, and some state or federal sources that have already been allocated for specific programs of \$231.9 million. The City projects that the remaining fiscal year 2019-20 shortfall of \$140.8 million can be covered in the current year by available one-time allocations of \$183.2 million from the CARES Act Coronavirus Relief Fund and the State’s Senate Bill 89. However, this will largely exhaust these CARES Act allocations, resulting in uncertainty as to funding for continued emergency response costs in FY 2020-21.

FY 2019-20 COVID-19 Response Expenditures & Revenues
(\$ in millions)

	Total Cost	FEMA & Other	Net Local
Expenditures			
Health system costs	177.7	132.5	45.2
Shelter and housing programs	91.6	46.2	45.4
Emergency operations and staffing	30.7	10.7	20.0
Economic and social relief programs	72.7	42.5	30.2
Subtotal, Expenditures	372.7	231.9	140.8
Other Federal & State Sources			
CARES Act - State & Local Governments			153.8
CARES Act - Other allocations			22.0
State Senate Bill 89 - Emergency homelessness funding			7.4
Subtotal, Other Federal & State Sources			183.2
Balance of CARES Act Funding for Response Costs in FY 2020-21			42.4

Threat of Extended Recession

Widespread shutdown of businesses and supply chain disruption in response to the COVID-19 pandemic is expected to have started a U.S. recession in March 2020. According to the California Employment Development Department, the State’s unemployment rate rose by 1.4 percentage points in March 2020 to 5.3 percent, which was the State’s largest unemployment rate increase on record in a data series going back to 1976. In the “Great Recession” occurring nationally from December 2007 to June 2009 (according to the U.S. National Bureau of Economic Research), California real GDP growth slowed for five consecutive quarters from the third quarter of 2008 to the third quarter of 2009 and did not return to pre-recession level of output until three years later in the third quarter of 2012. The unemployment rate rose steadily from 4.9 percent in the fourth quarter of 2006 to peak at 12.3 percent in the fourth quarter of 2010 and

did not return to the pre-recession level until the second quarter of 2017. More than a third of California jobs are in sectors that are immediately vulnerable to stay-at-home disruptions, and unemployment could peak at around 25 percent, or twice as high as in the Great Recession.

Impact of the State of California Budget on Local Finances

On May 14, 2020, the Governor submitted his fiscal year 2020-21 May Revision (the “May Revise”) budget proposal to the Legislature which provides for closing a budget gap of more than \$54 billion brought on by the COVID-19 recession. The May Revise proposes to cancel new initiatives proposed in the Governor’s original January budget, cancel and reduce spending included in the 2019 Budget Act, draw down reserves, borrow from special funds, temporarily increase revenues and make government more efficient. Due to the size of the challenge, the May Revise includes reductions in spending. The May Revise provides that certain significant cuts will only be triggered if the federal government does not pass an aid package that helps states and local governments.

The May Revise responds to the dramatic economic and revenue changes since January 2020, when the budget reflected a \$5.6 billion surplus and record reserve levels. In a release that accompanied the May Revise the Governor’s Office noted that the rapid onset of the COVID-19 recession in California has resulted in more than 4 million unemployment claims being filed since mid-March, the unemployment rate is now projected to be 18 percent for the year, and there is a \$41 billion decline in revenues compared to January’s forecast. With a higher demand for social safety net services increasing state costs, the \$54.3 billion deficit is more than three times the size of the record \$16 billion set aside in the state’s Rainy Day Fund.

The City is reviewing the May Revise and has not yet determined what impacts the May Revise, if enacted, would have on the finances and operations of the City. It is likely that the State budget for fiscal year 2020-21 will continue to undergo significant revisions before being adopted in its final form. Further, as provided in the May Revise, the adopted budget will be significantly impacted by developing economic circumstances and whether the federal government provides additional funding to states and local governments.

Impact of the Federal Government on Local Finances

Under the CARES Act, the United States Treasury department will distribute \$150 billion to state and local governments within 30 days of enactment under a population-based formula. The statute limits the use of funds to COVID-19 expense reimbursement rather than to offset anticipated state tax revenue losses. The City has received its \$153.8 million allocation from this Coronavirus Relief Fund, which can be used to cover COVID-19-related medical, public health, economic support, and other emergency response costs. The federal government also provides significant funding for COVID-19 expenses through FEMA. See “May Update Report” above.

CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES

For supplemental information as of the date of this Official Statement, please see “RECENT DEVELOPMENTS” for a discussion of the expected material adverse impacts on the City’s General Fund of the COVID-19 Emergency.

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

The various reports, documents, websites and other information referred to herein are not incorporated herein by such references. The City has referred to certain specified documents in this Appendix A which are hosted on the City’s website. A wide variety of other information, including financial information, concerning the City is available from the City’s publications, websites and its departments. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded and is not a part of or incorporated into this Appendix A and should not be considered in making a decision to buy the bonds.

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

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

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. As described in “RECENT DEVELOPMENT—COVID-19,” the COVID-19 pandemic is expected to materially adversely impact financial condition of the City’s General Fund.

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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 TK-12) (“SFUSD”) and the San Francisco Community College District (post-secondary) (“SFCCD”). Each is a separate legal entity with a separately elected governing board.

Unique among California cities, San Francisco as a charter city and county provides the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including a port and airport; construction and maintenance of all public buildings and facilities; water, sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for slightly less than 50% of all City expenditures. In addition, voters have approved Charter amendments that impose certain spending mandates and tax revenue set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including transportation services, children’s services and public education, and libraries.

Under its original charter, the City committed to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. In 1927, the City dedicated 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. SFO, the Port, the PUC (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. The Mayor appoints most commissioners subject to a two-thirds vote of the Board of Supervisors, unless otherwise provided in the Charter. The Mayor appoints each department head from among persons nominated to the position by the appropriate commission and may remove department heads.

Mayor

Mayor London Breed is the 45th Mayor of San Francisco and the first African-American woman to serve in such capacity in the City’s history. Mayor Breed was elected on the June 4, 2018 special election to serve until January 2020, fulfilling the remaining term of the late Mayor Edwin Lee. In November 2019 Mayor Breed was elected to serve her first full term. Prior to her election, Mayor Breed served as Acting Mayor, leading San Francisco following the sudden passing of Mayor Lee. Mayor Breed previously served as a member of the Board of Supervisors for six years, including the last three years as President of the Board.

Board of Supervisors

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

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	2023
Aaron Peskin, <i>District 3</i>	2017	2021
Gordon Mar, <i>District 4</i>	2019	2023
Dean Preston, <i>District 5</i>	2019	2020
Matt Haney, <i>District 6</i>	2019	2023
Norman Yee, Board President, <i>District 7</i>	2017	2021
Rafael Mandelman, <i>District 8</i>	2018	2023
Hillary Ronen, <i>District 9</i>	2017	2021
Shamann Walton, <i>District 10</i>	2019	2023
Ahsha Safai, <i>District 11</i>	2017	2021

Other Elected and Appointed City Officers

The City Attorney represents the City in all legal proceedings in which the City has an interest. Dennis J. Herrera was re-elected to a four-year term as City Attorney in November 2019. 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.

The Assessor-Recorder administers the property tax assessment system of the City. Carmen Chu was re-elected to a four-year term as Assessor-Recorder of the City in November 2018. Before becoming Assessor-Recorder, Ms. Chu was elected in November 2008 and November 2010 to the Board of Supervisors, representing the Sunset/Parkside District 4 after being appointed by then-Mayor Gavin Newsom in September 2007.

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

The City Controller is responsible for timely accounting, disbursement, and other disposition of City moneys, certifies the accuracy of budgets, estimates the cost of ballot measures, provides payroll services for the City's employees, and, as the Auditor for the City, directs performance and financial audits of City activities. Benjamin Rosenfield was appointed to a ten-year term as Controller of the City by then-Mayor Newsom in March 2008 and was confirmed by the Board of Supervisors in accordance with the Charter. Mr. Rosenfield was reappointed by then-Mayor Mark Farrell to a new ten-year term as Controller in 2017, and his nomination was confirmed by the Board of Supervisors on May 1, 2018. 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 during that period, 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 as a project manager in the Controller's Office.

The City Administrator has overall responsibility for the management and implementation of policies, rules and regulations promulgated by the Mayor, the Board of Supervisors and the voters. The City Administrator oversees the General Services Agency consisting of 25 departments, divisions, and programs that include the Public Works Department, Department of Technology, Office of Contract Administration/Purchasing, Real Estate, County Clerk, Fleet Management, Convention Facilities, Animal Care and Control, Medical Examiner, and Treasure Island. Naomi M. Kelly was appointed to a five-year term as City Administrator by then-Mayor Lee in February of 2012, following her brief role as Acting City Administrator. Ms. Kelly was re-appointed for a second five-year term on February 8, 2017. Prior to her City Administrator position, Ms. Kelly was appointed City Purchaser and Director of the Office of Contract Administration by Mayor Newsom. She previously served as Special Assistant in the Mayor's Office of

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

CITY BUDGET

Overview

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, and funds such departments and enterprises through its annual budget process. Each year the Mayor prepares budget legislation for the City departments, which must be approved by the Board of Supervisors. General Fund revenues consist largely of local property tax, business tax, sales tax, other local taxes and charges for services. A significant portion of the City's revenue also comes in the form of intergovernmental transfers from the State and federal governments. Thus, the City's fiscal position is affected by the health of the local real estate market, the local business and tourist economy, and by budgetary decisions made by the State and federal governments which depend, in turn, on the health of the larger State and national economies. All these factors are almost wholly outside the control of the Mayor, the Board of Supervisors and other City officials. In addition, the State Constitution limits the City's ability to raise taxes and property-based fees without a vote of City residents. See "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES" herein. Also, the fact that the City's annual budget must be adopted before the State and federal budgets adds uncertainty to the budget process and necessitates flexibility so that spending decisions can be adjusted during the course of the fiscal year. See "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

On August 1, 2019, the City adopted its two-year budget. The City's fiscal year 2019-20 adopted budget appropriated annual revenues, fund balance, transfers and reserves of approximately \$12.3 billion, of which the City's General Fund accounts for approximately \$6.1 billion. The City's fiscal year 2020-21 adopted budget appropriated revenues, fund balance, transfers and reserves of approximately \$12.0 billion, of which approximately \$6.0 billion represents the General Fund budget. Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2016-17 through 2018-19 and the Original Budgets for fiscal years 2019-20. See "PROPERTY TAXATION –Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein. For detailed discussion of the fiscal years 2019-20 adopted budget, see "City Budget Adopted for Fiscal Years 2019-20" herein.

As described in "RECENT DEVELOPMENTS," economic and tax revenue losses associated with the COVID-19 Emergency have been stark and immediate, and the COVID-19 Emergency is expected to have material adverse impacts on the projections and budget information provided in in this APPENDIX A. See "RECENT DEVELOPMENTS – May Update Report" for a discussion of current projections of the magnitude of the financial impact of the COVID-19 Emergency on the City. The COVID-19 Emergency is expected to result in significant shortfalls in Fiscal Years 2019-20 and 2020-21 (as compared to the Original Budgets for such years). The information with respect to Fiscal Year 2019-20, Fiscal 2020-21 and future fiscal years was prepared prior to the COVID-19 Emergency and does not reflect the anticipated revenue shortfalls and related fiscal pressures.

As described in “RECENT DEVELOPMENTS – Modifications to Budget Calendar,” by June 1, 2020, the Mayor plans to introduce a balanced interim budget to the Board of Supervisors. The Mayor plans to introduce the revised full two-year fiscal year 2020-21 and fiscal year 2021-22 balanced budget by August 1, 2020. Following the Budget and Finance Committee Phase and the full Board phase, the budget is planned to go to Mayor Breed for her approval and signature by October 1, 2020.

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TABLE A-2*

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 2016-17 through 2019-20
(000s)

	2016-17 Final Revised Budget	2017-18 Final Revised Budget	2018-19 Final Revised Budget ⁶	2019-20 Original Budget ⁷
Prior-Year Budgetary Fund Balance & Reserves	\$1,526,830	\$1,999,334	\$2,342,082	\$299,880
<u>Budgeted Revenues</u>				
Property Taxes ¹	\$1,412,000	\$1,557,000	\$2,142,727	\$1,956,008
Business Taxes	669,450	750,820	879,414	1,050,620
Other Local Taxes ²	1,126,245	1,112,570	1,053,390	1,144,376
Licenses, Permits and Franchises	28,876	29,964	30,794	30,431
Fines, Forfeitures and Penalties	4,671	4,579	3,131	3,125
Interest and Investment Earnings	13,971	18,615	20,323	76,590
Rents and Concessions	15,855	14,089	14,896	15,141
Grants and Subventions	978,252	965,549	1,072,205	1,088,615
Charges for Services	235,491	242,842	263,340	245,222
Other	58,776	40,130	268,855	69,424
Total Budgeted Revenues	\$4,543,587	\$4,736,158	\$5,749,075	\$5,679,551
Bond Proceeds & Repayment of Loans	\$881	\$110	\$87	-
<u>Expenditure Appropriations</u>				
Public Protection	\$1,266,148	\$1,316,870	\$1,390,266	\$1,493,084
Public Works, Transportation & Commerce	166,295	238,564	214,928	208,755
Human Welfare & Neighborhood Development	978,126	1,047,458	1,120,892	1,183,587
Community Health	763,496	832,663	967,113	950,756
Culture and Recreation	139,473	142,081	154,056	173,969
General Administration & Finance	252,998	259,916	290,274	596,806
General City Responsibilities ³	134,153	114,219	172,028	193,971
Total Expenditure Appropriations	\$3,700,689	\$3,951,771	\$4,309,557	\$4,800,929
Budgetary reserves and designations, net	\$9,868	\$0	\$0	29,880
Transfers In	\$246,779	\$232,032	\$239,056	163,455
Transfers Out ⁴	(857,528)	(1,009,967)	(1,468,021)	(1,312,077)
Net Transfers In/Out	(\$610,749)	(\$777,935)	(\$1,228,965)	(\$1,148,622)
Budgeted Excess (Deficiency) of Sources				
Over (Under) Uses	\$1,749,993	\$2,005,897	\$2,552,722	-
Variance of Actual vs. Budget	249,475	336,422	374,136	-
Total Actual Budgetary Fund Balance⁵	\$1,999,468	\$2,342,319	\$2,553,096	-

¹ The City's final budget for FY 2018-19 property tax included \$414.7 million of "Excess Educational Revenue Augmentation Fund (ERAF)" revenue, representing 2 years of Excess ERAF. In FY 2019-20, the City budgeted \$185.0 million of "Excess Educational Revenue Augmentation Fund (ERAF) revenue. In the following year, no excess ERAF revenue is assumed given the risk of entitlement formula volatility, potential cash flow changes, and possible modifications to local property tax revenue allocation laws by the State. Please see Property Tax section for more information about Excess ERAF.

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

³ 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.

⁴ Other Transfers Out is primarily related to transfers to support Charter-mandated spending requirements and hospitals.

⁵ Fiscal year 2016-17 through fiscal year 2018-19 Final Revised Budget reflects prior year *actual* budgetary fund balance. Fiscal year 2019-20 Original Budget reflects *budgeted* use of fund balance and reserve.

⁶ FY 2018-19 Final Revised Budget updated from FY 2018-19 CAFR.

⁷ FY 2019-20 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.

* As described in "RECENT DEVELOPMENTS," as a result of the COVID-19 Emergency, the estimates and projections in City's 2019-20 Original Budget are expected to be materially adversely impacted by the COVID-19 Emergency.

Budget Process

The following paragraphs contains a description of the City's customary budget process. As described in "RECENT DEVELOPMENTS – Modifications to Budget Calendar," due to the current COVID-19 pandemic, the City's budget timeline will be delayed for two months. Mayor Breed expects to reissue Budget Instructions to departments in May, and Departments will be instructed to submit new department proposals to aid the Mayor in developing her balanced budget in June and July. By June 1, 2020, the Mayor plans to introduce a balanced interim budget to the Board of Supervisors. The Mayor plans to introduce the full two-year fiscal year 2020-21 and fiscal year 2021-22 balanced budget by August 1, 2020. Following the Budget and Finance Committee Phase and the full Board phase, the budget is planned to go to Mayor Breed for her approval and signature by October 1, 2020.

The City's fiscal year commences on July 1 and ends on June 30. The City's budget process for each fiscal year begins in the middle of the preceding fiscal year as departments prepare their budgets and seek any required approvals from the applicable City board or commission. Departmental budgets are consolidated by the City Controller, and then transmitted to the Mayor no later than the first working day of March. By the first working day of May, the Mayor is required to submit a proposed budget to the Board of Supervisors for certain specified departments, based on criteria set forth in the Administrative Code. On or before the first working day of June, the Mayor is required to submit a proposed budget, including all departments, to the Board of Supervisors.

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

The City is required by the Charter to adopt 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 upon release of the City’s CAFR to reflect the year-end revenue and expenditure appropriations for that fiscal year.

Multi-Year Budgeting and Planning

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

1. Fixed two-year budgets are approved by the Board of Supervisors for five departments: SFO, Child Support Services, the Port, the PUC and MTA. All other departments prepare balanced, rolling two-year budgets for Board approval. For all other departments, the Board annually approves appropriations for the next two fiscal years.
2. Five-year financial plan and update, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The most recent five-year financial plan update, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the Mayor, the Budget Analyst for the Board of Supervisors and Controller’s Office on January 3, 2020, for fiscal year 2020-21 through fiscal year 2023-24. See “Five Year Financial Plan” section below.
3. The Controller’s Office proposes to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt and financial measures in the case of disaster recovery and requires the City to adopt budgets consistent with these policies once approved. The Controller’s Office may recommend additional financial policies or amendments to existing policies no later than October 1. Key financial policies include:
 - Non-Recurring Revenue Policy - This policy limits the Mayor’s and Board’s ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance, the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves, acquisition of capital equipment, capital projects included in the City’s capital plans, development of affordable housing, and discretionary payment of pension, debt or other long-term obligations.
 - Rainy Day and Budget Stabilization Reserve Policies – These reserves were established to support the City’s budget in years when revenues decline. These and other reserves (among many others) are discussed in detail below. Charter Section 9.113.5 requires deposits into the Rainy Day Reserve if total General Fund revenues for the current year exceed total General Fund revenues for the prior year by more than five percent. Similarly, if budgeted revenues exceed current year revenues by more than five percent, the budget must allocate deposits to the Rainy Day Reserve. The Budget Stabilization Reserve augments the Rainy Day Reserve and is funded through the dedication of 75% of certain volatile revenues. These and other reserves are discussed under Rainy Day Reserve and Budget Stabilization Reserve below.

4. The City is required to submit labor agreements for all public employee unions to the Board of Supervisors by May 15, so the fiscal impact of the agreements can be incorporated in the Mayor's proposed June 1 budget. All labor agreements are closed for the budget year, fiscal year 2020-21.

Role of Controller in Budgetary Analysis and Projections

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

In addition to the five-year planning responsibilities discussed above, Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued the first of these reports, the fiscal year 2019-20 Six Month Report (the "Six Month Report"), in February 2020, and expects to issue the second of these reports, the fiscal year 2019-20 Nine Month Report (the "Nine Month Report"), in May 2020. 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.

General Fund Results: Audited Financial Statements

The City's most recently completed Comprehensive Annual Financial Report (the "CAFR," which includes the City's audited financial statements) for fiscal year 2018-19, was issued on December 31, 2019. The fiscal year 2018-19 CAFR reported that as of June 30, 2019, the General Fund fund balance available for appropriation in subsequent years was \$812.7 million (see Table A-4), which represents a \$196.1 million increase in available fund balance from the \$616.6 million available as of June 30, 2018. This increase resulted primarily from greater-than-budgeted property tax revenue given unanticipated Excess ERAF allocations, real property transfer tax revenue, and operating surpluses at the Department of Public Health, which was partially offset by under-performance in business tax revenues in fiscal year 2018-19.

The audited General Fund fund balance as of June 30, 2019 was \$2.7 billion (shown in Tables A-3 and A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of \$5.9 billion. The City prepares its budget on a modified accrual basis, which is also referred to as "budget basis" in the CAFR. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. Table A-3 focuses on a specific portion of the City's balance sheet; audited General Fund fund balances are shown on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2015 through June 30, 2019. See Note 10 of the CAFR for additional information on fund balances and reserves.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO
Summary of Audited General Fund Fund Balances
Fiscal Years 2014-15 through 2018-19¹
(000s)

	2014-15	2015-16	2016-17	2017-18	2018-19
Restricted for rainy day (Economic Stabilization account) ²	\$71,904	\$74,986	\$78,336	\$89,309	\$229,069
Restricted for rainy day (One-time Spending account) ²	43,065	45,120	47,353	54,668	95,908
Committed for budget stabilization (citywide) ³	132,264	178,434	323,204	369,958	396,760
Committed for Recreation & Parks savings reserve ⁴	10,551	8,736	4,403	1,740	803
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	\$137,641	\$190,965	\$244,158	\$345,596	\$351,446
Assigned for appropriation carryforward	201,192	293,921	434,223	423,835	496,846
Assigned for budget savings incentive program (Citywide) ⁴	33,939	58,907	67,450	73,650	86,979
Assigned for salaries and benefits ⁵	20,155	18,203	23,051	23,931	28,965
Total Fund Balance Not Available for Appropriation	\$650,711	\$869,272	\$1,222,178	\$1,382,687	\$1,686,776
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies ⁵	\$131,970	\$145,443	\$136,080	\$235,925	\$186,913
Assigned for subsequent year's budget	180,179	172,128	183,326	188,562	210,638
Unassigned for General Reserve ⁶	62,579	76,913	95,156	106,878	130,894
Unassigned - Budgeted for use second budget year	194,082	191,202	288,185	223,251	285,152
Unassigned - Contingency for second budget year	-	60,000	60,000	160,000	308,000
Unassigned - Available for future appropriation	16,569	11,872	14,409	44,779	8,897
Total Fund Balance Available for Appropriation	\$585,379	\$657,558	\$777,156	\$959,395	\$1,130,494
Total Fund Balance, Budget Basis	\$1,236,090	\$1,526,830	\$1,999,334	\$2,342,082	\$2,817,270
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$1,236,090	\$1,526,830	\$1,999,334	\$2,342,082	\$2,817,270
Unrealized gain or loss on investments	1,141	343	(1,197)	(20,602)	16,275
Nonspendable fund balance	24,786	522	525	1,512	1,259
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(37,303)	(36,008)	(38,469)	(25,495)	(23,793)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(50,406)	(56,709)	(83,757)	(68,958)	(87,794)
Deferred Amounts on Loan Receivables	(23,212)	-	-	-	-
Pre-paid lease revenue	(5,900)	(5,816)	(5,733)	(6,598)	(6,194)
Total Fund Balance, GAAP Basis	\$1,145,196	\$1,429,162	\$1,870,703	\$2,221,941	\$2,717,023

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

¹ Fiscal year 2019-20 will be available upon release of the fiscal year 2019-20 CAFR.

² Additional information in Rainy Day Reserves section of Appendix A, following this table.

³ Additional information in Budget Stabilization Reserve section of Appendix A, following this table.

⁴ Additional information in Budget Savings Incentive Reserve section of Appendix A, following this table.

⁵ Additional information in Salaries, Benefits and Litigation Reserves section of Appendix A, following this table.

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

⁶ Additional information in General Reserves section of Appendix A, following this table.

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

The following sections describe various reserves maintained by the City. As described in "RECENT DEVELOPMENTS," the COVID-19 Emergency is expected to materially adversely impact revenues in Fiscal Year 2019-20, Fiscal Year 2020-21 and future fiscal years. The potential use of reserves will be considered by the City in connection with the development of the revised Fiscal Year 2020-21 budget, as described herein in "Budget Process."

Rainy Day Reserve

The City maintains a Rainy Day Reserve, as shown on the first and second line of Table A-3 above. Charter Section 9.113.5 requires that if total General Fund revenues for the current year exceed total General Fund revenues for the prior year by more than five percent, then the City must deposit anticipated General Fund revenues in excess of that five percent growth into three accounts within the Rainy Day Reserve (see below) and for other lawful governmental purposes. Similarly, if budgeted revenues exceed current year revenues by more than five percent, the budget must allocate deposits to the Rainy Day Reserve. Effective January 1, 2015, Proposition C, passed by the voters in November 2014, divided the existing Rainy Day Economic Stabilization Account into a City Rainy Day Reserve ("City Reserve") and a School Rainy Day Reserve ("School Reserve") for SFUSD, with each reserve account receiving 50% of the existing balance at the time. Deposits to the reserve are allocated as follows:

- 37.5 percent of the excess revenues to the City Reserve;
- 12.5 percent of the excess revenues to the School Reserve (not shown in Table A-3 because it is not part of the General Fund, it is reserved for SFUSD);
- 25 percent of the excess revenues to the Rainy Day One-Time or Capital Expenditures account; and
- 25 percent of the excess revenues to any lawful governmental purpose.

Fiscal year 2018-19 revenue generated a deposit of \$139.8 million to the City Reserve and \$41.2 million to the Rainy Day One-Time Reserve. The FY 2018-19 ending balances are \$229.1 million and \$95.9 million, respectively, as shown in Table A-3. The combined balances of the Rainy Day Reserve's Economic Stabilization account and the Budget Stabilization Reserve are subject to a cap of 10% of actual total General Fund revenues as stated in the City's most recent independent annual audit. Amounts in excess of that cap in any year will be placed in the Budget Stabilization One-Time Reserve, which is eligible to be allocated to capital and other one-time expenditures. Monies in the City Reserve are available to provide budgetary support in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Monies in the Rainy Day One-Time Reserve are available for capital and other one-time spending initiatives.

Budget Stabilization Reserve

The City maintains a Budget Stabilization Reserve, as shown on the third line of Table A-3 above. The Budget Stabilization Reserve augments the Rainy Day Reserve and is funded through the dedication of 75% of certain volatile revenues, including Real Property Transfer Tax ("RPTT") receipts in excess of the rolling five-year annual average (adjusting for the effect of any rate increases approved by voters), funds from the sale of assets, and year-end unassigned General Fund balances beyond the amount assumed as a source in the subsequent year's budget.

Fiscal year 2018-19 revenue generated an overall deposit of \$26.8 million to the combined Budget Stabilization Reserve and Budget Stabilization One-Time Reserve. Because the City's combined Rainy Day Economic Stabilization Reserve and Budget Stabilization Reserve exceeds 10% of General Fund revenues for fiscal year 2018-19, the Budget Stabilization Reserve balance was capped in fiscal year 2018-19 at \$359.3 million and the City deposited the amount exceeding the cap, \$37.4 million, in the Budget Stabilization One-Time Reserve. Table A-3 reflects the sum of the Budget Stabilization Reserve and the Budget Stabilization One-Time Reserve.

The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn; in the second year, the maximum withdrawal is 50%; and, in the third year, the entire remaining balance may be drawn. No deposits are required in years when the City is eligible to withdraw.

General Reserve

The City maintains a General Reserve, shown as "Unassigned for General Reserve" in the "assigned and unassigned, available for appropriation" section of Table A-3 above. The General Reserve is to be used for current-year fiscal pressures not anticipated during the budget process. The policy, originally adopted on April 13, 2010, set the reserve equal to 1% of budgeted regular General Fund revenues in fiscal year 2012-13 and increasing by 0.25% each year thereafter until reaching 2% of General Fund revenues in fiscal year 2016-17. On December 16, 2014, the Board of Supervisors adopted financial policies to further increase the City's General Reserve from 2% to 3% of General Fund revenues between fiscal year 2017-18 and fiscal year 2020-21 while reducing the required deposit to 1.5% of General Fund revenues during economic downturns. The intent of this policy change is to increase reserves available during a multi-year downturn. The fiscal year 2017-18 balance of this reserve was \$106.9 million, as shown in Table A-3 above. In fiscal year 2018-19, \$20.4 million was budgeted and deposited for the General Fund Reserve, resulting in an ending balance of \$127.3 million. In fiscal year 2018-19, Table A-3 includes \$3.6 million in other reserve-type appropriations.

Budget Savings Incentive Reserve

The Charter requires reserving a portion of Recreation and Parks revenue surplus in the form of the Recreation and Parks Budget Savings Incentive Reserve, as shown with note 4 of Table A-3. The Administrative Code authorizes reserving a portion of departmental expenditure savings in the form of the Citywide Budget Savings Incentive Reserve, also referred to as the "Budget Savings Incentive Fund," as shown with note 4 of the "assigned, not available for appropriation" section of Table A-3. In fiscal year 2018-19, the Recreation and Parks Savings Reserve had a balance of \$0.8 million and the Citywide Budget Savings Incentive Reserve had a balance of \$87.0 million.

Salaries, Benefits and Litigation Reserves

The City maintains two types of reserves to offset unanticipated expenses and which are available to City departments through a Controller's Office review and approval process. These are shown with note 5 in the "assigned, not available for appropriation," and "assigned and unassigned, available for appropriation" sections of Table A-3 above. These include the Salaries and Benefit Reserve (balance of \$29.0 million as of Fiscal Year 2018-19), and the Litigation and Public Health Management Reserve (balance of \$186.9 million in Fiscal Year 2018-19).

Operating Cash Reserve

Not shown in Table A-3, under the City Charter, the Treasurer, upon recommendation of the City Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any unencumbered funds then held in the City's pooled investment fund (which contains cash for all pool participants, including city departments and external agencies such as San Francisco Unified School District and City College). The operating cash reserve is available to cover cash flow deficits in various City funds, including the City's General Fund. From time to time, the Treasurer has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other City funds. Any such transfers must be repaid within the same fiscal year in which the transfer was made, together with interest at the rate earned on the pooled funds at the time the funds were used. See "INVESTMENT OF CITY FUNDS – Investment Policy" herein.

Table A-4, entitled "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. 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 Fund Balances¹
Fiscal Years 2014-15 through 2018-19²
(000s)

	2014-15	2015-16	2016-17	2017-18	2018-19
Revenues:					
Property Taxes ³	\$1,272,623	\$1,393,574	\$1,478,671	\$1,673,950	\$2,248,004
Business Taxes	609,614	659,086	700,536	897,076	917,811
Other Local Taxes	1,085,381	1,054,109	1,203,587	1,093,769	1,215,306
Licenses, Permits and Franchises	27,789	27,909	29,336	28,803	27,960
Fines, Forfeitures and Penalties	6,369	8,985	2,734	7,966	4,740
Interest and Investment Income	7,867	9,613	14,439	16,245	88,523
Rents and Concessions	24,339	46,553	15,352	14,533	14,460
Intergovernmental	854,464	900,820	932,576	983,809	1,069,349
Charges for Services	215,036	233,976	220,877	248,926	257,814
Other	9,162	22,291	38,679	24,478	46,254
Total Revenues	\$4,112,644	\$4,356,916	\$4,636,787	\$4,989,555	\$5,890,221
Expenditures:					
Public Protection	\$1,148,405	\$1,204,666	\$1,257,948	\$1,312,582	\$1,382,031
Public Works, Transportation & Commerce	87,452	136,762	166,285	223,830	202,988
Human Welfare and Neighborhood Development	786,362	853,924	956,478	999,048	1,071,309
Community Health	650,741	666,138	600,067	706,322	809,120
Culture and Recreation	119,278	124,515	139,368	142,215	152,250
General Administration & Finance	208,695	223,844	238,064	244,773	267,997
General City Responsibilities	98,620	114,663	121,444	110,812	144,808
Total Expenditures	\$3,099,553	\$3,324,512	\$3,479,654	\$3,739,582	\$4,030,503
Excess of Revenues over Expenditures	\$1,013,091	\$1,032,404	\$1,157,133	\$1,249,973	\$1,859,718
Other Financing Sources (Uses):					
Transfers In	\$164,712	\$209,494	\$140,272	\$112,228	\$104,338
Transfers Out	(873,741)	(962,343)	(857,629)	(1,010,785)	(1,468,971)
Other Financing Sources	5,572	4,411	1,765	-	-
Other Financing Uses	-	-	-	(178)	(3)
Total Other Financing Sources (Uses)	(\$703,457)	(\$748,438)	(\$715,592)	(\$898,735)	(\$1,364,636)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$309,634	\$283,966	\$441,541	\$351,238	\$495,082
Total Fund Balance at Beginning of Year	\$835,562	\$1,145,196	\$1,429,162	\$1,870,703	\$2,221,941
Total Fund Balance at End of Year -- GAAP Basis	\$1,145,196	\$1,429,162	\$1,870,703	\$2,221,941	\$2,717,023
Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End					
-- GAAP Basis	\$234,273	\$249,238	\$273,827	\$286,143	\$326,582
-- Budget Basis ⁴	\$390,830	\$435,202	\$545,920	\$616,592	\$812,687

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 Fiscal year 2019-20 will be available upon release of the fiscal year 2019-20 CAFR.

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

⁴ Fund balance available for appropriations of \$1.13 billion includes amounts Assigned for Litigation and Contingencies and Unassigned - General Reserve.

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’s Administrative Code requires that by March 1 of each even-numbered year, the Mayor, Board of Supervisors Budget Analyst, and Controller submit an updated estimated summary budget for the remaining four years of the most recently adopted Plan.

On January 3, 2020, the Mayor, Budget Analyst for the Board of Supervisors, and the Controller’s Office issued the Plan update for fiscal years 2020-21 through 2023-24 (“Original FY21-FY24 Plan”), which projected cumulative annual shortfalls of \$195.4 million, \$224.1 million, \$531.1 million, and \$630.6 million, for fiscal years 2020-21 through 2023-24, respectively. However, as a result of the COVID-19 Emergency, on March 31, 2020, the Mayor, Board of Supervisors Budget Analyst, and Controller released an update to the Original FY21-FY24 Plan (“March Joint Report Update”). The March Joint Report Update adopts the assumptions detailed in the Original FY21-FY24 Plan (which are described below), with updates for three significant changes since the initial issuance of the Original FY21-FY24 Plan: (1) Improvement in current fund balance, as reported in the Controller’s Six Month Budget Status Report, (2) General Fund tax revenue losses associated with the emergency, and (3) reductions in voter-adopted baseline spending requirements given those revised revenue projections. The City issued an update to its projections of the impact of the COVID-19 Emergency on May 13, 2020 (the “May Update”). The next full update of the City’s Five-Year Financial Plan is expected to be submitted in December 2020.

The following information reflects the Original FY21-FY24 Plan as initially issued and does not reflect any of the material adverse impacts expected to result from the COVID-19 Emergency. See “RECENT DEVELOPMENTS – May Update Report,” for a description of the May Update.

The Original FY21-FY24 Plan projected growth in General Fund revenues over the forecast period of 6.9%, primarily composed of growth in local tax sources. The revenue growth was projected to be offset by projected expenditure increases of 17.2% 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 Original FY21-FY24 Plan projected growth in General Fund sources of \$423.6 million over the Original FY21-FY24 Plan period, and expenditure growth of \$1.05 billion. The composition of the projected shortfall is shown in Table A-5 below.

TABLE A-5*

CITY AND COUNTY OF SAN FRANCISCO
Five Year Financial Plan Update
Fiscal Years 2020-21 through 2023-24
(\$millions)

	2020-21	2021-22	2022-23	2023-24	% of Uses for 2023-24
Sources - Increase / (Decrease):	\$89.0	\$346.0	\$289.4	\$423.6	
Uses:					
Baselines & Reserves	(\$45.5)	(\$54.0)	(\$127.1)	(\$163.3)	15.5%
Salaries & Benefits	(167.9)	(269.6)	(338.5)	(407.5)	38.7%
Citywide Operating Budget Costs	(66.9)	(167.8)	(235.0)	(314.6)	29.8%
Departmental Costs	(3.9)	(78.8)	(119.9)	(168.8)	16.0%
Total Uses - (Increase) / Decrease:	(\$284.3)	(\$570.1)	(\$820.5)	(\$1,054.2)	100.0%
Projected Cumulative Surplus / (Shortfall):	(\$195.4)	(\$224.1)	(\$531.1)	(\$630.6)	

**Table A-5 is the Original FY21-FY24 Plan. See "RECENT DEVELOPMENTS" for a discussion of the May Update to the Original FY21-FY24 Plan, which reflects the City's preliminary projections of certain of the adverse impacts on the General Fund.*

The Original FY21-FY24 Plan incorporated the following key assumptions:

- Changes in Employer Contribution Rates to City Retirement System:** Consistent with SFERS' fiscal year 2018-19 results, projected employer contribution rates assume an 8.0% rate of return on SFERS investments for fiscal year 2018-19, 0.6% above the actuarially assumed rate of return of 7.4%. This better-than-expected return triggers an on-going supplemental COLA payment to certain retirees, which increases employer contributions in FY 2020-21. The Original FY21-FY24 Plan does not assume any changes to existing funding policy and amortizes the 2019 supplemental COLA over five years per current policy. As described in "RECENT DEVELOPMENTS," the COVID-19 Emergency has resulted in significant declines in the global and national stock markets. Contributions to SFERS are based upon an assumption of 7.4% investment returns each fiscal year. To the extent that returns fall below this level in the current and upcoming fiscal years, it will increase required City and employee contributions.
- Assumes previously negotiated wage increases and inflationary increases for open contracts in line with CPI:** The Original FY21-FY24 Plan assumes the additional salary and benefit costs for previously negotiated, closed labor agreements. Police and Firefighters' unions have closed MOUs through FY 2020-21. Miscellaneous unions have closed MOUs through FY 2021-22. In open contract years, this report projects salary increases equal to the change in CPI. This corresponds to 3.38% for FY 2021-22, 2.94% for FY 2022-23, and 2.90% for FY 2023-24.
- Property Tax Shifts:** The FY 2019-20 General Fund budget anticipates the City will receive "Excess ERAF" property tax allocations. The Original FY21-FY24 Plan assumes that the City will also receive Excess ERAF revenues in FY 2020-21, and in accordance with legislation adopted by the Mayor and Board of Supervisors will allocate at least 50% of these revenues to one-time purposes and 50% to affordable housing expenditures. Given these assumptions of revenue and equally offsetting expenditures, there is no net impact on the General Fund shortfall projections. Given both uncertainty regarding the timing and volatility of these revenues and the potential for State changes to funding levels for K-12 and community college districts, the projections do not include receipt of Excess ERAF

revenues in years after FY 2020-21. (The COVID-19 Emergency may negatively impact the availability of Excess ERAF contributions.)

While the projected shortfalls in the May Update reflect the difference in projected revenues and expenditures over the next five years using the assumptions set forth in the May Update, the Charter requires that each year's budget be balanced. As a result of the significant financial impacts expected to result from the COVID-19 Emergency, balancing the budgets is expected to require a combination of expenditure reductions, additional revenues and use of available reserves. The projections in the May Update assume no ongoing solutions are implemented.

The Original FY21-FY24 Plan did not assume an economic downturn. To illustrate the effect of a hypothetical recession on San Francisco's fiscal condition, the Original FY21-FY24 Plan included a recession scenario that assumes weakness in the California and San Francisco economies beginning in FY 2021-22. The scenario assumes rates of revenue loss in major local tax sources—including business, hotel, sales, transfer and parking taxes—consistent with the average declines experienced during the last two recessions, FY 2001-02 through FY 2003-04 and FY 2008-09 through FY 2010-11, which would result in revenue losses of approximately \$820 million. In addition, the scenario assumes a \$52 million increase in employer pension contributions in the final year of the forecast, triggered by losses in the value of assets held by the San Francisco Employee's Retirement System comparable to the losses experienced in the aftermath of the global financial crisis in 2008 and 2009. The resulting shortfall of \$872 million would be closed, in part, by a \$114 million reduction in voter-approved spending mandates tied to General Fund revenue and the use of \$634 million in General Fund Reserves, leaving an estimated \$124 million to be closed through spending reductions and other means.

The City cannot predict the severity or length of the recession that is expected is result from the COVID-19 Emergency, and there can be no assurances that it will not result in more severe adverse impacts than those projected in the recession scenario included in the Original FY21-FY24 Plan.

Fiscal Year 2019-20 Six-Month Budget Status Report

On February 13, 2020, the Controller's Office issued a budget status update on revenues and expenditures through the first six months of the year. The report projects a \$98.1 million improvement in General Fund ending balance over the projections in the Original FY21-FY24 Plan. Application of this additional fund balance would reduce the projected shortfall in the upcoming two-year budget from \$419.5 million to \$321.4 million. The improvement was driven largely by increased real property transfer tax revenue in the General Fund, Public Health hospital revenue surpluses, and cost savings at the Human Services Agency due to reduced caseloads.

As described in "RECENT DEVELOPMENTS," the City has prepared updates to the Joint Report, which describes the material adverse impact on the financial condition of the General Fund which potentially may result from the COVID-19 Emergency.

City Budget Adopted for Fiscal Years 2019-20 and 2020-21

On August 1, 2019, Mayor Breed signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for the fiscal years ending June 30, 2020 and June 30, 2021. The adopted budget closed the \$30.6 million and \$125.5 million General Fund projected shortfalls for fiscal years 2019-20 and 2020-21 identified in the City's March 2019 update to the Five-Year Financial Plan through a combination of increased revenue and expenditure savings.

The Original Budget for fiscal year 2019-20 and fiscal year 2020-21 totaled \$12.3 billion and \$12.0 billion respectively. The General Fund portion of each year's budget is \$6.1 billion in fiscal year 2019-20 and \$6.0 billion in fiscal year 2020-21. There are 31,784 funded full-time positions in the fiscal year 2019-20 Original Budget and 32,052 in the fiscal year 2020-21 Original Budget.

The COVID-19 Emergency is expected to materially adversely impact the financial condition of the City's General Fund. See "RECENT DEVELOPMENTS – Modifications to the Budget Calendar" for a description of the projected timeline for budget-related actions the City currently expects to take in response to the COVID-19 Emergency, including the adoption of a revised fiscal year 2020-21 budget.

Other Budget Updates

On June 11, 2019, the Controller's Office issued the Controller's Discussion of the Mayor's fiscal year 2019-20 and fiscal year 2020-21 Proposed Budget ("Revenue Letter"). The Revenue Letter found that tax revenue assumptions were reasonable, and reserve and baselines were funded at or above required levels. The Revenue Letter noted that the budget draws on volatile revenues and reserves at a higher rate than recent years, to fund a variety of one-time purposes. The extraordinary revenue and reserve draws are primarily related to unexpected Excess ERAF monies.

BUDGETARY RISKS

Material Adverse Impacts of the COVID-19 Emergency

See "RECENT DEVELOPMENTS" for a discussion of the anticipated material adverse impacts of the COVID-19 Emergency on the City's General Fund.

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

On January 29, 2019, PG&E filed for Chapter 11 bankruptcy protection in the face of potential wildfire liability that has been estimated upwards of \$30 billion. Taxes and fees paid by PG&E to the City total approximately \$75 million annually and include property taxes, franchise fees and business taxes, as well as the utility user taxes it remits on behalf of its customers. In April 2019, the bankruptcy court granted relief to PG&E to pay property taxes and franchise fees.

On September 6, 2019, in connection with Pacific Gas and Electric Company ("PG&E") and PG&E Corporation's Chapter 11 pending bankruptcy cases, the City and County of San Francisco submitted a non-binding indication of interest ("IOI") to PG&E and PG&E Corporation to purchase substantially all of PG&E's electric distribution and transmission assets needed to provide retail electric service to all electricity customers within the geographic boundaries of the City ("Target Assets") for a purchase price of \$2.5 billion (such transaction, the "Proposed Transaction"). In a letter dated October 7, 2019, PG&E declined the City's offer. On November 4, 2019, the City sent PG&E a follow-up letter reiterating its interest in acquiring the Target Assets. To demonstrate public support for the Proposed Transaction, on January 14, 2020, the City's Board of Supervisors and the SFPUC's Commission conditionally authorized the sale of up to \$3.065 billion of Power Enterprise Revenue Bonds to finance the acquisition of the Target Assets and related costs, subject to specific conditions set forth in each authorizing resolution.

The IOI reflects the City's interest in purchasing the Target Assets and does not create any legally binding obligations on the City or any of its officials, representatives, agencies, political subdivisions, affiliates or their respective advisors. The City is unable to predict whether it will be able to consummate a final negotiated acquisition price for the Target Assets and, if so, the terms thereof. Any such final terms would be subject to approval by the Board of Supervisors and the Commission. If consummated, it is expected that such new electric system would be wholly supported by its own revenues, and no revenues of the City's general fund would be available to pay for system operations, or bonds issued to acquire the Target Assets.

The PG&E bankruptcy is pending, and the City can give no assurance regarding the effect of a bankruptcy filing by PG&E, including whether there will be delays in the payment of property taxes in the future, or whether the City will be successful in its acquisition of the PG&E assets.

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

On August 28, 2017, the California Supreme Court in *California Cannabis Coalition v. City of Upland* (August 28, 2017, No. S234148) interpreted Article XIII C, Section 2(b) of the State Constitution, which requires local government proposals imposing general taxes to be submitted to the voters at a general election (i.e. an election at which members of the governing body stand for election). The court concluded such provision did not apply to tax measures submitted through the citizen initiative process. Under the Upland decision, citizens exercising their right of initiative may now call for general or special taxes on the ballot at a special election (i.e. an election where members of the governing body are not standing for election). The court did not, however, resolve whether a special tax submitted by voter initiative needs only simple majority voter approval, and not the super-majority (i.e. two-thirds) voter approval required of special taxes placed on the ballot by a governing body. On June 5, 2018 voters of the City passed by majority vote two special taxes submitted through the citizen initiative process: a Commercial Rent Tax for Childcare and Early Education ("June Proposition C") and a Parcel Tax for the San Francisco Unified School District ("Proposition G" and, together with June Proposition C, the "June Propositions C and G"). In addition, on November 6, 2018 voters passed by a majority vote a special tax submitted through the citizen initiative process: a Homelessness Gross Receipts Tax ("November Proposition C") for homelessness prevention and services. The estimated annual values of June Propositions C and G are approximately \$146 million and \$50 million, respectively. The estimated annual value of November Proposition C is approximately \$250 million to \$300 million.

In August 2018 the Howard Jarvis Taxpayers Association and several other plaintiffs filed a reverse validation action in San Francisco Superior Court challenging the validity of June Proposition C. In September 2018 the City initiated a validation action in the same court seeking a judicial declaration of the validity of Proposition G. In January 2019 the City initiated a similar validation action in the same court concerning November Proposition C. On July 5, 2019, the San Francisco Superior Court granted the City's dispositive motions in the lawsuits concerning June Proposition C and November Proposition C, concluding that both measures, which proposed tax increases for specific purposes, required only a simple majority for approval because they were put on the ballot through a citizen signature petition. The Howard Jarvis Taxpayers Association and other petitioners/plaintiffs appealed the decision in the litigation concerning June Proposition C, and resolution of the case is pending. To date, no appeal of the decision in the litigation concerning November Proposition C has been filed. The trial court has not reached a decision on Proposition G. While the City prevailed at trial on the November Proposition C and the June Proposition C, the City cannot provide any assurance regarding the outcome of these lawsuits.

Impact of the State of California Budget on Local Finances

Revenues from the State represent approximately 10% of the General Fund revenues appropriated in the Original Budget for fiscal years 2019-20 and 2020-21, and thus changes in State revenues could have a material impact on the City's finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor's Proposed Budget required to be submitted in January; and 2) the "May Revise" to the Governor's Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget. City policy makers review and estimate the impact of both the Governor's Proposed and May Revise Budgets prior to the City adopting its own budget.

The State has publicly stated that the state's General Fund will be materially adversely impacted by the health-related and economic impacts of the COVID-19 pandemic. Efforts to respond to and mitigate the spread of COVID-19 have had a severe impact on the state and national economy, triggered a historic drop and ongoing volatility in the stock market, and an expected recession. These efforts are expected to result in significant declines in state revenues from recent levels, as well as increased expenditures required to manage and mitigate COVID-19's impact on the state.

There can be no assurances that the COVID-19 Emergency will not result in significant declines in State payments to the City.

Impact of Federal Government on Local Finances

The City receives substantial federal funds for assistance payments, social service programs and other programs. A portion of the City's assets are also invested in securities of the United States government. The City's finances may be adversely impacted by fiscal matters at the federal level, including but not limited to cuts to federal spending. For example, the City issued taxable obligations designated as "Build America Bonds," ("BABs") which BABs were entitled to receive a 35% subsidy payment from the federal government. The 35% subsidy payment has been reduced since 2013 in connection with the United States federal government sequestration. As well, the federal government has from time to time threatened to withhold certain funds from 'sanctuary jurisdictions' of which the City is one. The federal district court issued a permanent injunction in November 2017 to prevent any such reduction in federal funding on this basis. On August 1, 2018, the 9th Circuit Court of Appeal upheld the district's court's injunction against the President's Executive Order.

In the event Congress and the President fail to enact appropriations, budgets or debt ceiling increases on a timely basis in the future, such events could have a material adverse effect on the financial markets and economic conditions in the United States and an adverse impact on the City's finances. The City cannot predict the outcome of future federal budget deliberations and the impact that such budgets will have on the City's finances and operations. The City's General Fund and hospitals, which are supported by the General Fund, collectively receive over \$1 billion annually in federal subventions for entitlement programs, the large majority of which are reimbursements for care provided to Medicaid and Medicare recipients. In addition, tens of thousands of San Franciscans receive federal subsidies to purchase private insurance on the state's health care exchange, Covered California. Federal efforts to repeal or eliminate such subsidies, or repeal, replace or alter provisions of the Affordable Care Act through regulatory changes, could have significant effects on future health care costs. In addition, the state Department of Health Care Services is currently negotiating with the federal Centers for Medicare and Medicaid Services on a successor to California's Section 1115(a) Medicaid waivers, which expire on December 31, 2020. The

next waiver could significantly affect allocations to counties, but the City cannot predict the outcome of this process. To help address these risks, the City's adopted fiscal year 2019-20 Original Budget included a \$40 million reserve to manage state, federal, and other revenue uncertainty, and a \$50 million reserve to address changes to the Affordable Care Act.

THE SUCCESSOR AGENCY

Effect of the Dissolution Act

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

As a result of AB 1X 26 and the decision of the California Supreme Court in the *California Redevelopment Association* case, as of February 1, 2012, (collectively, the "Dissolution Act"), redevelopment agencies in the State were dissolved, including the Former Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies and also to satisfy "enforceable obligations" of the former redevelopment agencies all under the supervision of a new oversight board, the State Department of Finance and the State Controller.

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

Because of the existence of enforceable obligations, the Successor Agency is authorized to continue to implement, through the issuance of tax allocation bonds, certain major redevelopment projects that were previously administered by the Former Agency: (i) the Mission Bay North and South Redevelopment Project Areas, (ii) the Hunters Point Shipyard Redevelopment Project Area and Zone 1/Candlestick Point of the Bayview Hunters Point Redevelopment Project Area, and (iii) the Transbay Redevelopment Project Area (collectively, the "Major Approved Development Projects"). The Successor Agency exercises land use, development and design approval authority for the Major Approved Development Projects. The Successor Agency also issues community facilities district ("CFD") bonds from time to time to facilitate development in the major approved development projects in accordance with the terms of such enforceable obligations.

GENERAL FUND REVENUES

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

The information in this section “GENERAL FUND REVENUES” relating to 2019-20 revenues from the various sources described below is from the Original 2019-20 Budget. As described in “RECENT DEVELOPMENTS,” the COVID-19 Emergency is expected to result in significant declines in General Fund revenues. As described in “RECENT DEVELOPMENTS – May Update Report,” economic and tax revenue losses associated with the COVID-19 Emergency have been stark and immediate. The revised projected General Fund tax revenue losses range from an estimated \$167 million to \$287 million loss versus the adopted fiscal year 2019-20 budget (after adjustments included in the Six-Month Budget Status Report). This range represents an estimate of likely losses in a limited versus extended emergency and recovery period.

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 prepares and mails 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-6 provides a recent history of assessed valuations of taxable property within the City. The property tax rate is composed of two components: 1) the 1.0% countywide portion, and 2) all voter-approved overrides which fund debt service for general obligation bond indebtedness. There can be no assurances that the COVID-19 Emergency will not materially adversely impact property values in the City. See “RECENT DEVELOPMENTS.”

The total tax rate shown in Table A-6 includes taxes assessed on behalf of the City as well as the San

Francisco Unified School District (SFUSD), County Office of Education (SFCOE), SFCCD, Bay Area Air Quality Management District (BAAQMD), and San Francisco Bay Area Rapid Transit District (BART), all of which are legal entities separate from the City. See also, Table A-31: “Statement of Direct and Overlapping Debt and Long-Term Obligations.” In addition to *ad valorem* taxes, voter-approved special assessment taxes or direct charges may also appear on a property tax bill.

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor Agency to the San Francisco Redevelopment Agency (more commonly known 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 \$158.6 million of property tax increment in fiscal year 2018-19 for recognized obligations, diverting about \$88.2 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 99.26% for fiscal year 2018-19. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder’s Office, numbered 56 for the six-month period July 1 to December 31, 2019. For the fiscal year 2018-19 a total of 86 trustee deeds were recorded compared to 111 for fiscal year 2017-18 and 92 for fiscal year 2016-17. There can be no assurances that the COVID-19 Emergency will not result in increased foreclosures in the City. See “RECENT DEVELOPMENTS.”

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TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property
Fiscal Years 2008-09 through 2019-20
(000s)

Fiscal Year	Net Assessed ¹ Valuation (NAV)	% Change from Prior Year	Total Tax Rate per \$100 ²	Total Tax Levy ³	Total Tax Collected ³	% Collected June 30
2008-09	141,274,628	8.7%	1.163	1,702,533	1,661,717	97.6%
2009-10	150,233,436	6.3%	1.159	1,808,505	1,764,100	97.5%
2010-11	157,865,981	5.1%	1.164	1,888,048	1,849,460	98.0%
2011-12	158,649,888	0.5%	1.172	1,918,680	1,883,666	98.2%
2012-13	165,043,120	4.0%	1.169	1,997,645	1,970,662	98.6%
2013-14	172,489,208	4.5%	1.188	2,138,245	2,113,284	98.8%
2014-15	181,809,981	5.4%	1.174	2,139,050	2,113,968	98.8%
2015-16	194,392,572	6.9%	1.183	2,290,280	2,268,876	99.1%
2016-17	211,532,524	8.8%	1.179	2,492,789	2,471,486	99.1%
2017-18	234,074,597	10.7%	1.172	2,732,615	2,709,048	99.1%
2018-19	259,329,479	10.8%	1.163	2,999,794	2,977,664	99.3%
2019-20	281,073,307 ⁴	8.4%	1.180	3,316,946	N/A	N/A

¹ Net Assessed Valuation (NAV) is Total Assessed Value for Secured and Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

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

³ The Total Tax Levy and Total Tax Collected through fiscal year 2018-19 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 2019-20 is based upon initial assessed valuations times the secured property tax rate to provide an estimate.

⁴ Based on initial assessed valuations for fiscal year 2019-20.

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 2019-20, the total net assessed valuation of taxable property within the City was \$281.1 billion. Of this total, \$264.1 billion (93.9%) represents secured valuations and \$17.0 billion (6.1%) represents unsecured valuations. See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.

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

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

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in assessment appeals as the economy rebounds. Historically, during severe economic downturns, partial reductions of up to approximately 30% of the assessed valuations appealed have been granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCOE, SFCCD, BAAQMD, and BART share proportionately in any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year. In the period following the Great Recession, assessment appeals increased significantly. In fiscal year 2010-11, the Assessor granted 18,841 temporary reductions in residential property assessed value worth a total of \$2.35 billion, compared to 18,110 temporary reductions with a value of \$1.96 billion granted in fiscal year 2009-10.

There can be no assurances that the expected global and national recession and economic dislocation resulting from the COVID-19 Emergency will not result in significant declines in real estate values in the City.

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 2013-14 through 2018-19 are listed in Table A-7 below.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO
Refunds of Prior Years' Property Taxes
General Fund Assessment Appeals Reserve
Fiscal Years 2013-14 through 2018-19
(000s)

Fiscal Year	Amount Refunded
2013-14	\$25,756
2014-15	16,304
2015-16	16,199
2016-17	33,397
2017-18	24,401
2018-19	30,071

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

As of July 1, 2019 the Assessor granted 2,546 temporary decline-in-value reductions resulting in the properties assessed values being reduced by a cumulative value of \$244.01 million (using the 2018-19 tax rate of 1.163% this equates to a reduction of approximately \$2.84 million in General Fund taxes), compared to July 1, 2018, when the Assessor granted 4,719 temporary reductions in property assessed values worth a total of \$278.16 million (equating to a reduction of approximately \$3.25 million in General Fund taxes). Of the 2,546 total reductions, 569 temporary reductions were granted for residential or commercial properties. The remaining 1,977 reductions were for timeshares. The July 2019 temporary reductions of \$244.0 million represents 0.09% of the fiscal year 2019-20 Net Assessed Valuation of \$281.1 billion shown in Table A-6. All of the temporary reductions granted are subject to review in the following

year. Property owners who are not satisfied with the valuation shown on a Notice of Assessed Value may have a right to file an appeal with the Assessment Appeals Board (“AAB”) within a certain period. For regular, annual secured property tax assessments, the period for property owners to file an appeal typically falls between July 2nd and September 15th.

There were 1,106 new applications filed during the six-month period of July 1 to December 31, 2019 and a total of 1,176 open applications as of December 31, 2019. As of June 30, 2019, the total number of open appeals before the AAB was 740, compared to 1,001 open AAB appeals as of June 30, 2018. As of June 30, 2019, there were 1,253 new applications filed during fiscal year 2018-19, compared to 1,636 new applications filed during the same period (June 30, 2018) of fiscal year 2017-18. Also, the difference between the current assessed value and the taxpayer’s opinion of values for all the open appeals is \$14.9 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all the taxpayer’s requests, a negative potential total property tax impact of about \$174.1 million would result. The General Fund’s portion of that potential \$174.1 million would be approximately \$83.2 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 that are based on historical results as to 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 BAAQMD and BART. The total tax levy for all taxing entities to begin fiscal year 2019-20 was \$3.3 billion, not including supplemental, escape and special assessments that may be assessed during the year. Of total property tax revenues (including supplemental and escape property taxes), the City budgeted to receive \$2.0 billion in the General Fund and \$235.1 million in special revenue funds designated for children’s programs, libraries and open space. SFUSD and SFCCD were estimated to receive approximately \$199.8 million and \$37.4 million, respectively, and the local ERAF was estimated to receive \$401.1 million (before adjusting for the vehicle license fees (“VLF”) backfill shift). The Successor Agency is estimated to receive approximately \$171.3 million. The remaining portion will be 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. The City’s General Fund is allocated about 47.1% of total property tax revenue before adjusting for the VLF backfill shift and excess ERAF.

General Fund property tax revenues in fiscal year 2018-19 were \$2.2 billion, representing an increase of \$574.1 million (34.3%) over fiscal year 2017-18 actual revenue, due to recognition of three years’ excess ERAF revenue (fiscal years 2016-17, 2017-18, and 2018-19) in one year. The fiscal year 2019-20 excess ERAF amount budgeted in the General Fund is \$185.0 million. Tables A-2 and A-4 set forth a history of budgeted and actual property tax revenues.

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

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

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

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

In connection with the COVID-19 Emergency, a resolution passed by the San Francisco Board of Supervisors and signed by the Mayor designated San Francisco’s property tax deadline to be May 4, 2020. On May 5, 2020 a resolution was approved by the San Francisco Board of Supervisors setting the property tax deadline to May 15, 2020. The Office of the Treasurer & Tax Collector has updated all forms to enable waiver requests for penalties if the bill is not paid by the due date. At this time, over 90% of the parcels have fully paid their property taxes.

In October 1993, the Board of Supervisors passed a resolution that adopted the Alternative Method of Tax Apportionment (the “Teeter Plan”). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. Additionally, the Teeter Plan was extended to include the allocation and distribution of special taxes levied for City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center) in June 2017 (effective fiscal year 2017-18) and for the Bay Restoration Authority Parcel Tax, SFUSD School Facilities Special Tax, SFUSD School Parcel Tax, and City College Parcel Tax in October 2017 (effective fiscal year 2018-19). The Teeter Plan method authorizes the City Controller to allocate to the City’s taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City’s General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan as shown on Table A-8. The Tax Loss Reserve sets aside 1% of the total of all taxes and assessments levied for which the Teeter Plan is the applicable distribution method. The purpose of the Tax Loss Reserve is to cover losses that may occur. The amount has grown in recent years as the assessed values on the secured roll has grown.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Teeter Plan
Tax Loss Reserve Fund Balance
Fiscal Years 2013-14 through 2018-19
(000s)

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

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, 2019 are shown in Table A-9. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the Office of the Assessor-Recorder.

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Top 10 Parcels Total Assessed Value
July 1, 2019

Assessee	Location	Parcel Number	Type	Total Assessed Value ¹	% Basis of Levy ²
SUTTER BAY HOSPITALS ³	1101 - 1133 VAN NESS AVE	0695 007	HOSPITAL	\$1,822,089,242	0.647%
TRANSBAY TOWER LLC	415 MISSION ST	3720 009	OFFICE	\$1,691,744,881	0.601%
HWA 555 OWNERS LLC	555 CALIFORNIA ST	0259 026	OFFICE	\$1,038,786,917	0.369%
ELM PROPERTY VENTURE LLC	101 CALIFORNIA ST	0263 011	OFFICE	\$1,005,060,856	0.357%
GSW ARENA LLC	1 WARRIORS WAY	8722 021	ENTERTAINMENT COMP	\$994,001,961	0.353%
SUTTER BAY HOSPITALS ³	3615 CESAR CHAVEZ ST/555 SAN JOSE	6575 005	HOSPITAL	\$854,219,935	0.303%
PPF PARAMOUNT ONE MARKET PLAZA OWNER LP	1 MARKET ST	3713 007	OFFICE	\$850,993,350	0.302%
KR MISSION BAY LLC	1800 OWENS ST	8727 008	OFFICE	\$789,225,180	0.280%
SHR GROUP LLC	301 - 345 POWELL ST	0307 001	HOTEL	\$751,943,504	0.267%
SFDC 50 FREMONT LLC	50 FREMONT ST	3709 019	OFFICE	\$703,105,639	0.250%
				\$10,501,171,465	3.729%

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 2019-20 valuation of property assessed by the State Board of Equalization is \$3.7 billion.

OTHER CITY TAX REVENUES

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

The following section contains a brief description of other major City-imposed taxes as well as taxes that are collected by the State and shared with the City. The City's General Fund is also supported by other sources of revenue, including charges for services, fines and penalties, and transfers-in, which are not discussed below.

The information in this section "GENERAL FUND REVENUES" relating to 2019-20 projected revenues from the various sources described below is from the Original 2019-20 Budget. As described in "RECENT DEVELOPMENTS," the COVID-19 Emergency is expected to result in significant declines in General Fund revenues.

Business Taxes

Through tax year 2014 businesses in the City were subject to payroll expense and business registration taxes. Proposition E approved by the voters in the November 2012 election changed business registration tax rates and introduced a gross receipts tax which 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 increased 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 0.38% in tax year 2018. The gross receipts tax ordinance, like the current payroll expense tax, is imposed for the privilege of "engaging in business" in San Francisco. The gross receipts tax applies 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 2018-19 was \$919.6 million (all funds), representing an increase of \$20.4 million (2.3%) from fiscal year 2017-18. Business tax revenue was budgeted at \$1,072.7 million in the fiscal year 2019-20 Original Budget which would represent an increase of \$153.2 million (16.7%) over fiscal year 2018-19 revenue. The vast majority of the City’s business tax is deposited in the General Fund; approximately \$2.0 million is allocated to the Neighborhood Beautification Fund. These figures do not assume gross receipts revenue related to either of the business tax measures approved by voters in 2018 as these are special purpose taxes deposited outside the General Fund.

TABLE A-10*

CITY AND COUNTY OF SAN FRANCISCO
Business Tax Revenues - All Funds
Fiscal Years 2015-16 through 2019-20
(000s)

Fiscal Year ¹	Revenue	Change	
2015-16	\$660,926	\$48,994	8.0%
2016-17	702,331	41,405	6.3%
2017-18	899,142	196,811	28.0%
2018-19	919,552	20,410	2.3%
2019-20 <i>budgeted</i> ²	1,072,720	153,168	16.7%

¹ Figures for fiscal years 2015-16 through 2018-19 are audited actuals. Includes portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and beginning in fiscal year 2013-14, Gross Receipts Tax revenues.

² Figures for fiscal year 2019-20 are Original Budget amounts.

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

*See “RECENT DEVELOPMENTS – May Update,” for a discussion of the currently projected impacts resulting from the COVID-19 Emergency.

Transient Occupancy Tax (Hotel Tax)

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators to the City monthly. A quarterly tax-filing requirement is also imposed. Hotel tax revenue in fiscal year 2018-19 ended at \$414.3 million, an increase of \$27.4 million (7.1%) from fiscal year 2017-18. In fiscal year 2019-20, hotel tax revenue is budgeted to be \$427.1 million, representing growth of \$12.7 million (3.1%). Hotel tax levels reflect the passage of a November 2018 ballot initiative (Proposition E) to shift a portion of hotel tax proceeds from the General Fund to arts and cultural programs effective January 1, 2019. Table A-11 includes hotel tax in all funds. The vast majority of the City’s hotel tax is allocated to the General Fund, approximately \$3 to \$5 million of hotel tax is allocated for debt service on hotel tax revenue bonds, and approximately \$16 to \$34 million of hotel tax is allocated for arts and cultural programs.

TABLE A-11*

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Revenues - All Funds¹
Fiscal Years 2015-16 through 2019-20
(000s)

Fiscal Year ²	Tax Rate	Revenue	Change	
2015-16	14.0%	\$392,686	(\$6,678)	-1.7%
2016-17	14.0%	375,289	(17,397)	-4.4%
2017-18	14.0%	387,006	11,716	3.1%
2018-19	14.0%	414,344	27,338	7.1%
2019-20 budgeted ³	14.0%	427,080	12,737	3.1%

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

² Figures for fiscal year 2015-16 through fiscal year 2018-19 are audited actuals.

³ Figures for fiscal year 2019-20 are Original Budget amounts.

*See "RECENT DEVELOPMENTS – May Update," for a discussion of the currently projected impacts resulting from the COVID-19 Emergency.

Real Property Transfer Tax

Real property transfer tax (RPTT) is imposed on all real estate transfers recorded in the City. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources. Prior to November 8, 2016, the RPTT rates were \$5.00 per \$1,000 of the sale price of the property being transferred for properties valued at \$250,000 or less; \$6.80 per \$1,000 for properties valued more than \$250,000 and less than \$999,999; \$7.50 per \$1,000 for properties valued at \$1.0 million to \$5.0 million; \$20.00 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; and \$25 per \$1,000 for properties valued at more than \$10.0 million. After the passage of Proposition W on November 8, 2016, transfer tax rates were amended, raising the rate to \$22.50 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; \$27.50 per \$1,000 for properties valued at more than \$10.0 million and less than \$25.0 million; and \$30.00 per \$1,000 for properties valued at more than \$25.0 million.

RPTT revenue for fiscal year 2018-19 was \$364.0 million, an \$83.6 million (29.8%) increase from fiscal year 2017-18 revenue. Fiscal year 2019-20 RPTT revenue is budgeted to be \$296.1 million, \$68.0 million (18.7%) less than fiscal year 2018-19. The entirety of RPTT revenue goes to the General Fund.

TABLE A-12*

CITY AND COUNTY OF SAN FRANCISCO
Real Property Transfer Tax Receipts
Fiscal Years 2015-16 through 2019-20
(000s)

Fiscal Year ¹	Revenue	Change	
2015-16	\$269,090	(\$45,513)	-14.5%
2016-17	410,561	141,471	52.6%
2017-18	280,416	(130,145)	-31.7%
2018-19	364,044	83,628	29.8%
2019-20 <i>budgeted</i> ²	296,053	(67,991)	-18.7%

¹ Figures for fiscal year 2015-16 through 2018-19 are audited actuals.

² Figures for fiscal year 2019-20 are Original Budget amounts.

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

*See "RECENT DEVELOPMENTS – May Update," for a discussion of the currently projected impacts resulting from the COVID-19 Emergency.

Sales and Use Tax

The sales tax rate on retail transactions in the City is 8.50%, of which 1.00% represents the City's local share ("Bradley-Burns" portion). The State collects the City's local sales tax on retail transactions along with State and special district sales taxes, and then remits the local sales tax collections to the City. Between fiscal year 2004-05 and the first half of fiscal year 2015-16, the State diverted one-quarter of City's 1.00% local share of the sales tax and replaced the lost revenue with a shift of local property taxes to the City from local school district funding. This "Triple Flip" concluded on December 31, 2015, after which point the full 1.00% local tax is recorded in the General Fund.

The components of San Francisco's 8.5% sales tax rate are shown in table A-13. In addition to the 1% portion of local sales tax, the State subvenes portions of sales tax back to counties through 2011 realignment (1.0625%), 1991 realignment (0.5%), and public safety sales tax (0.5%). The subventions are discussed in more detail after the local tax section.

TABLE A-13

San Francisco's Sales & Use Tax Rate	
State Sales Tax	6.00%
State General Fund	3.9375%
Local Realignment Fund 2011*	1.0625%
Local Revenue Fund*	0.50%
(to counties for health & welfare)	
Public Safety Fund (to counties & cities)*	0.50%
Local Sales Tax	1.25%
Local Sales Tax (to General Fund)*	1.00%
Local Transportation Tax (TDA)	0.25%
Special District Use Tax	1.25%
SF County Transportation Authority	0.50%
Bay Area Rapid Transit (BART)	0.50%
SF Public Financing Authority (Schools)	0.25%
TOTAL Sales Tax Rate	8.50%

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

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

Local sales tax (the 1% portion) revenue in fiscal year 2018-19 is \$213.6 million, \$20.7 million (10.7%) more than fiscal year 2017-18. Fiscal year 2019-20 revenue is budgeted to be \$204.1 million, a decrease of \$9.5 million (4.5%) from fiscal year 2018-19, due to one-time prior year payments received in fiscal year 2018-19. The entirety of sales tax revenue is deposited in the General Fund.

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and population. This revenue is significantly affected by changes in the economy and spending patterns. In recent years, online retailers have contributed significantly to sales tax receipts, offsetting sustained declines in point of sale purchases.

Table A-14 reflects the City's actual sales and use tax receipts for fiscal years 2015-16 through 2018-19, and budgeted receipts for fiscal year 2019-20. The fiscal year 2015-16 figure include the imputed impact of the property tax shift made in compensation for the one-quarter sales tax revenue taken by the State's "Triple Flip."

TABLE A-14*

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Revenues
Fiscal Years 2015-16 through 2019-20
(000s)

Fiscal Year ¹	Tax Rate	City Share	Revenue	Change	
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	8.50%	1.00%	192,946	3,473	1.8%
2018-19	8.50%	1.00%	213,625	20,679	10.7%
2019-20 <i>budgeted</i> ³	8.50%	1.00%	204,085	(9,540)	-4.5%

¹ Figures for fiscal year 2015-16 through fiscal year 2018-19 are audited actuals. In November 2012 voters approved Proposition 30, which temporarily increased the state sales tax rate by 0.25% effective January 1, 2013 through December 31, 2016. The City share did not change.

² The 2015-16 adjusted figures include 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.

³ Figures for fiscal year 2019-20 are Original Budget amounts.

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

*See "RECENT DEVELOPMENTS – May Update," for a discussion of the currently projected impacts resulting from the COVID-19 Emergency.

Other Local Taxes

The City imposes a number of other general purpose taxes:

- Utility Users Tax (UUT) - A 7.5% tax on non-residential users of gas, electricity, water, steam and telephone services.
- Access Line Tax ("ALT") – A charge of \$3.64 on every telecommunications line, \$27.35 on every trunk line, and \$492.32 on every high capacity line in the City. The ALT replaced the Emergency Response Fee ("ERF") in 2009. The tax is collected from telephone communications service subscribers by the telephone service supplier.
- Parking Tax - A 25% tax for off-street parking spaces. The tax is paid by occupants and remitted monthly to the City by parking facility operators. In accordance with Charter Section 16.110, 80% of parking tax revenues are transferred from the General Fund to the MTA's Enterprise Funds to support public transit.
- Sugar Sweetened Beverage Tax – A one cent per ounce tax on the distribution of sugary beverages. This measure was adopted by voters on November 9, 2016 (Prop V) and took effect on January 1, 2018.
- Stadium Admission Tax – A tax between \$0.25 and \$1.50 per seat or space in a stadium for any event, with some specific exclusions.

- Cannabis Tax – A gross receipts tax of 1% to 5% on marijuana business and permits the City to tax businesses that do not have a physical presence in the City. This measure was adopted by voters in November 2018 (Prop D).
- Franchise Tax – A tax for the use of city streets and rights-of-way on cable TV, electric, natural gas, and steam franchises.

Table A-15 reflects the City’s actual tax receipts for fiscal years 2015-16 through 2018-19, and budgeted receipts for fiscal year 2019-20.

TABLE A-15*

CITY AND COUNTY OF SAN FRANCISCO					
Other Local Taxes					
Fiscal Years 2015-16 through 2019-20					
General Fund All Funds					
(000s)					
Tax	2015-16	2016-17	2017-18	2018-19	2019-20
	Actuals	Actuals	Actuals	Actuals	Budget
Utility Users Tax	\$98,651	\$101,203	\$94,460	\$93,918	\$98,710
Access Line Tax	43,617	46,530	51,255	48,058	48,910
Parking Tax	86,012	84,278	83,484	86,020	83,000
Sugar Sweetened Beverage Tax	N/A	N/A	7,912	16,098	16,000
Stadium Admissions Tax	1,164	1,199	1,120	1,215	5,500
Cannabis Tax	N/A	N/A	N/A	N/A	3,000
Franchise Tax	16,823	17,130	16,869	15,640	17,650

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

*See “RECENT DEVELOPMENTS – May Update,” for a discussion of the currently projected impacts resulting from the COVID-19 Emergency.

INTERGOVERNMENTAL REVENUES

State Subventions Based on Taxes

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

- Health and Welfare Realignment, enacted in 1991, restructured the state-county partnership by giving counties increased responsibilities and dedicated funding to administer certain public health, mental health and social service programs.
- Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers.
- State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. This revenue is a function of the City’s proportionate share of Statewide sales activity. These revenues are allocated to counties by the State separately from the local one-percent sales tax discussed above. Disbursements are made to counties based on the county ratio, which is the county’s percent share of total statewide sales taxes in the most recent calendar year.

Table A-16 reflects the City’s actual receipts for fiscal years 2015-16 through 2018-19 and budgeted receipts for fiscal year 2019-20.

TABLE A-16*

CITY AND COUNTY OF SAN FRANCISCO					
Selected State Subventions - All Funds					
Fiscal Years 2015-16 through 2019-20					
(\$millions)					
Tax	2015-16	2016-17	2017-18	2018-19	2019-20
	Actuals	Actuals	Actuals	Actuals	Budget¹
Health and Welfare Realignment					
General Fund	\$176.3	\$192.1	\$197.9	\$217.6	\$221.0
Hospital Fund	52.2	66.1	57.3	58.5	59.1
Total - Health and Welfare	\$228.5	\$258.2	\$255.2	\$276.1	\$280.1
Public Safety Realignment (General Fund)	\$39.8	\$35.5	\$37.4	\$39.4	\$42.1
Public Safety Sales Tax (Prop 172) (General Fund)	\$97.0	\$100.4	\$104.8	\$107.6	\$104.6

Notes

¹ Figures for fiscal year 2019-20 are Original Budget amounts.

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

*See “RECENT DEVELOPMENTS – May Update,” for a discussion of the currently projected impacts resulting from the COVID-19 Emergency.

CITY GENERAL FUND PROGRAMS AND EXPENDITURES

The information in this section “CITY GENERAL FUND PROGRAMS AND EXPENDITURES” relating to 2019-20 projected expenditures from the Original 2019-20 Budget. As described in “RECENT DEVELOPMENTS,” the COVID-19 Emergency is expected to result in significant declines in revenues as well as increases in certain expenditures.

General Fund Expenditures by Major Service Area

As a consolidated city and county, San Francisco budgets General Fund expenditures in seven major service areas as described in table A-17 below:

TABLE A-17*

CITY AND COUNTY OF SAN FRANCISCO				
Expenditures by Major Service Area				
Fiscal Years 2016-17 through 2019-20				
(000s)				
Major Service Areas	2016-17 Final Budget	2017-18 Final Budget	2018-19 Final Budget	2019-20 Original Budget
Public Protection	\$1,266,148	\$1,316,870	\$1,390,266	\$1,493,084
Human Welfare & Neighborhood Development	978,126	1,047,458	1,120,892	1,183,587
Community Health	763,496	832,663	967,113	950,756
General Administration & Finance	252,998	259,916	290,274	596,806
Culture & Recreation	139,473	142,081	154,056	173,969
General City Responsibilities	134,153	114,219	172,028	193,971
Public Works, Transportation & Commerce	166,295	238,564	214,928	208,755
Total*	\$3,700,689	\$3,951,771	\$4,309,557	\$4,800,929

*Total may not add due to rounding

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

*See “RECENT DEVELOPMENTS – May Update,” for a discussion of the currently projected impacts resulting from the COVID-19 Emergency.

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

For budgetary purposes, enterprise funds (which are not shown on the table above) are characterized as either self-supported funds or General Fund-supported funds. General Fund-supported funds include the Convention Facility Fund, the Cultural and Recreation Film Fund, the Gas Tax Fund, the Golf Fund, the General Hospital Fund, and the Laguna Honda Hospital Fund. These funds are supported by transfers from the General Fund to the extent their dedicated revenue streams are insufficient to support the desired level of services.

Voter-Mandated Spending Requirements

The Charter requires funding for voter-mandated spending requirements, which are also referred to as “baselines,” “set-asides,” or “mandates”. The chart below identifies the required and budgeted levels of funding for key mandates. The spending requirements are formula-driven, variously based on projected aggregate General Fund discretionary revenue, property tax revenues, total budgeted spending, staffing levels, or population growth. Table A-18 reflects fiscal year 2019-20 spending requirements at the time the fiscal year 2019-20 budget was finally adopted. These mandates are either budgeted as transfers out of the General Fund, or allocations of property tax revenue.

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TABLE A-18*

CITY AND COUNTY OF SAN FRANCISCO
Baselines & Set-Asides
Fiscal Year 2019-20
(\$millions)

	2019-20 Original Budget
Projected General Fund Aggregate Discretionary Revenue (ADR)	\$4,205.3
Municipal Transportation Agency (MTA)	
MTA - Municipal Railway Baseline: 6.686% ADR	\$281.2
MTA - Parking & Traffic Baseline: 2.507% ADR	105.4
MTA - Population Adjustment	56.3
MTA - 80% Parking Tax In-Lieu	66.4
Subtotal - MTA	\$509.3
Library Preservation Fund	
Library - Baseline: 2.286% ADR	\$96.1
Library - Property Tax: \$0.025 per \$100 Net Assessed Valuation (NAV)	65.3
Subtotal - Library	\$161.4
Children's Services	
<i>Children's Services Baseline - Requirement: 4.830% ADR</i>	<i>\$203.1</i>
Children's Services Baseline - Eligible Items Budgeted	223.2
<i>Transitional Aged Youth Baseline - Requirement: 0.580% ADR</i>	<i>24.4</i>
Transitional Aged Youth Baseline - Eligible Items Budgeted	28.9
Public Education Services Baseline: 0.290% ADR	12.2
Children and Youth Fund Property Tax Set-Aside: \$0.0375-0.4 per \$100 NAV	104.5
<i>Public Education Enrichment Fund: 3.057% ADR</i>	<i>128.6</i>
1/3 Annual Contribution to Preschool for All	42.9
2/3 Annual Contribution to SF Unified School District	85.7
Subtotal - Children's Services	\$497.3
Recreation and Parks	
Open Space Property Tax Set-Aside: \$0.025 per \$100 NAV	\$65.3
<i>Recreation & Parks Baseline - Requirement</i>	<i>76.2</i>
Recreation & Parks Baseline - Budgeted	82.0
Subtotal - Recreation and Parks	\$147.3
Other	
<i>Housing Trust Fund Requirement</i>	<i>\$36.8</i>
Housing Trust Fund Budget	57.1
Dignity Fund	50.1
Street Tree Maintenance Fund: 0.5154% ADR	21.7
Municipal Symphony Baseline: \$0.00125 per \$100 NAV	3.5
City Services Auditor: 0.2% of Citywide Budget	20.1
Subtotal - Other	\$152.4
Total Baselines and Set-Asides	\$1,467.6

*See "RECENT DEVELOPMENTS – May Update," for a discussion of the currently projected impacts resulting from the COVID-19 Emergency.

EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

The cost of salaries and benefits for City employees represents slightly less than half of the City's expenditures, totaling \$5.6 billion in the fiscal year 2019-20 Original Budget (all funds), and \$5.8 billion in the fiscal year 2020-21 Original Budget. Looking only at the General Fund, the combined salary and benefits budget was \$2.6 billion in the fiscal year 2019-20 Original Budget and \$2.8 billion in the fiscal year 2020-21 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 SF Unified School District ("SFUSD"), SFCCD and the San Francisco Superior Court, called Trial Court below, are not City employees.

Labor Relations

The City's budget for fiscal year 2019-20 included 37,907 budgeted and funded City positions, respectively. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021 ("SEIU"), the International Federation of Professional and Technical Engineers, Local 21 ("IFPTE"), and the unions representing police, fire, deputy sheriffs, and transit workers.

Wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (the Meyers-Milias-Brown Act, California Government Code Sections 3500-3511) and the City Charter. San Francisco is unusual among California's cities and counties in that nearly all of its employees, including managerial and executive-level employees, are represented by labor organizations.

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

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

In May 2019, the City negotiated three-year agreements (for fiscal years 2019-20 through 2021-22) with 27 labor unions. This includes the largest unions in the City such as SEIU, IFPTE, Laborers Internationals, Local 261, Consolidated Crafts Coalition, and Municipal Executive Association ("MEA"). For the fiscal year 2019-20, the parties agreed to wage increases of 3% on July 1, 2019 and 1% on December 28, 2019. For fiscal year 2020-21, the parties agreed to a wage increase schedule of 3% on July 1, 2020 and 0.5% on December 26, 2020, with a provision to delay the fiscal year 2020-21 adjustment by six months if the City's deficit for fiscal year 2020-21, as projected in the March 2020 Update to the Five-Year Financial Plan, exceeds \$200 million. For fiscal year 2021-22, the parties agreed to a wage increase schedule of 3% on

July 1, 2021 and 0.5% on January 8, 2022, with a provision to delay the fiscal year 2021-22 adjustment by six months if the City's deficit for fiscal year 2021-22, as projected in the March 2021 Update to the Five-Year Financial Plan, exceeds \$200 million.

Also, in May 2019, the SFMTA negotiated three-year agreements (for fiscal years 2019-20 through 2021-22) with the unions that represent Transit Operators, Mechanics, Station Agents, Parking Control Officers and others. The parties agreed to the same wage increase schedule as the City.

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TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO (All Funds)
Employee Organizations as of April 15, 2020

Organization	City Budgeted Positions	Expiration Date of MOU
Automotive Machinists, Local 1414	504	30-Jun-22
Bricklayers, Local 3	10	30-Jun-22
Building Inspectors' Association	90	30-Jun-22
Carpenters, Local 22	114	30-Jun-22
Cement Masons, Local 300	45	30-Jun-22
Deputy Probation Officers' Association (DPOA)	142	30-Jun-22
Deputy Sheriffs' Association (DSA)	824	30-Jun-22
District Attorney Investigators' Association (DAIA)	45	30-Jun-22
Electrical Workers, Local 6	984	30-Jun-22
Firefighters' Association, Local 798 Unit 1	1,834	30-Jun-21
Firefighters' Association, Local 798 Unit 2	63	30-Jun-21
Glaziers, Local 718	14	30-Jun-22
Hod Carriers, Local 166	8	30-Jun-22
IATSE, Local 16	29	30-Jun-22
Institutional Police Officers' Association	1	30-Jun-22
Ironworkers, Local 377	14	30-Jun-22
Laborers, Local 261	1,150	30-Jun-22
Law Librarian and Asst Librarian	2	-
Municipal Attorneys' Association (MAA)	477	30-Jun-22
Municipal Executives' Association (MEA) Fire	9	30-Jun-21
Municipal Executives' Association (MEA) Miscellaneous	1,438	30-Jun-22
Municipal Executives' Association (MEA) Police	16	30-Jun-21
Operating Engineers, Local 3 Miscellaneous	65	30-Jun-22
Operating Engineers, Local 3 Supervising Probation	31	30-Jun-22
Painters, SF Workers United	134	30-Jun-22
Pile Drivers, Local 34	37	30-Jun-22
Plumbers, Local 38	352	30-Jun-22
Police Officers' Association (POA)	2,747	30-Jun-21
Professional and Technical Engineers, Local 21	6,436	30-Jun-22
Roofers, Local 40	13	30-Jun-22
SEIU, Local 1021 H-1s	1	30-Jun-20
SEIU, Local 1021 Misc	12,711	30-Jun-22
SEIU, Local 1021 Nurses	1,733	30-Jun-22
Sheet Metal Workers, Local 104	41	30-Jun-22
Sheriffs' Supervisory and Management Association (MSA)	109	30-Jun-22
Soft Tile Workers, Local 12	4	30-Jun-22
Stationary Engineers, Local 39	703	30-Jun-22
Teamsters, Local 853	178	30-Jun-22
Teamsters, Local 856 Miscellaneous	99	30-Jun-22
Teamsters, Local 856 Supervising Nurses	127	30-Jun-22
TWU, Local 200	385	30-Jun-22
TWU, Local 250-A (9132 Transit Fare Inspectors)	50	30-Jun-22
TWU, Local 250-A (9163 Transit Operator)	2,721	30-Jun-22
TWU, Local 250-A Auto Service Work	145	30-Jun-22
TWU, Local 250-A Miscellaneous	109	30-Jun-22
Union of American Physicians and Dentists (UAPD)	203	30-Jun-22
Unrepresented Employees	88	30-Jun-22
Other	872	
	37,907 ¹	

¹ Budgeted positions do not include SFUSD, SFCCD, or Superior Court Personnel.
Budgeted positions include authorized positions that are not currently funded.

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

San Francisco Employees' Retirement System ("SFERS" or "Retirement System")

As described in "RECENT DEVELOPMENTS," the COVID-19 Emergency has resulted in significant declines in the global and national stock markets. Contributions to SFERS are based upon an assumption of 7.4% investment returns each fiscal year. To the extent that returns fall below this level in the current and upcoming fiscal years, it will increase required City and employee contributions.

History and Administration

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

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

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

The Internal Revenue Service ("IRS") issued a favorable Determination Letter for SFERS in July 2014. Issuance of a Determination Letter constitutes a finding by the IRS that operation of the defined benefit plan in accordance with the plan provisions and documents disclosed in the application qualifies the plan for federal tax-exempt status. A tax qualified plan also provides tax advantages to the City and to members of the Retirement System. The favorable Determination Letter included IRS review of all SFERS provisions, including the provisions of Proposition C approved by the City voters in November 2011. This 2014 Determination Letter has no operative expiration date pursuant to Revenue Procedure 2016-37. The IRS does not intend to issue new determination letters except under special exceptions.

Membership

Retirement System members include eligible employees of the City, SFUSD, SFCCD, and the San Francisco Trial Courts. The Retirement System estimates that the total active membership as of July 1, 2019 is 44,157, compared to 43,129 at July 1, 2018. Active membership at July 1, 2019 includes 8,911 terminated vested members and 1,044 reciprocal members. Terminated vested members are former employees who have vested rights in future benefits from SFERS. Reciprocal members are individuals who have established membership in a reciprocal pension plan such as CalPERS and may be eligible to receive a reciprocal pension from the Retirement System in the future. Monthly retirement allowances are paid to approximately 30,778 retired members and beneficiaries. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Table A-20 shows total Retirement System participation (City, SFUSD, SFCCD, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates, July 1, 2015 through July 1, 2019.

TABLE A-20

**City and County of San Francisco
Employees' Retirement System
July 1, 2015 through July 1, 2019**

As of July 1st	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
2015	30,837	5,960	1,024	37,821	27,485	1.122
2016	32,406	6,617	1,028	40,051	28,286	1.146
2017	33,447	7,381	1,039	41,867	29,127	1.148
2018	33,946	8,123	1,060	43,129	29,965	1.133
2019	34,202	8,911	1,044	44,157	30,778	1.111

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

Notes: Member counts exclude DROP participants. There are no active DROP members on or after July 1, 2016
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 2018 Retirement Board meeting, the Board voted to lower the assumed long-term investment earnings assumption from 7.50% to 7.40%, maintain the long-term wage inflation assumption at 3.50%, and lower the long-term consumer price inflation assumption from 3.00% to 2.75%. These economic assumptions were first effective for the July 1, 2018 actuarial valuation and were approved again by the Board for the July 1, 2019 actuarial valuation at their July 2019 meeting. The Board had previously lowered the long-term wage inflation assumption from 3.75% to 3.50% at its November 2017 meeting effective for the July 1, 2017 actuarial valuation. 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 debt obligations should carefully review and assess the assumptions regarding the performance of the Retirement System. Audited financials and actuarial reports may be found on the Retirement System's website, mysfers.org, under Publications. The information on such website is not incorporated herein by reference. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the City's debt obligations are cautioned that the information and assumptions speak only as of the respective dates contained in the underlying source documents and are therefore subject to change.

Employer Contribution History and Annual Valuations

Fiscal year 2017-18 City employer contributions to the Retirement System were \$582.6 million, which included \$315.3 million from the General Fund. Fiscal year 2018-19 City employer contributions to the Retirement System were \$607.4 million, which includes \$332.8 million from the General Fund. For fiscal year 2019-20, total City employee contributions to the Retirement System are budgeted at \$692.0 million, which includes \$327.4 million from the General Fund. These budgeted amounts are based upon the fiscal year 2019-20 employer contribution rate of 25.19% (estimated to be 21.8% after taking into account the 2011 Proposition C cost-sharing provisions). The fiscal year 2020-21 employer contribution rate is 26.90% (estimated to be 23.5% after cost-sharing). The increase in employer contribution rate from 25.19% to 26.90% reflects a new Supplemental COLA effective July 1, 2019 and the last-year of the five-year phase-in of the 2015 demographic assumption changes approved by the Retirement Board. Employer contribution rates anticipate annual increases in pensionable payroll of 3.5% and total contributions to the Retirement System could continue to climb even as contribution rates decline. As discussed under "City Budget – Five-Year Financial Plan" increases in retirement costs are projected in the City's Five Year Financial Plan.

Table A-21 shows total Retirement System liabilities, assets and percent funded for the last five actuarial valuations as well as contributions for the fiscal years 2013-14 through 2017-18. Information is shown for all employers in the Retirement System (City & County, SFUSD, SFCCD and San Francisco Trial Courts). "Actuarial Liability" reflects the actuarial accrued liability of the Retirement System measured for purposes of determining the funding contribution. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the plan assets with investment returns different than expected smoothed over five years to provide a more stable contribution rate. The "Market Percent Funded" column is determined by dividing the market value of assets by the actuarial accrued liability. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the actuarial accrued liability. "Employee and Employer Contributions" reflects the sum of mandated employee and employer contributions received by the Retirement System in the fiscal year ended June 30th prior to the July 1st valuation date.

TABLE A-21

**City and County of San Francisco
Employees' Retirement System
Fiscal Years 2014-2015 through 2018-2019
(Amounts in 000s)**

As of July 1st	Actuarial Liability	Market Value of Assets	Actuarial Value of Assets	Market Percent Funded	Actuarial Percent Funded	Employee & Employer Contributions in prior FY	Employer Contribution Rates ¹ in prior FY
2015	22,970,892	20,428,069	19,653,339	88.9	85.6	894,325	26.76
2016	24,403,882	20,154,503	20,654,703	82.6	84.6	849,569	22.80
2017	25,706,090	22,410,350	22,185,244	87.2	86.3	868,653	21.40
2018	27,335,417	24,557,966	23,866,028	89.8	87.3	983,763	23.46
2019	28,798,581	26,078,649	25,247,549	90.6	87.7	1,026,036	23.31

¹ Employer contribution rates are shown prior to employer/employee cost-sharing provisions of 2011 Proposition C. Employer contribution rates for fiscal years 2019-20 and 2020-21 are 25.19% and 26.90%, respectively.

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

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

As shown in the table above as of July 2019, the Market Percent Funded ratio is higher than the Actuarial Percent Funded ratio. The Actuarial Percent Funded ratio does not yet fully reflect the net asset gains from the last five fiscal years.

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

Governmental Accounting Standards Board ("GASB") Disclosures

The Retirement System discloses accounting and financial reporting information under GASB Statement No. 67, *Financial Reporting for Pension Plans*. The City discloses accounting and financial information about the Retirement System under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. In general, the City's funding of its pension obligations is not affected by the GASB 68 reporting of the City's pension liability. Funding requirements are specified in the City Charter and are described in "Funding Practices" above.

Total Pension Liability reported under GASB Statements No. 67 and 68 differs from the Actuarial Liability calculated for funding purposes in several ways, including the following differences. First, Total Pension Liability measured at fiscal year-end is a roll-forward of liabilities calculated at the beginning of the year and is based upon a beginning of year census adjusted for significant events that occurred during the year. Second, Total Pension Liability is based upon a discount rate determined by a blend of the assumed investment return, to the extent the fiduciary net position is available to make payments, and a municipal bond rate, to the extent that the fiduciary net position is unavailable to make payments. Differences between the discount rate and assumed investment return have been small, ranging from zero to four 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 already been granted as of the valuation date.

Supplemental COLAs do not occur every year as they are only granted after favorable investment experience and only to certain groups of retirees dependent upon the funded status of the pension plan. Supplemental COLAs are capped at 3.5% less any basic COLA. As the majority of retirees have annual basic COLAs capped at 2.0%, a Supplemental COLA when granted typically represents a 1.5% increase in benefit.

Table A-21A below shows for the five most recent fiscal years the collective Total Pension Liability, Plan Fiduciary Net Position (market value of assets), and Net Pension Liability for all employers who sponsor the Retirement System. The City's audited financial statements disclose only its own proportionate share of the Net Pension Liability and other required GASB 68 disclosures.

TABLE A-21A

City and County of San Francisco						
Employees' Retirement System						
GASB 67/68 Disclosures						
Fiscal Years 2014-15 through 2018-19						
(000s)						
As of June 30th	Collective Total Pension Liability (TPL)	Discount Rate	Plan Fiduciary Net Position	Plan Net Position as % of TPL	Collective Net Pension Liability (NPL)	City and County's Proportionate Share of NPL
2015	\$22,724,102	7.46 %	\$20,428,069	89.9 %	\$2,296,033	\$2,156,049
2016	25,967,281	7.50	20,154,503	77.6	5,812,778	5,476,653
2017	27,403,715	7.50	22,410,350	81.8	4,993,365	4,697,131
2018	28,840,673	7.50	24,557,966	85.2	4,282,707	4,030,207
2019	30,555,289	7.40	26,078,649	85.3	4,476,640	4,213,807
Sources:	SFERS fiscal year-end GASB 67/68 Reports as of each June 30.					
Notes:	Collective amounts include all employees (City and County, SFUSD, SFCCD, Superior Courts)					

The trend in the decline in the City's net pension liability due to investment returns in excess of the assumed returns would have continued at year-end 2019 but was offset by the increase in TPL due to the drop in discount rate from 7.50% to 7.40%.

Asset Management

The assets of the Retirement System, (the "Fund") are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. For a breakdown of the asset allocation as of June 30, 2019, see the City's CAFR.

Annualized investment return (net of fees and expenses) for the Retirement System for the five years ending June 30, 2019 was 7.57%. For the ten-year and twenty-year periods ending June 30, 2019, annualized investment returns were 10.43% and 7.02% respectively.

The investments, their allocation, transactions and proxy votes are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System's investment policy, a description of asset allocation targets and current investments,

and the Annual Report of the Retirement System are available upon request from the Retirement System by writing to the San Francisco Retirement System, 1145 Market Street, 5th Floor, San Francisco, California 94103, or by calling (415) 487-7000. These documents are not incorporated herein by reference.

2011 Voter Approved Changes to the Retirement Plan

The levels of SFERS plan benefits are established under the Charter and approved directly by the voters, rather than through the collective bargaining process. Changes to retirement benefits require a voter-approved Charter amendment. 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 hired on or after November 2, 1976 pay a Charter-mandated employee contribution rate of 7.5% before-cost-sharing. However, after cost-sharing those who earn between \$50,000 and \$100,000 per year pay a fluctuating rate in the range of 3.5% to 11.5 and those who earn \$100,000 or more per year pay a fluctuating rate in the range of 2.5% to 12.5%. Similar fluctuating employee contributions are also required from Safety employees; and
4. Effective July 1, 2012, no Supplemental COLA will be paid unless SFERS is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits - in any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

A retiree organization has brought a legal action against the requirement in Proposition C that SFERS be fully funded in order to pay the Supplemental COLA. In that case, *Protect our Benefits (POB) v. City of San Francisco* (1st DCA Case No. A140095), the Court of Appeals held that changes to the Supplemental COLA adopted by the voters in November 2011 under Proposition C could not be applied to current City employees and those who retired after November 1996 when the Supplemental COLA provisions were originally adopted, but could be applied to SFERS members who retired before November 1996. This decision is now final, and its implementation increased the July 1, 2016 unfunded actuarial liability by \$429.3 million for Supplemental COLAs granted retroactive to July 1, 2013 and July 1, 2014.

On July 13, 2016, the SFERS Board adopted a Resolution to exempt members who retired before November 6, 1996, from the "fully funded" provision related to payment of Supplemental COLAs under Proposition C. The Resolution directed that retroactive payments for Supplemental COLAs be made to

these retirees. After the SFERS 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 appealed the Superior Court's injunction; however, the injunction was affirmed by the Court of Appeal reserving the power to take action for the City's voters.

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

Impact on the Retirement System from Changes in the Economic Environment

As of June 30, 2019, the audited market value of Retirement System assets was \$26.1 billion. These values represent, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be lower or higher. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are audited at each fiscal year end as part of the annual audit of the Retirement System's financial statements.

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

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

Other Employee Retirement Benefits

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members, at rates determined by the CalPERS board. Section A8.510 of the Charter requires the City to pay the full amount required by the actuarial valuations. The actual total employer contributions to CalPERS was \$30.7 million in fiscal year 2017-18, and \$34.9 million in fiscal year 2018-19. In addition to the required amounts, the City elected to pay an additional amount of \$8.4 million in fiscal years 2017-18, 2018-19 and 2019-2020

in order to reduce its unfunded liability. Further discussion of the City's CalPERS plan obligations is summarized in Note 9 to the City's CAFR, as of June 30, 2019. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under "Medical Benefits – Post-Employment Health Care Benefits and GASB 75 Reporting Requirements."

Medical Benefits

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

Medical and COBRA benefits for eligible active City employees and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the "City Beneficiaries") are administered by the San Francisco Health Service System (the "San Francisco Health Service System" or "SFHSS") pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the SFHSS also administers medical benefits to active and retired employees of SFUSD, SFCCD and the San Francisco Superior Court, however, the City is only required to fund medical benefits for City Beneficiaries.

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

The San Francisco Health Service System oversees a trust fund (the "Health Service Trust Fund") established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the City Beneficiaries are funded. The San Francisco Health Service System issues an annual, publicly available, independently-audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained through the SFHSS website, by writing to the San Francisco Health Service System, 1145 Market Street, Third Floor, San Francisco, California 94103, or by calling (415) 554-1750. Audited annual financial statements for prior years are posted to the SFHSS website, however the information available on the SFHSS website is not incorporated in this Official Statement by reference.

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

Determination of Employer and Employee Contributions for Medical Benefits

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

For unions representing approximately 93.3% of City employees, rather than applying the “average contribution” to determine the amount the City is required to contribute for active employees, a percentage-based employee premium contribution formula was negotiated through collective bargaining. 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 the assets of 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.*”

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City Contribution for Retirees

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

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

Health Care Reform

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

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

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

The Excise Tax on High-cost Employer-sponsored Health Plans (Cadillac Tax) is a 40% excise tax on high-cost coverage health plans. The National Defense Authorization Act for Fiscal Year 2020, signed into law by President Trump on December 20, 2019, repealed the Cadillac tax, effective January 1, 2020.

- **Health Insurance Tax (“HIT”)**

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

- **Medical Device Excise Tax**

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

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

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

Employer Contributions for San Francisco Health Service System Benefits

For fiscal year 2018-19, based on the most recent audited financial statements, the San Francisco Health Service System received approximately \$789.8 million from participating employers for San Francisco Health Service System benefit costs. Of this total, the City contributed approximately \$669.2 million; approximately \$186.5 million of this \$669.2 million amount was for health care benefits for approximately 22,563 retired City employees and their eligible dependents and approximately \$482.7 million was for benefits for approximately 32,931 active City employees and their eligible dependents.

The 2020 aggregate (employee and employer) cost of benefits offered by SFHSS to the City increased by 4.6%, which is below national trends of 5.5% to 6%. This can be attributed to several factors including aggressive contracting by SFHSS that maintains competition among the City’s vendors, implementing Accountable Care Organizations that reduced utilization and increased use of generic prescription rates and changing the City’s Blue Shield plan from a fully-funded to a flex-funded product and implementing a narrow network. Flex-funding allows lower premiums to be set by the City’s actuarial consultant, Aon, without the typical margins added by Blue Shield; however, more risk is assumed by the City and reserves are required to protect against this risk. The 2020 aggregate cost of benefits offered by SFHSS to the City increased 4.6% which is also less than the national trends.

Post-Employment Health Care Benefits

Eligibility of former City employees for retiree health care benefits is governed by the Charter. In general, employees hired before January 10, 2009 and a spouse or dependent are potentially eligible for health benefits following retirement at age 50 and completion of five years of City service. Proposition B, passed by San Francisco voters on June 3, 2008, tightened post-retirement health benefit eligibility rules for employees hired on or after January 10, 2009, and generally requires payments by these employees equal to 2% of their salary, with the City contributing an additional 1%, into a Retiree Health Care Trust Fund.

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

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

Proposition A, passed by San Francisco voters on November 5, 2013, restricted the City's ability to withdraw funds from the Retiree Health Care Trust Fund. The restrictions allow payments from the fund only when certain conditions are met. The balance in the Retiree Health Care Trust Fund as of June 30, 2018 is approximately \$240.1 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 75.

GASB 75 Reporting Requirements

In June 2015, GASB issued Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (“GASB 75”). GASB 75 revises and establishes new accounting and financial reporting requirements for governments that provide their employees with OPEBs. The new standard is effective for periods beginning after June 15, 2017. The City implemented the provisions of GASB 75 in its audited financial statements for Fiscal Year 2017-18. According to GASB's Summary of GASB 75, GASB 75 requires recognition of the entire OPEB liability, a more comprehensive measure of OPEB expense, and new note disclosures and required supplementary information to enhance decision-usefulness and accountability.

City's Estimated Liability

The City is required by GASB 75 to prepare a new actuarial study of its postemployment benefits obligation at least once every two years. As of June 30, 2018, the most recent actuarial valuation date, the retiree health care fiduciary plan net position as a percentage of the total OPEB liability was 6.6%. As of June 30, 2019, the estimated covered payroll (annual payroll of active employees covered by the plan) was \$3.58 billion and the ratio of the Net OPEB liability to the covered payroll was 100.5%.

While GASB 75 does not require funding of the annual OPEB cost, any differences between the amount funded in a year and the annual OPEB cost are recorded as increases or decreases in the net OPEB liability. See Note 9(b) and the Required Supplementary Information to the City's CAFR, as of June 30, 2019. Five-year trend information is displayed in Table A-22.

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TABLE A-22

CITY AND COUNTY OF SAN FRANCISCO
Five-year Trend
Fiscal Years 2014-15 to 2018-19
(000s)

Fiscal Year	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
2014-15	363,643	46.0%	1,990,155
2015-16	326,133	51.8%	2,147,434
2016-17	421,402	43.6%	2,384,938
2017-18	355,186	57.4%	3,717,209 ¹
2018-19	320,331	68.2%	3,600,967

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

Total City Employee Benefits Costs

Table A-23 provides historical and 2019-20 Original Budget information for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. Historically, approximately 50% of health benefit costs are paid from the General Fund. For all fiscal years shown, a “pay-as-you-go” approach was used by the City for health care benefits.

Table A-23 below provides a summary of the City’s employee benefit actual and budgeted costs from fiscal year 2015-16 to fiscal year 2019-20.

TABLE A-23

CITY AND COUNTY OF SAN FRANCISCO
Employee Benefit Costs, All Funds
Fiscal Years 2015-16 through 2019-20
(000s)

	2015-16 Actual ¹	2016-17 Actual ¹	2017-18 Actual ¹	2018-19 Actual ¹	2019-20 Budget ⁴
SFERS and PERS Retirement Contributions	\$531,821	\$554,956	\$621,055	\$650,011	\$733,385
Social Security & Medicare	184,530	196,914	\$212,782	\$219,176	\$229,342
Health - Medical + Dental, active employees ²	421,864	459,772	\$501,831	\$522,006	\$525,511
Health - Retiree Medical ²	158,939	165,822	\$178,378	\$186,677	\$195,607
Other Benefits ³	20,827	21,388	\$44,564	\$26,452	\$23,308
Total Benefit Costs	\$1,317,981	\$1,398,852	\$1,558,609	\$1,604,322	\$1,707,153

¹ Fiscal year 2015-16 through fiscal year 2018-19 figures are audited actuals.

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

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

⁴ Figures for fiscal year 2019-20 are Original Budget amounts.

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

INVESTMENT OF CITY FUNDS

Investment Pool

The Treasurer of the City (the “Treasurer”) is authorized by Charter Section 6.106 to invest funds available under California Government Code Title 5, Division 2, Part 1, Chapter 4. In addition to the funds of the City, the funds of various City departments and local agencies located within the boundaries of the City, including the school and community college districts, airport and public hospitals, are deposited into the City and County’s Pooled Investment Fund (the “Pool”). The funds are commingled for investment purposes.

Investment Policy

The management of the Pool is governed by the Investment Policy administered by the Office of the Treasurer and Tax Collector in accordance with California Government Code Sections 27000, 53601, 53635, et. al. In order of priority, the objectives of this Investment Policy are safety, liquidity and return on investments. Safety of principal is the foremost objective of the investment program. The investment portfolio maintains sufficient liquidity to meet all expected expenditures for at least the next six months. The Office of the Treasurer and Tax Collector also attempts to generate a market rate of return, without undue compromise of the first two objectives.

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. A complete copy of the Treasurer’s Investment Policy, dated February 2018, is included as an Appendix to this Official Statement.

Investment Portfolio

As of March 31, 2020, the City’s surplus investment fund consisted of the investments classified in Table A-24 and had the investment maturity distribution presented in Table A-25.

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TABLE A-24

City and County of San Francisco
Investment Portfolio
Pooled Funds
As of March 31, 2020

Type of Investment	Par Value	Book Value	Market Value
U.S. Treasuries	\$2,060,000,000	\$2,063,089,067	\$2,081,059,750
Federal Agencies	4,701,300,000	4,700,002,121	4,741,471,584
State and Local Obligations	80,731,641	80,301,528	81,441,567
Public Time Deposits	45,000,000	45,000,000	45,000,000
Negotiable Certificates of Deposit	2,004,290,000	2,004,379,064	2,008,567,598
Commercial Paper	960,000,000	950,271,543	954,974,946
Medium Term Notes	5,000,000	4,997,000	5,072,600
Money Market Funds	1,421,562,862	1,421,562,862	1,421,562,862
Supranationals	922,135,000	918,039,690	925,751,776
Total	\$12,200,019,503	\$12,187,642,876	\$12,264,902,683

March Earned Income Yield: 1.786%

Sources: Office of the Treasurer and Tax Collector, City and County of San Francisco
From Citibank-Custodial Safekeeping, SunGard Systems-Inventory Control Program.

TABLE A-25

City and County of San Francisco
Investment Maturity Distribution
Pooled Funds
As of March 31, 2020

Maturity in Months	Par Value	Percentage
0 to 1	\$2,122,062,862	17.39%
1 to 2	604,495,000	4.95%
2 to 3	891,575,000	7.31%
3 to 4	845,000,000	6.93%
4 to 5	280,490,000	2.30%
5 to 6	578,000,000	4.74%
6 to 12	2,456,295,000	20.13%
12 to 24	2,329,141,641	19.09%
24 to 36	1,040,140,000	8.53%
36 to 48	120,495,000	0.99%
48 to 60	932,325,000	7.64%
	\$12,200,019,503	100.00%

Weighted Average Maturity: 410 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, 2019 are described in the City's CAFR, Notes 2(c) 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 and other funding needs over 10 years, highlights investments required to meet these needs and recommends a plan of finance to fund these investments. Although the Capital Plan provides cost estimates and proposes methods to finance such costs, the document does not reflect any commitment by the Board of Supervisors to expend such amounts or to adopt any specific financing method. The Capital Plan is required to be updated and adopted biennially, along with the City's Five-Year Financial Plan and the Five-Year Information & Communication Technology Plan. The CPC is also charged with reviewing the annual capital budget submission and all long-term financing proposals and providing recommendations to the Board of Supervisors relating to the compliance of any such proposal or submission with the adopted Capital Plan.

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year. The fiscal year 2020-2029 Capital Plan was approved by the CPC on April 17, 2019 and was adopted by the Board of Supervisors on April 30, 2019. The Capital Plan contains \$39.1 billion in capital investments over the coming decade for all City departments, including \$5.1 billion in projects for General Fund-supported departments. The Capital Plan proposes \$2.2 billion for General Fund pay-as-you-go capital projects over the next 10 years. The amount for General Fund pay-as-you-go capital projects is 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 critical seismic projects and relocation of staff from seismically vulnerable facilities; upgrades to public health, police, and fire facilities; transportation and utility system improvements; improvements to homeless service sites; street and right-of-way improvements; the removal of barriers to accessibility; and park improvements, among other

capital projects. \$3.5 billion of the capital projects of General Fund supported departments are expected to be financed with general obligation bonds and other long- term obligations, subject to planning policy constraints. The balance is expected to be funded by federal and State funds, the General Fund and other sources

In addition to the City General Fund-supported capital spending, the Capital Plan recommends \$20.3 billion in enterprise fund department projects to continue major transit, economic development and public utility projects such as the Central Subway project, runway and terminal upgrades at San Francisco International Airport, Pier 70 infrastructure investments, the Sewer System Improvement Program, and building adequate facilities to support the City’s growing transit fleet, among others. Approximately \$10.2 billion of enterprise fund department capital projects are anticipated to be financed with revenue bonds. The balance is expected to be funded by federal and State funds, user/operator fees, General Fund and other sources.

While significant investments are proposed in the City’s adopted Capital Plan, identified resources remain below those necessary to maintain and enhance the City’s physical infrastructure. As a result, over \$4.9 billion in capital needs including enhancements are deferred from the plan’s horizon.

Failure to make the capital improvements and repairs recommended in the Capital Plan may have the following impacts: (i) failing to meet federal, State or local legal mandates; (ii) failing to provide for the imminent life, health, safety and security of occupants and the public; (iii) failing to prevent the loss of use of the asset; (iv) impairing the value of the City’s assets; (v) increasing future repair and replacement costs; and (vi) harming the local economy.

Tax-Supported Debt Service – City General Obligation Bonds

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes (“general obligation bonds” or “GO bonds”) can only be authorized with a two-thirds approval of the voters. As of May 15, 2020, the City had approximately \$2.4 billion aggregate principal amount of GO bonds outstanding. In addition to the City’s general obligation bonds, BART, SFUSD and SFCCD also have outstanding general obligation as shown in Table A-31.

Table A-26 shows the annual amount of debt service payable on the City’s outstanding GO bonds.

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TABLE A-26

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds Debt Service
As of May 15, 2020^{1 2}

Fiscal Year	Principal	Interest	Annual Debt Service
2019-20	208,466,232	98,539,597	307,005,829
2020-21	137,160,457	92,818,051	229,978,509
2021-22	145,228,401	85,205,452	230,433,853
2022-23	150,035,251	78,150,113	228,185,364
2023-24	153,691,206	70,814,375	224,505,581
2024-25	155,591,476	63,325,798	218,917,273
2025-26	148,206,279	55,855,492	204,061,771
2026-27	154,390,840	49,131,050	203,521,890
2027-28	160,009,035	42,463,966	202,473,002
2028-29	161,236,751	35,902,968	197,139,719
2029-30	158,420,095	29,144,938	187,565,033
2030-31	121,271,950	22,652,264	143,924,214
2031-32	125,545,000	18,068,915	143,613,915
2032-33	91,790,000	13,592,094	105,382,094
2033-34	68,280,000	10,213,872	78,493,872
2034-35	60,525,000	7,777,367	68,302,367
2035-36	44,420,000	5,649,220	50,069,220
2036-37	32,815,000	4,095,129	36,910,129
2037-38	22,905,000	2,955,139	25,860,139
2038-39	3,280,000	2,133,507	5,413,507
2039-40	1,725,000	2,024,678	3,749,678
2040-41	1,795,000	1,954,971	3,749,971
2041-42	1,865,000	1,882,435	3,747,435
2042-43	1,940,000	1,807,070	3,747,070
2043-44	2,020,000	1,728,675	3,748,675
2044-45	2,100,000	1,647,047	3,747,047
2045-46	2,185,000	1,562,186	3,747,186
2046-47	2,275,000	1,473,890	3,748,890
2047-48	2,365,000	1,381,957	3,746,957
2048-49	2,460,000	1,286,387	3,746,387
2049-50	2,560,000	1,186,979	3,746,979
2050-51	2,670,000	1,076,361	3,746,361
2051-52	2,790,000	960,990	3,750,990
2052-53	2,910,000	840,435	3,750,435
2053-54	3,035,000	714,693	3,749,693
2054-55	3,165,000	583,551	3,748,551
2055-56	3,300,000	446,791	3,746,791
2056-57	3,445,000	304,198	3,749,198
2057-58	3,595,000	155,340	3,750,340
TOTAL³	2,351,467,973	811,507,942	\$3,162,975,914

¹ This table includes the City's General Obligation Bonds shown in Table A-31 and does not include any overlapping 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.

Authorized but Unissued City GO Bonds

Certain GO bonds authorized by the City's voters as discussed below have not yet been issued. Such bonds may be issued at any time by action of the Board of Supervisors, without further approval by the voters.

In November 1992, voters approved Proposition A ("1992 Proposition A") which authorized the issuance of up to \$350.0 million in GO bonds to support San Francisco's Seismic Safety Loan Program ("SSLP"), which provides loans for the seismic strengthening of privately-owned unreinforced masonry affordable housing, market-rate residential, commercial and institutional buildings. Between 1994 and 2015, the City issued \$89.3 million of bonds under the original 1992 Proposition A authorization. In November 2016, voters approved Proposition C ("2016 Proposition C"), which amended the 1992 Proposition A authorization (together, the "1992A/2016A Propositions") to broaden the scope of the remaining \$260.7 million authorization by adding the eligibility to finance the acquisition, improvement, and rehabilitation to convert at-risk multi-unit residential buildings to affordable housing, as well as the needed seismic, fire, health, and safety upgrades and other major rehabilitation for habitability, and related costs. In early 2019, \$72.4 million of bonds were issued under the 1992A/2016A Propositions. Currently \$188.3 million remains authorized and unissued.

In November 2014, voters approved Proposition A ("2014 Transportation Proposition"), which authorized the issuance of up to \$500.0 million in general obligation bonds for the construction, acquisition and improvement of certain transportation and transit related improvements and other related costs. The City issued \$241.5 million over two series of bonds in 2015 and 2018, leaving \$258.6 million authorized and unissued.

In June 2016, voters approved Proposition A ("2016 Public Health & Safety Proposition"), which authorized the issuance of up to \$350.0 million in general obligation bonds 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 \$223.1 million over two series of the bonds in 2017 and 2018, leaving \$126.9 million authorized and unissued.

In November 2018, voters approved Proposition A ("2018 Embarcadero Seawall Improvement Proposition"), authorizing the issuance of up to \$425.0 million in general obligation bonds for repair and improvement projects along the City's Embarcadero and Seawall to protect the waterfront, BART and Muni, buildings, historic piers, and roads from earthquakes, flooding, and sea level rise. In July 2019, the Board of Supervisors approved the issuance of a first series of bonds under this authorization in an amount not to exceed \$50.0 million. The bonds are expected to be issued in May 2020.

In November 2019, voters approved Proposition A ("2019 Affordable Housing Proposition"), which authorized the issuance of up to \$600.0 million in general obligation bonds to finance the construction, development, acquisition, and preservation of affordable housing for certain vulnerable San Francisco residents; to assist in the acquisition, rehabilitation, and preservation of existing affordable housing to prevent the displacement of residents; to repair and reconstruct distressed and dilapidated public housing developments and their underlying infrastructure; to assist the City's middle-income residents or workers in obtaining affordable rental or home ownership opportunities including down payment assistance and support for new construction of affordable housing for San Francisco Unified School District and City College of San Francisco employees; and to pay related costs. Bonds have not been issued yet under this authorization.

In March 2020, voters approved Proposition B (“2020 Earthquake Safety and Emergency Response Proposition”) which authorized the issuance of up to \$628.5 million in general obligation bonds to aid fire, earthquake and emergency response by improving, constructing, and/or replacing: deteriorating cisterns, pipes, and tunnels, and related facilities to ensure firefighters a reliable water supply for fires and disasters; neighborhood fire and police stations and supporting facilities; the City's 911 Call Center; and other disaster response and public safety facilities, and to pay related costs. Bonds have not been issued yet under this authorization.

Refunding General Obligation Bonds

The Board of Supervisors adopted and the Mayor approved Resolution No. 272-04 in May of 2004 (“2004 Resolution”). The 2004 Resolution authorized the issuance of \$800.0 million of general obligation refunding bonds from time to time in one or more series for the purpose of refunding all or a portion of the City’s outstanding General Obligation Bonds. In November of 2011, the Board of Supervisors adopted and the Mayor approved, Resolution No. 448-11 (“2011 Resolution,” and together with the 2004 Resolution, the “Refunding Resolutions”). The 2011 Resolution authorized the issuance \$1.356 billion of general obligation refunding bonds from time to time in one or more series for the purpose of refunding certain outstanding General Obligation Bonds of the City. In March of 2020, the Board of Supervisors adopted and the Mayor approved, Resolution No. 097-20 (“2020 Resolution,” and together with the 2004 Resolution and 2011 Resolution, the “Refunding Resolutions”). The 2020 Resolution authorized the issuance \$1.483 billion of general obligation refunding bonds from time to time in one or more series for the purpose of refunding certain outstanding General Obligation Bonds of the City. The following refunding bonds remain currently outstanding, under the Refunding Resolutions, as shown in Table A-27 below.

TABLE A-27

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Refunding Bonds
As of May 15, 2020

Series Name	Date Issued	Principal Amount Issued	Amount Outstanding
2011-R1	November 2011	\$339,475,000	\$149,240,000 ¹
2015-R1	February 2015	293,910,000	234,310,000 ²
2020-R1	May 2020	195,250,000	195,250,000 ³

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.

³ Series 2008-R1 Bonds were refunded by the 2020-R1 Bonds in May 2020.

Table A-28 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 May 15, 2020, the City had authorized and unissued general obligation bond authority of approximately \$2.2 billion.

TABLE A-28

CITY AND COUNTY OF SAN FRANCISCO
 General Obligation Bonds
 As of May 15, 2020

Bond Authorization Name	Election Date	Authorized Amount	Series	Bonds Issued	Bonds Outstanding	Authorized & Unissued
Seismic Safety Loan Program	11/3/92	\$350,000,000	1994A	\$35,000,000	-	
			2007A	\$30,315,450	\$18,657,973	
			2015A	\$24,000,000	-	
<i>Reauthorization to Repurpose for Affordable Housing</i>	11/8/16		2019A	\$72,420,000	\$72,420,000	\$188,264,550
Clean & Safe Neighborhood Parks	2/5/08	\$185,000,000	2008B	\$42,520,000	-	
			2010B	\$24,785,000	-	
			2010D	\$35,645,000	\$35,645,000	
			2012B	\$73,355,000	\$2,860,000	
			2016A	\$8,695,000	\$7,195,000	-
San Francisco General Hospital & Trauma Center Earthquake Safety	11/4/08	\$887,400,000	2009A	\$131,650,000	-	
			2010A	\$120,890,000	-	
			2010C	\$173,805,000	\$173,805,000	
			2012D	\$251,100,000	\$147,770,000	
			2014A	\$209,955,000	\$154,035,000	-
Earthquake Safety and Emergency Response Bond	6/8/10	\$412,300,000	2010E	\$79,520,000	\$2,605,000	
			2012A	\$183,330,000	\$6,965,000	
			2012E	\$38,265,000	\$28,380,000	
			2013B	\$31,020,000	\$16,720,000	
			2014C	\$54,950,000	\$40,095,000	
			2016C	\$25,215,000	\$21,435,000	-
			2016E	\$44,145,000	\$37,515,000	-
Road Repaving & Street Safety	11/8/11	\$248,000,000	2012C	\$74,295,000	\$2,925,000	
			2013C	\$129,560,000	\$69,785,000	
			2016E	\$44,145,000	\$37,515,000	-
Clean & Safe Neighborhood Parks	11/6/12	\$195,000,000	2013A	\$71,970,000	\$38,780,000	
			2016B	\$43,220,000	\$23,355,000	
			2018A	\$76,710,000	\$44,855,000	
			2019B	\$3,100,000	\$3,100,000	-
Earthquake Safety and Emergency Response Bond	6/3/14	\$400,000,000	2014D	\$100,670,000	\$73,435,000	
			2016D	\$109,595,000	\$72,305,000	
			2018C	\$189,735,000	\$137,570,000	-
Transportation and Road Improvement	11/4/14	\$500,000,000	2015B	\$67,005,000	\$41,870,000	
			2018B	\$174,445,000	\$102,010,000	\$258,550,000
Affordable Housing Bond	11/3/15	\$310,000,000	2016F	\$75,130,000	\$48,485,000	
			2018D	\$142,145,000	\$102,070,000	
			2019C	\$92,725,000	\$92,725,000	-
Public Health and Safety Bond	6/7/16	\$350,000,000	2017A	\$173,120,000	\$116,925,000	
			2018E	\$49,955,000	\$36,370,000	\$126,925,000
Embarcadero Seawall Earthquake Safety	11/6/18	\$425,000,000				\$425,000,000
Affordable Housing Bond	11/5/19	\$600,000,000				\$600,000,000
Earthquake Safety and Emergency Response Bond	3/3/20	\$628,500,000				\$628,500,000
SUBTOTAL		\$5,491,200,000		\$3,263,960,450	\$1,772,667,973	\$2,227,239,550
General Obligation Refunding Bonds				Bonds Issued	Bonds Outstanding	
Series 2011-R1	11/9/12			\$339,475,000	\$149,240,000	
Series 2015-R1	2/25/15			\$293,910,000	\$234,310,000	
Series 2020-R1	5/7/20			\$195,250,000	\$195,250,000	
SUBTOTAL				\$828,635,000	\$578,800,000	
TOTALS		\$5,491,200,000		\$4,092,595,450	\$2,351,467,973	\$2,227,239,550

¹ Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all taxable real and personal property, located within the City and County.

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

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

General Fund Lease Obligations

The Charter requires that any lease-financing agreements with a nonprofit corporation or another public agency must be approved by a majority vote of the City's electorate, except (i) leases approved prior to April 1, 1977, (ii) refunding lease financings expected to result in net savings, and (iii) certain lease financing for capital equipment. The Charter does not require voter approval of lease financing agreements with for-profit corporations or entities.

Table A-29 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding long-term lease revenue bonds and certificates of participation as of May 15, 2020.

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TABLE A-29

CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Bonds and Certificates of Participation
As of May 15, 2020¹

Fiscal Year ²	Principal	Interest ³	Annual Payment Obligation
2019-20 ⁴	\$3,980,000	\$1,494,267	\$5,474,267
2020-21	57,640,000	64,058,824	121,698,824
2021-22	58,080,000	61,435,465	119,515,465
2022-23	61,305,000	58,765,744	120,070,744
2023-24	64,205,000	55,941,418	120,146,418
2024-25	65,305,000	52,955,087	118,260,087
2025-26	66,610,000	49,957,666	116,567,666
2026-27	69,745,000	46,794,502	116,539,502
2027-28	64,640,000	43,637,007	108,277,007
2028-29	69,600,000	40,500,835	110,100,835
2029-30	70,200,000	37,378,013	107,578,013
2030-31	65,535,000	34,517,264	100,052,264
2031-32	58,550,000	31,911,416	90,461,416
2032-33	59,625,000	29,519,716	89,144,716
2033-34	62,105,000	26,887,785	88,992,785
2034-35	53,165,000	24,516,247	77,681,247
2035-36	53,125,000	22,213,443	75,338,443
2036-37	52,505,000	19,873,029	72,378,029
2037-38	54,635,000	17,552,864	72,187,864
2038-39	56,845,000	15,136,956	71,981,956
2039-40	59,160,000	12,618,872	71,778,872
2040-41	61,560,000	9,997,668	71,557,668
2041-42	56,000,000	7,430,811	63,430,811
2042-43	20,990,000	5,247,200	26,237,200
2043-44	19,855,000	4,388,600	24,243,600
2044-45	20,650,000	3,594,400	24,244,400
2045-46	13,695,000	2,768,400	16,463,400
2046-47	14,245,000	2,220,600	16,465,600
2047-48	13,220,000	1,650,800	14,870,800
2048-49	13,750,000	1,122,000	14,872,000
2049-50	14,300,000	572,000	14,872,000
TOTAL⁵	\$1,474,825,000	\$786,658,899	\$2,261,483,899

¹ Excludes commercial Paper and the following private placements (with current outstanding amounts):

SFGH Emergency Backup Generators Project (\$11,793,228)

Gsmart Citywide Emergency Radio Replacement Project (\$24,511,781)

Transbay CCSF Lease Revenue Direct Placement Revolving COPs (\$76,000,000)

² For the Series 2018A (Refunding Open Space LRBs), reflects 7/1 payments to be paid in the current fiscal year, as budgeted.

³ Totals reflect rounding to nearest dollar.

⁴ Excludes payments made to date in current fiscal year.

⁵ For purposes of this table, the interest rate on the Lease Revenue Bonds Series 2008-1, and 2008-2 (Moscone Center Expansion Project) is assumed to be 3.50%. These bonds are in variable rate mode.

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

Voter-Approved Lease Revenue Bonds

The City electorate has approved several lease revenue bond propositions, some of which have authorized but unissued bonds. The following lease programs have remaining authorization:

In 1987, voters approved Proposition 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.

In 1990, voters approved Proposition C ("1990 Proposition C"), which amended the Charter to authorize the City to lease- purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. 1990 Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of May 15, 2020, the total authorized and unissued amount for such financings was \$82.3 million.

In 1994, voters approved Proposition B ("1994 Proposition B"), which authorized the issuance of up to \$60.0 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued \$22.6 million and \$23.3 million of 1994 Proposition B lease revenue bonds, respectively, leaving \$14.1 million in remaining authorization. There are no current plan to issue additional series of bonds under 1994 Proposition B.

In 2000, voters approved Proposition C ("2000 Proposition C"), which extended a two- and one-half cent per \$100.0 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the "Open Space Fund"). 2000 Proposition C also authorized the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. In August 2018 the City issued refunding lease revenue bonds, which are currently outstanding in the principal amount of \$31.9 million to refund Series 2006 and 2007 Open Space Fund lease revenue bonds.

In 2007, voters approved Proposition D, which amended the Charter and renewed the Library Preservation Fund. Proposition D continued the two- and one-half cent per \$100.0 in assessed valuation property tax set-aside and established a minimum level of City appropriations, moneys that are maintained in the Library Preservation Fund. Proposition D also authorized the issuance of revenue bonds or other evidences of indebtedness. In August 2018 the City issued refunding lease revenue bonds, which are currently outstanding in the principal amount of \$12.2 million, to refund Series 2009A Branch Library Improvement Project lease revenue bonds.

Table A-30 below lists the City's outstanding certificates of participation and voter-authorized lease revenue bonds.

TABLE A-30

CITY AND COUNTY OF SAN FRANCISCO
Outstanding Certificates of Participation and Lease Revenue Bonds
As of May 15, 2020

Issue Name	Final Maturity	Original Par	Outstanding Principal
CERTIFICATES OF PARTICIPATION¹			
Series 2009C (525 Golden Gate Avenue)	2022	\$38,120,000	\$12,490,000
Series 2009D - Taxable BABs (525 Golden Gate Avenue)	2041	129,550,000	129,550,000
Refunding Series 2010A	2033	138,445,000	90,950,000
Refunding Series 2011A (Moscone Center South)	2024	23,105,000	11,690,000
Series 2012A (Multiple Capital Improvement Projects)	2036	42,835,000	32,580,000
Series 2013B - Non-AMT (Port Facilities Project)	2038	4,830,000	4,830,000
Series 2013C - AMT (Port Facilities Project)	2043	32,870,000	23,965,000
Refunding Series 2014-R1 (Courthouse Project)	2021	13,615,000	2,230,000
Refunding Series 2014-R2 (Juevenile Hall Project)	2034	33,605,000	26,030,000
Series 2015A (War Memorial Veterans Building)	2045	112,100,000	112,100,000
Series 2015B - Taxable (War Memorial Veterans Building)	2024	22,225,000	7,935,000
Refunding Series 2015-R1 (City Office Buildings - Multiple Properties)	2040	123,600,000	112,030,000
Series 2016A (War Memorial Veterans Building)	2032	16,125,000	12,540,000
Series 2017A - Taxable (Hope SF)	2047	28,320,000	26,445,000
Series 2017B (Moscone Convention Center Expansion Project)	2042	412,355,000	392,255,000
Series 2019A (49 South Van Ness Project)	2050	247,810,000	247,810,000
Refunding Series 2019-R1 (Multiple Capital Improvement Projects)	2035	116,460,000	107,005,000
Subtotal Certificates of Participation		\$1,535,970,000	\$1,352,435,000
LEASE PURCHASE FINANCING			
2010 Lease Purchase Financing (SFGH Emergency Backup Generators)	2025	\$22,549,489	\$11,793,228
2016 Lease Purchase Financing (Public Safety Radio Replacement Project)	2026	34,184,136	24,511,781
Subtotal Lease Revenue Bonds		\$56,733,625	\$36,305,010
FINANCE CORPORATION LEASE REVENUE BONDS			
Refunding Series 2008-1 (Moscone Center Expansion Project) - Variable	2030	\$72,670,000	\$36,100,000
Refunding Series 2008-2 (Moscone Center Expansion Project) - Variable	2030	72,670,000	36,100,000
Refunding Series 2010-R1 (Emergency Communications System)	2024	22,280,000	6,060,000
Refunding Series 2018A (Open Space Fund - Various Park Projects)	2029	34,950,000	31,955,000
Refunding Series 2018B (Branch Library Improvement Program)	2028	13,355,000	12,175,000
Subtotal Lease Revenue Bonds		\$215,925,000	\$122,390,000
Total General Fund Obligations		\$1,808,628,625	\$1,511,130,010

¹ Excludes Commercial Paper and the CCSF Lease Revenue Direct Placement Revolving COPs (Transbay), which was outstanding in the principal amount of \$76,000,000 as of 5/15/20.

Board Authorized and Unissued Long-Term Certificates of Participation

Treasure Island Improvement Project: In October of 2013, the Board authorized, and the Mayor approved the issuance of not to exceed \$13.5 million of City and County of San Francisco Certificates of Participation to finance the cost of additions and improvements to the utility infrastructure at Treasure Island. At this time there is not an expected timeline for the issuance these certificates.

Animal Care and Control Renovation Project: In November 2016, the Board authorized, and the Mayor approved the issuance of not to exceed \$60.5 million of City and County of San Francisco Certificates of Participation to finance the costs acquisition, construction, and improvement of an animal care and control facility. The City anticipates issuing the certificates in Fiscal Year 2020-21.

Housing Trust Fund Project: In April 2016, the Board authorized and the Mayor approved the issuance of not to exceed \$95.0 million of City and County of San Francisco Certificates of Participation (Affordable Housing Projects) to provide funds to assist in the development, acquisition, construction or rehabilitation of affordable rental housing projects. The City anticipates issuing the certificates in multiple series, with the first issuance in Fiscal Year 2021-22.

Hall of Justice Relocation Projects: In October 2019, the Board authorized and the Mayor approved the issuance of not to exceed \$94.6 million of City and County of San Francisco Certificates of Participation (Multiple Capital Projects) to (i) finance or refinance the site acquisition of 814-20 Bryant Street and 470 6th Street and related construction, acquisitions, and improvement costs; and (ii) finance or refinance the acquisition of 1828 Egbert Avenue and related construction, acquisitions, and improvement costs. The City anticipates issuing the certificates in Fall 2020.

Also in October 2019, the Board authorized and the Mayor approved the issuance of not to exceed \$62.0 million of City and County of San Francisco Certificates of Participation (Multiple Capital Projects) to finance or refinance tenant improvements involving the construction, acquisition, improvement, renovation, and retrofitting of City-owned properties as needed for the Hall of Justice Improvement Project enabling staff and offices to be consolidated in acquired City-owned properties. The City anticipates issuing the certificates in Fiscal Year 2021-22.

HOPE SF Project: In December 2019, the Board authorized and the Mayor approved the issuance of not to exceed \$83.6 million of City and County of San Francisco Certificates of Participation to finance or refinance certain capital improvements, including but not limited to certain properties generally known as Hunters View, Sunnysdale, and Potrero Terrace and Annex housing developments. The City anticipates issuing the certificates in Fiscal Year 2021-22.

Commercial Paper Program

In March 2009, the Board authorized and the Mayor approved a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "Original CP Program"). In July of 2013, the Board authorized, and the Mayor approved an additional \$100.0 million of Lease Revenue Commercial Paper Certificates of Participation, Series 3 and 3-T and Series 4 and 4-T (the "Second CP Program" and together with the Original CP Program, the "City CP Program") that increased the total authorization of the City CP Program to \$250.0 million. Commercial Paper Notes (the "CP Notes") are issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital

equipment and vehicles in anticipation of long-term or other take-out financing to be issued when market conditions are favorable. Projects are eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project.

The Series 1 and 1-T and Series 2 and 2-T CP notes are secured by credit facilities from: (i) State Street Bank and Trust Company (with a maximum principal amount of \$75 million) and (ii) U.S. Bank National Association (with a maximum principal amount of \$75 million). These credit facilities expire in May 2021. The Series 3 and 3-T and 4 and 4-T are secured by a letter of credit issued by State Street Bank and Trust Company expiring in February 2022.

As of May 15, 2020, the outstanding principal amount of CP Notes is \$115.6 million. The weighted average interest rate for the outstanding CP Notes is approximately 1.31%. The projects with Board Authorized and Unissued Certificates of Participation currently utilizing the CP Program include Animal Care and Control, Housing Trust Fund, and the Hall of Justice Relocation Project. Also utilizing the CP Program is the San Francisco General Hospital and Trauma Project which is financing the costs of the acquisition of furniture, fixtures and equipment (“SFGH FF&E”). The following is a summary of the outstanding liability by project associated with the CP Notes outstanding.

Project	CP Notes Liability as of 5/15/2020
Animal Care and Control	\$4,860,638
Housing Trust Fund	\$18,643,661
Hall of Justice Relocation	\$78,384,339
SFGH FF&E	\$13,702,362
TOTAL	\$115,591,000

Transbay Transit Center Interim Financing

In May 2016, the Board authorized and the Mayor approved the establishment of 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 phase one of the Transbay Transit Center (now known as the Salesforce Transit Center). The Short-Term Certificates are expected to be repaid in part from Transbay Transit Center CFD bond proceeds (secured by special taxes) and tax increment. It is anticipated that long-term debt will be issued to retire the Short-Term Certificates, and such long-term debt is also expected to be repaid from such sources.

The Short-Term Certificates originally consisted of \$160.0 million of direct placement revolving certificates with Wells Fargo, expiring in January 2022, and \$100.0 million of direct placement revolving certificates with Bay Area Toll Authority, which expired December 31, 2018. Of the \$260.0 million authorized, \$103.0 million was drawn. As of May 15, 2020, the outstanding balance on the Wells Fargo financing facility was \$76.0 million, at an interest rate of 0.93%.

Overlapping Debt

Table A-31 shows bonded debt and long-term obligations as of May 15, 2020 sold in the public capital markets, except for those financings otherwise noted in the table, by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations

issued by a public agency are payable only from the General Fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

TABLE A-31

CITY AND COUNTY OF SAN FRANCISCO
Statement of Direct and Overlapping Debt and Long-Term Obligations
As of May 15, 2020

<u>2019-20 Assessed Valuation</u> (includes unitary utility valuation):	\$281,683,409,781 ¹
<u>GENERAL OBLIGATION BONDED DEBT</u>	
San Francisco City and County	\$2,351,467,973
San Francisco Unified School District	898,785,000
San Francisco Community College District	215,130,000
TOTAL GENERAL OBLIGATION BONDS	<u>\$3,465,382,973</u>
<u>LEASE OBLIGATIONS BONDS</u>	
San Francisco City and County	<u>\$1,499,336,781</u>
LONG-TERM OBLIGATIONS	<u>\$1,499,336,781</u> ²
 TOTAL COMBINED DIRECT DEBT	 \$4,964,719,754
<u>OVERLAPPING TAX AND ASSESSMENT DEBT</u>	
Bay Area Rapid Transit District General Obligation Bond (34.606%) ²	\$443,905,004 ³
San Francisco Community Facilities District No. 4	10,600,000
San Francisco Community Facilities District No. 6	123,466,726
San Francisco Community Facilities District No. 7	34,490,000
San Francisco Community Facilities District No. 2009-1, Improvement Areas 1 and 2	2,701,034
San Francisco Community Facilities District No. 2014-1 Transbay Transit Center	475,665,000
City of San Francisco Assessment District No. 95-1	405,000
ABAG Community Facilities District No. 2004-1 Seismic Safety Improvements	9,500,000
ABAG Community Facilities District No. 2006-1 San Francisco Rincon Hill	5,105,000
ABAG Community Facilities District No. 2006-2 San Francisco Mint Plaza	2,905,000
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT	<u>\$1,108,742,764</u>
 OVERLAPPING TAX INCREMENT DEBT (Successor Agency):	 \$800,377,447
 TOTAL DIRECT AND OVERLAPPING BONDED DEBT	 \$6,873,839,965 ⁴
<u>Ratios to 2019-20 Assessed Valuation:</u>	<u>Actual Ratio</u>
Direct General Obligation Bonded Debt (\$3,503,227,973)	1.23% ⁵
Combined Direct Debt (\$5,034,324,755)	1.76%
Total Direct and Overlapping Bonded Debt	2.44%
<u>Ratio to 2019-20 Redevelopment Incremental Valuation (\$34,366,733,708)</u>	
Total Overlapping Tax Increment Debt	2.33%

¹ Includes \$610,103,200 homeowner's exemption for FY19-20.

² Excludes the CCSF Lease Revenue Direct Placement Revolving COPs (Transbay), outstanding in the principal amount of \$76,000,000 as of 5/15/20.

Excludes privately placed SFGH Emergency Backup Generators Project, outstanding in the principal amount of \$11,793,228 as of 5/15/20.

³ Reflects 2019-20 ratio.

⁴ Excludes tax and revenue anticipation notes, enterprise revenue bonds and airport improvement corporation bonds

⁵ The Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City. The City's general obligation debt as a percentage of FY19-20 AV is 0.81%.

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

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limit the ability of the City to impose and increase taxes and other revenue sources and to spend such revenues, and which, under certain circumstances, would permit existing revenue sources of the City to be reduced by vote of the City electorate. These constitutional and statutory limitations, and future limitations, if enacted, could potentially have an adverse impact on the City's general finances and its ability to raise revenue, or maintain existing revenue sources, in the future. However, *ad valorem* property taxes required to be levied to pay debt service on general obligation bonds 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

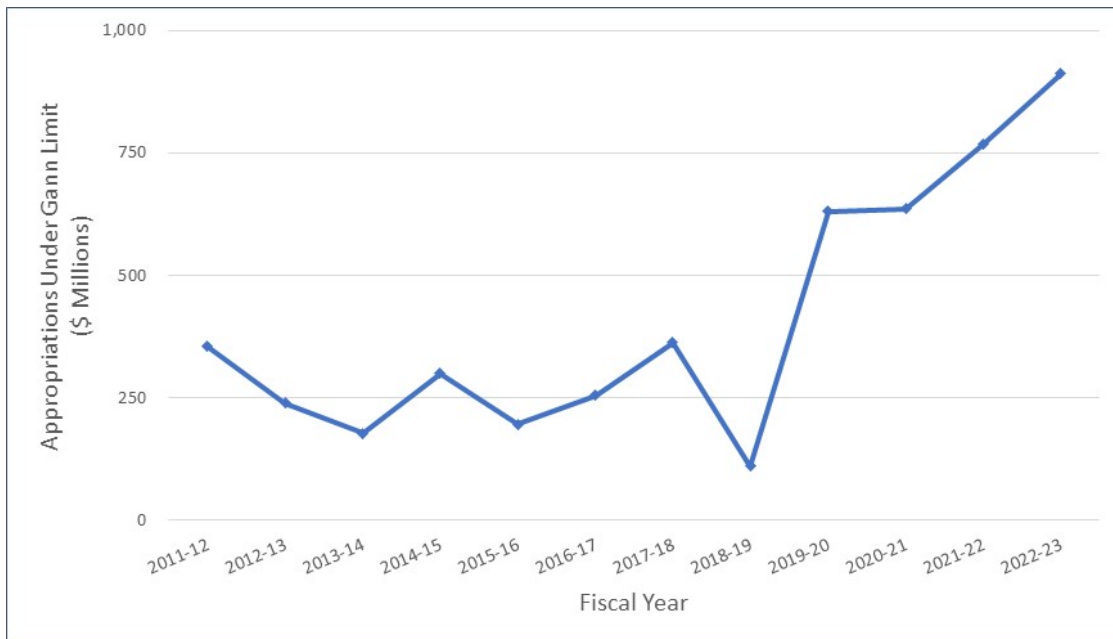
Article XIII A of the California Constitution, known as "Proposition 13," was approved by the California voters in June of 1978. It limits the amount of *ad valorem* tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean 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.

Article XIII B of the California Constitution

Article XIII B was enacted by California voters as an initiative constitutional amendment in November 1979. Article XIII B limits the annual appropriations from the proceeds of taxes of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population, and services rendered by the governmental entity. However, no limit is imposed on the appropriation of local revenues and taxes to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters. Article XIII B includes a requirement that if an entity's average revenues over two consecutive years exceed the amount permitted to be spent, the excess would have to be returned by revising tax or fee schedules over the following two years. With voter approval, the appropriations limit can be raised for up to four years. See the graph below for appropriations available under the Gann Limit.



Articles XIII C and XIII D of the California Constitution

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles XII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes for voter-approved debt. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes require a two-thirds vote. Under Proposition 218, the City can only continue to collect taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval have been either reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

In addition, Article XIII C addresses the initiative power in matters of local taxes, assessments, fees and charges. Pursuant to Article XIII C, the voters of the City could, by initiative, repeal, reduce or limit any existing or future local tax, assessment, fee or charge, subject to certain limitations imposed by the courts and additional limitations with respect to taxes levied to repay bonds. The City raises a substantial portion of its revenues from various local taxes which are not levied to repay bonded indebtedness, and which could be reduced by initiative under Article XIII C. No assurance can be given that the voters of the City will disapprove initiatives that repeal, reduce or prohibit the imposition or increase of local taxes, assessments, fees or charges. See "OTHER CITY TAX REVENUES" herein, for a discussion of other City taxes that could be affected by Proposition 218.

With respect to the City's general obligation bonds (City bonds secured by *ad valorem* property taxes), the State Constitution and the laws of the State impose a duty on the Board of Supervisors to levy a property tax sufficient to pay debt service coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of the City's general obligation bonds or to otherwise interfere with performance of the duty of the City with respect to such taxes which are pledged as security for payment of those bonds.

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIII D) for local services and programs. The City has created a number of special assessment districts both for neighborhood business improvement purposes and community benefit purposes and has caused limited obligation bonds to be issued in 1996 to finance construction of a new public right of way. The City cannot predict the future impact of Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

Proposition 1A

Proposition 1A, a constitutional amendment proposed by the State Legislature and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate, or change the allocation of local sales tax revenues, subject to certain exceptions. As set forth under the laws in effect as of November 3, 2004, Proposition 1A generally prohibits the State from shifting any share of property tax revenues allocated to local governments for any fiscal year to schools or community colleges. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

Proposition 1A also provides that if the State reduces the annual vehicle license fee rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 1A may result in increased and more stable City revenues. The magnitude of such increase and stability is unknown and would depend on future actions by the State. However, Proposition 1A could also result in decreased resources being available for State programs. This reduction, in turn, could affect actions taken by the State to resolve budget difficulties. Such actions could include increasing State taxes, decreasing aid to cities and spending on other State programs, or other actions, some of which could be adverse to the City.

Proposition 22

Proposition 22 (“Proposition 22”) which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State’s authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily 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.

LEGAL MATTERS 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, 2019. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not materially impair the ability of the City to pay debt service on its General Fund lease obligations or other debt obligations, nor have an adverse impact on City finances.

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 ("Lehman Lawsuit") against TJPA and the individual members of the TJPA, including the City. The TJPA is responsible under State law for developing and operating the Salesforce Transit Center, which will be a new regional transit hub located near the Millennium Tower.

The TJPA began excavation and construction of the Salesforce Transit Center in 2010, after the Millennium Tower was completed. In brief, the Lehman Lawsuit claims that the construction of the Salesforce 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 Salesforce 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, eight lawsuits have been filed against TJPA, and a total of four 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 two lawsuits filed by owners of multiple units, the Ying Lawsuit (Case No. 17-559210) and the Turgeon Lawsuit (Case No. 18-564417). The Montana, Ying and Turgeon Lawsuits contain similar claims as the Lehman Lawsuit. In the Summer of 2019, the parties announced a tentative settlement of matters relating to the lawsuit. For the settlement to be effective, a number of events must occur, including approval of the settlement by all parties and the Court. These approvals could occur in early Summer 2020. While the City expects that all necessary events will occur for the settlement to become final and effective, no assurance can be given by the City that the settlement will be finalized. If the settlement becomes void, litigation may resume. If litigation were to resume, the City cannot now make any prediction as to the outcome of any such lawsuits, or whether the lawsuits, if determined adversely to the TJPA or the City, would have a material adverse impact on City finances.

Ongoing Investigations

On January 28, 2020 the City's former Director of Public Works Mohammad Nuru was indicted on federal criminal charges of public corruption, including honest services wire fraud and lying to Federal Bureau of Investigation officials. The allegations contained in the complaint involve various schemes, including an attempt by Mr. Nuru and Mr. Nick Bovis, a local restaurateur who was also indicted by the federal government, to bribe an Airport Commissioner to influence the award of lease of space at the San

Francisco International Airport, Mr. Nuru using his official position to benefit a developer of a mixed-use project in San Francisco in exchange for personal gifts and benefits; Mr. Nuru attempting to use his former position as the chair of the Transbay Joint Powers Authority to secure a lease for Mr. Bovis in the Transbay Transit Center, in exchange for personal benefits provided by the restaurateur; Mr. Nuru providing Mr. Bovis with inside information on City projects regarding contracts for portable bathroom trailers and small container-like housing units for use by the homeless, so that Mr. Bovis could win the contracts for those projects; and Mr. Nuru obtaining free and discounted labor and construction equipment from contractors to help him build a personal vacation home while those contractors were also engaging in business with the City. Mr. Nuru resigned from employment with the City two weeks after his arrest. On February 4, 2020, City Attorney Dennis Herrera and Controller Ben Rosenfield announced a joint investigation that was underway, stemming from federal criminal charges filed against Mr. Nuru and Mr. Bovis.

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

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

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

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 believes that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing covenants and for other limited purposes. The City actuarially determines liability and workers'

compensation risk exposures as permitted under State law. The City does not maintain commercial earthquake coverage, with certain minor exceptions.

The City's decision to obtain commercial insurance depends on various factors including whether the facility is currently under construction or if the property is owned by a self-supporting enterprise fund department. For new construction projects, the City has utilized traditional insurance, owner-controlled insurance programs or contractor-controlled insurance programs. Under the latter two approaches, the insurance program provides coverage for the entire construction project. When a traditional insurance program is used, the City requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory limits. The majority of the City's commercial insurance coverage is purchased for enterprise fund departments and other similar revenue-generating departments (i.e. the Airport, MTA, the PUC, the Port and Convention Facilities, etc.). The remainder of the commercial insurance coverage is for General Fund departments that are required to provide coverage for bond-financed facilities, coverage for collections at City-owned museums and to meet statutory requirements for bonding of various public officials, and other limited purposes where required by contract or other agreement.

Through coordination between the City Controller and the City Attorney's Office, the City's general liability risk exposure is actuarially determined and is addressed through appropriations in the City's budget and also reflected in the CAFR. The appropriations are sized based on actuarially determined anticipated claim payments and the projected timing of disbursement.

The City actuarially estimates future workers' compensation costs to the City according to a formula based on the following: (i) the dollar amount of claims; (ii) yearly projections of payments based on historical experience; and (iii) the size of the department's payroll. The administration of workers' compensation claims, and payouts are handled by the Workers' Compensation Division of the City's Department of Human Resources. The Workers' Compensation Division determines and allocates workers' compensation costs to departments based upon actual payments and costs associated with a department's injured workers' claims. Statewide workers' compensation reforms have resulted in some City budgetary savings in recent years. The City continues to develop and implement programs to lower or mitigate workers' compensation costs. These programs focus on accident prevention, transitional return to work for injured workers, improved efficiencies in claims handling and maximum utilization of medical cost containment strategies.

The City's estimated liability and workers' compensation risk exposures are summarized in Note 18 to the City's CAFR for Fiscal Year ended June 30, 2019.