

BOARD of SUPERVISORS



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MEMORANDUM

BUDGET AND FINANCE SUB-COMMITTEE SAN FRANCISCO BOARD OF SUPERVISORS

TO: Supervisor Malia Cohen, Chair
Budget and Finance Sub-Committee

FROM: Linda Wong, Assistant Clerk

DATE: May 22, 2017

SUBJECT: **COMMITTEE REPORT, BOARD MEETING**
Tuesday, May 23, 2017

The following file should be presented as a **COMMITTEE REPORT** at the Board meeting on Tuesday, May 23, 2017, at 2:00 p.m. This item was acted upon at the Sub-Committee Meeting on Thursday, May 18, 2017, at 10:00 a.m., by the votes indicated.

Item No. 19 File No. 170468

Ordinance authorizing the execution and delivery of Certificates of Participation on a tax-exempt or taxable basis evidencing and representing an aggregate principal amount of not to exceed \$321,765,000 to fund a portion of the development costs, including construction and improvement, and related FF&E (furniture, fixture, or other equipment), technology, and moving costs for the 1500 Mission Street office building; authorizing the issuance of commercial paper notes in advance of the delivery of the Certificates; approving the form of Trust Agreement between the City and County of San Francisco and the Trustee (including certain indemnities contained therein); authorizing the selection of the Trustee by the Director of Public Finance; approving respective forms of a Property Lease and a Lease Agreement, each between the City and the Trustee for the lease and lease back of certain property and facilities of the City; approving the forms of Purchase Contract, Official Notice of Sale, and Notice of Intention to Sell Certificates; directing the publication of the Notice of Intention to Sell Certificates; approving the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of the Certificates; approving the form of the Continuing Disclosure Certificate; granting general authority to City officials to take necessary actions in connection with the authorization, execution, sale and delivery of the Certificates; approving

modifications to documents and agreements; declaring the City's intent to reimburse certain expenditures; and ratifying previous actions taken in connection therewith, as defined herein.

RECOMMENDED AS COMMITTEE REPORT

Vote: Supervisor Malia Cohen - Excused
Supervisor Norman Yee - Aye
Supervisor Katy Tang - Aye
Supervisor Sheehy - Aye

c: Board of Supervisors
Angela Calvillo, Clerk of the Board
Jon Givner, Deputy City Attorney
Alisa Somera, Legislative Deputy Director

1 [Ordinance Authorizing Certificates of Participation - 1500 Mission Project - Not to Exceed
2 \$321,765,000]

3 Ordinance authorizing the execution and delivery of Certificates of Participation on a
4 tax-exempt or taxable basis evidencing and representing an aggregate principal
5 amount of not to exceed \$321,765,000 to fund a portion of the development costs,
6 including construction and improvement, and related FF&E (furniture, fixture, or other
7 equipment), technology, and moving costs for the 1500 Mission office building;
8 authorizing the issuance of commercial paper notes in advance of the delivery of the
9 Certificates; approving the form of Trust Agreement between the City and County of
10 San Francisco and the Trustee (including certain indemnities contained therein);
11 authorizing the selection of the Trustee by the Director of Public Finance; approving
12 respective forms of a Property Lease and a Lease Agreement, each between the City
13 and the Trustee for the lease and lease back of certain property and facilities of the
14 City; approving the forms of Purchase Contract, Official Notice of Sale, and Notice of
15 Intention to Sell Certificates; directing the publication of the Notice of Intention to Sell
16 Certificates; approving the form of the Preliminary Official Statement and the form and
17 execution of the Official Statement relating to the sale of the Certificates; approving the
18 form of the Continuing Disclosure Certificate; granting general authority to City
19 officials to take necessary actions in connection with the authorization, execution, sale
20 and delivery of the Certificates; approving modifications to documents and
21 agreements; declaring the City's intent to reimburse certain expenditures; and ratifying
22 previous actions taken in connection therewith.

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

Asterisks (* * * *) indicate the omission of unchanged Code subsections or parts of tables.

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3 WHEREAS, The Board of Supervisors (the "Board of Supervisors" or the "Board") of
4 the City and County of San Francisco (the "City") desires to fund a portion of the development
5 costs, including construction and improvement, and related FF&E (furniture, fixture, or other
6 equipment), technology, and moving costs for the 1500 Mission office building (the "Project")
7 through the execution and delivery of one or more series of certificates of participation (the
8 "Certificates"); and

9 WHEREAS, The Certificates will be executed and delivered in one or more series on a
10 tax-exempt and/or taxable basis pursuant to a trust agreement (the "Trust Agreement")
11 between the City and the trustee to be named therein (the "Trustee"); and

12 WHEREAS, In advance of the execution and delivery of the Certificates the Board
13 desires to authorize the issuance of commercial paper notes under the City's commercial
14 paper program to fund costs of the Project on an interim basis until the Certificates are
15 executed and delivered to provide permanent financing on a long-term basis; and

16 WHEREAS, In connection with the execution and delivery of the Certificates, the Board
17 desires to cause the execution of a Property Lease (the "Property Lease"), pursuant to which
18 the City will lease to the Trustee the property located at 1500 Mission Street, and/or other
19 property designated by the Director of Public Finance (the "Leased Property"), and a Lease
20 Agreement (the "Lease Agreement"), pursuant to which the Trustee will lease the Leased
21 Property back to the City; and

22 WHEREAS, The Board has been presented with the form of certain documents and
23 agreements referred to herein relating to the Certificates, and the Board has examined and is
24 approving each such document and agreement and desires to authorize the execution of such
25 documents and agreements and the consummation of such financing; and

1 WHEREAS, Upon the effectiveness of this Ordinance, all conditions, things and acts
2 required by law to exist, to happen and to be performed precedent to and as a condition of the
3 execution and delivery of the Property Lease, the Lease Agreement, the Trust Agreement and
4 the Certificates will exist, have happened and have been performed in due time, form and
5 manner in accordance with applicable law, and the City shall be authorized pursuant to its
6 Charter and other applicable law to execute and deliver the Property Lease, the Lease
7 Agreement, the Continuing Disclosure Certificate, the Trust Agreement and, if applicable, the
8 Purchase Contract, and to cause the execution and delivery of the Certificates in the manner
9 and form provided in this Ordinance; and

10 WHEREAS, The City has paid and expects to pay certain expenditures in connection
11 with the Project to be financed by the Certificates prior to the execution and delivery of the
12 Certificates, and the City intends to reimburse itself and to pay third parties for such prior
13 expenditures from the proceeds of the Certificates; and

14 WHEREAS, Section 1.150-2 of the Treasury Regulations promulgated under the
15 Internal Revenue Code of 1986 (the "Reimbursement Regulations") requires the City to
16 declare its reasonable official intent to reimburse prior expenditures with the proceeds of a
17 subsequent borrowing; and

18 WHEREAS, The Reimbursement Regulations require that any reimbursement
19 allocation of proceeds of the Certificates to be made with respect to expenditures incurred
20 prior to the execution and delivery of the Certificates will occur not later than eighteen (18)
21 months after the later of (i) the date on which the expenditure is paid or (ii) the date on which
22 the facilities are placed in service, but in no event later than three (3) years after the
23 expenditure is paid;

1 WHEREAS, The adoption of this Ordinance shall constitute authorization of the
2 Certificates within the meaning of Section 864 of the California Code of Civil Procedure and
3 any Validation Act that is effective after this Ordinance takes effect

4 NOW THEREFORE, Be it ordained by the People of the City and County of San
5 Francisco, as follows:

6 Section 1. Findings. The Board hereby finds and determines that the recitals set
7 forth above are true and correct.

8 Section 2. File Documents. The documents presented to the Board and on file with
9 the Clerk of the Board or her designee (collectively, the "Clerk") are contained in File No.
10 170468.

11 Section 3. Authorization of the Certificates. The Board hereby authorizes and
12 approves the execution and delivery of the Certificates in accordance with the Trust
13 Agreement. The Board hereby approves the issuance of commercial paper notes from time to
14 time to fund certain costs relating to the Project. The proceeds of the Certificates will be used
15 to fund (i) costs of the Project, including repayment of commercial paper notes and interest
16 thereon issued for such purpose; (ii) a debt service or other similar reserve, as appropriate;
17 (iii) capitalized interest, if any; and (iv) costs of the execution and delivery of the Certificates.
18 The Certificates shall be designated as "Certificates of Participation (1500 Mission Project),"
19 with such other or additional designation, including the year of execution and delivery, as
20 determined by the Director of Public Finance of the City or her designee, acting for and on
21 behalf of the City Controller (collectively, the "Director of Public Finance").

22 The Certificates shall evidence an aggregate principal amount of not to exceed Three
23 Hundred Twenty One Million Seven Hundred Sixty Five Thousand Dollars (\$321,765,000),
24 and shall evidence interest at a true interest cost up to but not to exceed twelve percent (12%)
25 per annum. The Certificates shall be subject to prepayment as set forth in the Lease

1 Agreement and Trust Agreement. The Director of Public Finance is hereby authorized, to the
2 extent such officer deems it necessary or advisable and financially advantageous to the City,
3 to procure credit enhancement for the Certificates, including but not limited to municipal bond
4 insurance and/or a debt service reserve fund surety policy.

5 The Director of Public Finance is hereby authorized, to the extent such officer deems it
6 necessary or advisable and in the interests of the City, to cause the execution and delivery of
7 the Certificates (i) with interest with respect thereto exempt or not exempt from federal income
8 tax, and (ii) under any federal tax law provisions which provide for federal grants or credits to
9 the City or to investors in lieu of the exemption of interest from federal income tax.

10 Section 4. Approval of the Trust Agreement; Authorization of the Selection of the
11 Trustee. The form of the Trust Agreement between the City and the Trustee, as presented to
12 the Board, a copy of which is on file with the Clerk, is hereby approved. The Mayor of the City
13 or his designee (collectively, the "Mayor") or the City Controller or his designee (the
14 "Controller") is hereby authorized to execute and deliver the Trust Agreement, and the Clerk is
15 hereby authorized to attest to and affix the seal of the City on the Trust Agreement, with such
16 changes, additions and modifications as made or approved in accordance with Section 13
17 hereof.

18 The Director of Public Finance is hereby authorized to select the Trustee in accordance
19 with City policies and procedures.

20 Section 5. Approval of the Property Lease. The form of the Property Lease between
21 the City and the Trustee, as presented to the Board, a copy of which is on file with the Clerk,
22 is hereby approved. The Mayor or the Controller is hereby authorized to execute and deliver
23 the Property Lease, and the Clerk is hereby authorized to attest to and affix the seal of the
24 City on the Property Lease, with such changes, additions and modifications as made or
25 approved in accordance with Section 13 hereof.

1 Section 6. Approval of the Lease Agreement. The form of the Lease Agreement
2 between the City and the Trustee, as presented to the Board, a copy of which is on file with
3 the Clerk, is hereby approved. The Mayor or the Controller is hereby authorized to execute
4 and deliver the Lease Agreement, and the Clerk is hereby authorized to attest and to affix the
5 seal of the City on the Lease Agreement with such changes, additions and modifications as
6 made or approved in accordance with Section 13 hereof; provided, however, that the
7 maximum Base Rental (as defined in the Lease Agreement) to be paid under the Lease
8 Agreement in any fiscal year shall not exceed Twenty Four Million Dollars (\$24,000,000) and
9 the initial stated term of the Lease Agreement shall not extend beyond the 35th year following
10 its date of execution, as such initial term may be extended in accordance with the Lease
11 Agreement.

12 Section 7. Approval of the Leased Property and the Base Rental Payments. The
13 Board hereby approves the leasing, pursuant to the terms of the Property Lease and the
14 Lease Agreement, of all or a portion of the Leased Property. The Board also hereby approves
15 the payment by the City of the Base Rental with respect thereto.

16 Section 8. Official Statement. The form of proposed Preliminary Official Statement
17 describing the Certificates (the "Preliminary Official Statement") submitted to the Board of
18 Supervisors is approved and adopted as the Preliminary Official Statement describing the
19 Certificates, with such additions, corrections and revisions as may be determined to be
20 necessary or desirable made in accordance herewith. The Controller is authorized to cause
21 the distribution of a Preliminary Official Statement deemed final for purposes of Securities and
22 Exchange Commission Rule 15c2-12 promulgated under the Securities Exchange Act of
23 1934, as amended (the "Rule"), and to sign a certificate to that effect. The Director of Public
24 Finance is authorized and directed to cause to be printed and mailed or electronically
25 distributed to prospective bidders or purchasers for the Certificates the Preliminary Official

1 Statement in substantially the form of the Preliminary Official Statement approved and
2 adopted by this Ordinance, as completed, supplemented, corrected or revised. The Controller
3 is authorized and directed to approve, execute, and deliver the final Official Statement with
4 respect to the Certificates, which final Official Statement shall be in the form of the Preliminary
5 Official Statement, with such additions, corrections and revisions as may be determined to be
6 necessary or desirable made in accordance herewith and as are permitted under the Rule.
7 The Director of Public Finance is authorized and directed to cause to be printed and mailed or
8 electronically distributed the final Official Statement to all actual initial purchasers of the
9 Certificates.

10 Section 9. Continuing Disclosure Certificate. The form of Continuing Disclosure
11 Certificate (the "Continuing Disclosure Certificate"), to be signed by the Controller to permit
12 the original purchasers of the Certificates to comply with the Rule, submitted to the Board is
13 approved and adopted as the Continuing Disclosure Certificate, with such changes, additions
14 and modifications as made or approved in accordance with Section 13 hereof. The Controller
15 is authorized and directed to execute the Continuing Disclosure Certificate on behalf of the
16 City and deliver the Continuing Disclosure Certificate to the original purchasers of the
17 Certificates.

18 Section 10. Sale of the Certificates. The Controller or the Director of Public Finance
19 is hereby authorized to cause the sale of the Certificates by competitive or negotiated sale. If
20 sold by competitive sale, the Controller or the Director of Public Finance is hereby authorized
21 and directed to award the Certificates to the bidder whose bid represents the lowest true
22 interest cost to the City (as confirmed by the City's municipal advisor) and whose bid
23 otherwise conforms to the bid requirements contained in the Official Notice of Sale.

24 The form of proposed Notice of Intention to Sell the Certificates (the "Notice of Intention
25 to Sell Certificates") submitted to the Board is approved and adopted as the Notice of

1 Intention to Sell the Certificates, and the Controller or the Director of Public Finance is
2 authorized and directed to cause the Notice of Intention to Sell Certificates, subject to such
3 changes, additions and modifications as made or approved in accordance with Section 13
4 hereof, to be published once in *The Bond Buyer* or another financial publication generally
5 circulated throughout the State of California.

6 If the Controller or the Director of Public Finance determines to sell the Certificates by
7 negotiated sale, the Controller or the Director of Public Finance is hereby authorized to sell
8 the Certificates by negotiated sale pursuant to one or more purchase contracts (each, a
9 "Purchase Contract") by and between the City and the underwriters named therein; provided,
10 however, that the underwriters' discount under any such Purchase Contract shall not exceed
11 one percent (1.0%) of the principal amount of the Certificates.

12 To accomplish the sale of the Certificates by negotiated sale, if applicable, the
13 Controller or the Director of Public Finance is hereby authorized to appoint one or more
14 financial institutions to act as underwriter for the Certificates in accordance with City policies
15 and procedures, including but not limited to the City's policy to provide locally disadvantaged
16 business enterprises an equal opportunity to participate in the performance of all City
17 contracts.

18 Section 11. Reimbursement. The City declares its official intent to reimburse prior
19 expenditures of the City incurred prior to the execution and delivery of the Certificates in
20 connection with the Project or portions thereof with the proceeds of the Certificates. The
21 Board of Supervisors declares the City's intent to reimburse the City with the proceeds of the
22 Certificates for the expenditures with respect to the Project (the "Expenditures" and each an
23 "Expenditure") made on and after that date that is no more than 60 days prior to adoption of
24 this Ordinance. The City reasonably expects on the date of adoption of this Ordinance that it
25 will reimburse the Expenditures with the proceeds of the Certificates.

1 Each Expenditure was and will be either (a) of a type properly chargeable to a capital
2 account under general federal income tax principles (determined in each case as of the date
3 of the Expenditure), (b) a cost of issuance with respect to the Certificates, (c) a nonrecurring
4 item that is not customarily payable from current revenues, or (d) a grant to a party that is not
5 related to or an agent of the City so long as such grant does not impose any obligation or
6 condition (directly or indirectly) to repay any amount to or for the benefit of the City. The
7 maximum aggregate principal amount of the Certificates expected to be executed and
8 delivered for the Project is \$321,765,000. The City shall make a reimbursement allocation,
9 which is a written allocation by the City that evidences the City's use of proceeds of the
10 Certificates to reimburse an Expenditure, no later than 18 months after the later of the date on
11 which the Expenditure is paid or the Project is placed in service or abandoned, but in no event
12 more than three years after the date on which the Expenditure is paid. The City recognizes
13 that exceptions are available for certain "preliminary expenditures," costs of issuance, certain
14 *de minimis* amounts, expenditures by "small issuers" (based on the year of issuance and not
15 the year of expenditure) and expenditures for construction projects of at least 5 years.

16 Section 12. General Authority. The Mayor, the City Treasurer, the City Controller, the
17 City Attorney, the City Administrator, the Director of Public Finance, the Clerk and other
18 officers of the City and their duly authorized deputies, designees and agents are hereby
19 authorized and directed, jointly and severally, to take such actions and to execute and deliver
20 such certificates, agreements, requests or other documents as they may deem necessary or
21 desirable to accomplish the purposes of this Ordinance, including but not limited to the
22 execution and delivery of the Property Lease, the Lease Agreement, the Trust Agreement, the
23 Continuing Disclosure Certificate, the Purchase Contract and the Certificates, to obtain bond
24 insurance and/or other credit enhancements and/or a surety policy with respect to the
25 Certificates, to obtain title insurance, to clear any encumbrances to title and to carry out other

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

7 Section 13. Modifications, Changes and Additions. The Mayor, the City Treasurer,
8 the Controller and the Director of Public Finance each are hereby authorized to make such
9 modifications, changes and additions to the documents and agreements approved hereby,
10 upon consultation with the City Attorney, as may be necessary or desirable and in the
11 interests of the City, and which changes do not materially increase the City's obligations or
12 reduce its rights thereunder or hereunder. The respective official's approval of such
13 modifications, changes and additions shall be conclusively evidenced by the execution and
14 delivery thereof by such official.

15 Section 14. Partial Invalidity. Any provision of this Ordinance found to be prohibited
16 by law shall be ineffective only to the extent of such prohibition, and shall not invalidate the
17 remainder of this Ordinance.

18 Section 15. Effective Date. This Ordinance shall take effect immediately.
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1 Section 16. Ratification of Prior Actions. All actions authorized consistent with any
2 documents presented herein and approved by this Ordinance but heretofore taken are hereby
3 ratified, approved and confirmed by the Board.
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5 APPROVED AS TO FORM:
6 DENNIS J. HERRERA, City Attorney

7
8 By: 

9 Mark D. Blake
Deputy City Attorney

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LEGISLATIVE DIGEST

[Ordinance Authorizing Certificates of Participation - 1500 Mission Project - Not to Exceed \$321,765,000]

Ordinance authorizing the execution and delivery of Certificates of Participation on a tax-exempt or taxable basis evidencing and representing an aggregate principal amount of not to exceed \$321,765,000 to fund a portion of the development costs, including construction and improvement, and related FF&E (furniture, fixture, or other equipment), technology, and moving costs for the 1500 Mission office building; authorizing the issuance of commercial paper notes in advance of the delivery of the Certificates; approving the form of Trust Agreement between the City and County of San Francisco and the Trustee (including certain indemnities contained therein); authorizing the selection of the Trustee by the Director of Public Finance; approving respective forms of a Property Lease and a Lease Agreement, each between the City and the Trustee for the lease and lease back of certain property and facilities of the City; approving the forms of Purchase Contract, Official Notice of Sale, and Notice of Intention to Sell Certificates; directing the publication of the Notice of Intention to Sell Certificates; approving the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of the Certificates; approving the form of the Continuing Disclosure Certificate; granting general authority to City officials to take necessary actions in connection with the authorization, execution, sale and delivery of the Certificates; approving modifications to documents and agreements; declaring the City's intent to reimburse certain expenditures; and ratifying previous actions taken in connection therewith.

Existing Law

This is new legislation.

Background Information

The proposed legislation authorizes the City to cause the execution and delivery of not to exceed \$321,765,000 of its Certificates of Participation ("Certificates") to fund costs (including furniture, fixtures or other equipment) associated with the 1500 Mission office building. The Bonds will be issued under the terms of a Trust Agreement. Proceeds of the Certificates will be used to fund (i) costs of the Project, including repayment of commercial paper notes and interest thereon issued for such purpose; (ii) a debt service or other similar reserve, as appropriate; (iii) capitalized interest, if any; and (iv) costs of issuance of the execution and delivery of the Certificates.

Interest on the Certificates cannot exceed 12% per annum. The Director of Public Finance is authorized to sell the Certificates by competitive or negotiated sale, but if the Director proceeds by negotiated sale the compensation to the underwriter cannot exceed 1% of the principal amount of the Certificates.

FILE NO. 170468

The Ordinance also authorizes the execution of a Property Lease and Lease Agreement. Under the Property Lease the City will lease the site of the 1500 Mission office building to the Trustee, and under the Lease Agreement the Trustee will lease the improved property back to the City. Lease payments (not to exceed \$24,000,000 per year) made by the City under the Lease Agreement will be applied to the payment of principal and interest on the Certificates.

The Ordinance also declares the City's official intent to reimburse itself with bond proceeds for project expenditures paid with cash prior to the execution and delivery of the Certificates. Declaration of the City's intention to reimburse itself is a requirement of the Internal Revenue Code of 1986, as amended.

<p>Items 12, 13 and 14 Files 17-0468, 17-0464 and 17-0471</p>	<p>Departments: Controller, Office of Public Finance Real Estate Division Public Works</p>
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EXECUTIVE SUMMARY

Legislative Objectives

- **File 17-0468:** The proposed ordinance would authorize the execution and delivery of Certificates of Participation (COPs) on a tax-exempt or taxable basis for a not to exceed \$321,765,000 to fund a portion of the development costs, including construction, improvement and related furniture, fixture and equipment (FF&E), technology and moving costs for the 1500 Mission Street office building; authorize issuance of commercial paper notes in advance of the delivery of the COPs; authorize selection of Trustee by Director of Public Finance; approve the form and execution of all required documents including the Trust Agreement, Property Lease, Lease Agreement, Purchase Contract, Official Notice of Sale and Notice of Intention to Sell COPs, Preliminary Official Statement, Official Statement and Continuing Disclosure Certificate; approve and ratify actions and modifications by City officials to sell the COPs; and declare City's intent to reimburse expenditures.
- **File 17-0464:** Supplemental appropriation ordinance for \$321,765,000 of proceeds from COPs to fund the development costs of the 1500 Mission Street office building and related furniture, fixture or other equipment, technology and moving costs and placing the total \$321,765,000 of proceeds on Controller's Reserve pending the sale of the COPs.
- **File 17-0471:** Resolution ratifying the Conditional Purchase Agreement for the City's Acquisition of an office project at 1500 Mission Street and authorizing the Director of Property and City staff to proceed with the proposed office project; confirming the City's authorization to issue commercial paper and/or certificates of participation to pay for the land acquisition and complete the proposed office project; adopting environmental findings under the California Environmental Quality Act (CEQA); and making findings of consistency with the General Plan and with the eight priority policies of Planning Code Section 101.1.

Key Points

- On December 9, 2014, the Board of Supervisors approved a Conditional Land Disposition and Acquisition Agreement with Related to develop a City-owned office building at 1500 Mission Street, subject to environmental approval. The City intended to sell three City-owned buildings and finance the balance of the costs to construct the new City office building with commercial paper and Certificates of Participation (COPs).
- On March 21, 2017, the Board of Supervisors approved the sale of three City-owned properties at (a) 1660 and 1680 Mission Street for \$52,000,000 and (b) 30 Van Ness for \$70,000,000 for total sales proceeds of \$122,000,000. Escrow has now closed on these properties. As the costs were lower than projected the City actually received net proceeds of \$97,069,836 from these sales, instead of \$93,935,000, an increase of \$3,134,836.

- On March 23, 2017, the Planning Commission approved actions, which are subject to Board of Supervisors final approval for a new City office building at 1500 Mission Street.

Fiscal Impact

- The City would pay Related, the developer, \$56,180,772 under the previously approved Conditional Purchase and Sale Agreement, for the land acquisition and predevelopment costs. The comparable current market value of this acquisition is \$74,000,000 based on an appraisal completed in April 2017 by R. Blum+ Associates for the Real Estate Division, such that the City's cost is 76% of the current market value. The Construction Management Agreement is estimated at \$270,510,181. The total maximum costs for land acquisition, design and construction of the new City office building is \$326,690,953.
- Office of Public Finance is requesting authorization to issue a total not to exceed \$321,765,000 of COPs, including an estimated par amount of \$314,131,000.

Policy Consideration

- The requested \$29,397,433 for FF&E, technology and moving expenses is \$17,099,033 or 139% more than previously estimated, with no details or bids provided.
- The proposed new office building will create an estimated net increase of 154,760 square feet of new space. With such significant increases in space, the amount of leased space and lease costs in the Civic Center should be reduced, resulting in the termination of existing City leases, as the Board of Supervisors were advised in 2014 when the 1500 Mission Street office building was approved.

Recommendations

- Amend the proposed ordinance (File 17-0464) to reflect the recommended savings shown in Table 3, based on the proceeds from the sale of the three City buildings resulting in an additional \$3,134,836 for the Project Fund.
- Amend the proposed ordinance (File 17-0464) to place \$28,397,433 of the requested \$29,397,433 on Budget and Finance Committee Reserve for FF&E, technology and moving to allow \$1,000,000 to be released now. The \$28,397,433 on reserve should not be released, pending a report that identifies (a) number of employees and amount of space currently used by each City department, (b) number of employees and amount of space proposed to be used by each City department in the new City building, and (c) existing City leases that will be terminated, existing City leases that will be backfilled or reused, including square footage of leases, rent savings and any additional costs. The City should maximize the leases terminated and City departments and employees relocated into the new City office building, as originally proposed to the Board of Supervisors when this project was approved. To request release of the \$28,397,433 being placed on reserve, Public Works should maximize the City's existing furniture for reuse and moved into the new building and minimize additional City expenses. Details should be provided and bids obtained prior to requesting the release of a reduced amount of funding for this purpose.
- Approve the proposed ordinance (File 17-0464), as amended.
- Approve the proposed ordinance (File 17-0468) and resolution (File 17-0471).

MANDATE STATEMENT

City Charter Section 9.118(b) states that any contract entered into by a department, board or commission that (1) has a term of more than ten years, (2) requires expenditures of \$10 million or more, or (3) requires a modification of more than \$500,000 is subject to Board of Supervisors approval.

City Administrative Code Section 10.62(b) states that the Board of Supervisors may authorize the issuance of Certificates of Participation (COPs) and other lease financing debt to fund capital projects provided the annual debt service cost of such outstanding indebtedness does not exceed 3.25% of discretionary revenue as determined by the Controller and Director of Public Finance. Administrative Code Section 10.62(c) states that the Director of Public Finance may issue tax-exempt and taxable commercial paper notes to provide interim funds to finance the acquisition, construction and rehabilitation of capital improvements and capital equipment, subject to the project's and financing plan's approval by the Board of Supervisors and Mayor.

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

BACKGROUND

Development of City Office Building at 1500 Mission Street

On December 9, 2014, the Board of Supervisors approved a Conditional Land Disposition and Acquisition Agreement (Agreement) with Related California Urban Housing, LLC (Related)¹ to develop a new City-owned office building at 1500 Mission Street, subject to environmental review and approval based on total estimated project costs of \$338,989,353. Related plans to develop this site to include (a) an approximately 463,300 gross square foot 16-story City-owned office building along 11th Street and (b) a 39-story, 550 residential unit development with ground floor retail, at Mission Street and South Van Ness Avenue (Ordinance 254-14). To fund the City's new office building project, the City intends to use the proceeds from the sale of three other City-owned buildings and finance the balance with commercial paper and Certificates of Participation (COPs).

On March 21, 2017, the Board of Supervisors approved the sale of three City-owned properties at (a) 1660 and 1680 Mission Street for \$52,000,000 (File 17-0213) and (b) 30 Van Ness for \$70,000,000 (File 17-0214) for total sales proceeds of \$122,000,000. On May 2, 2017, the Board of Supervisors approved a supplemental appropriation of \$122,000,000 from the sale of these three City buildings, as summarized in Table 1 below (File 17-0201; Ordinance No. 094-17).

¹ Related California Urban Housing LLC created a subsidiary, Goodwill SF Urban Development LLC, to acquire and develop this site.

Table 1: Previously Approved Supplemental Appropriation

Sources and Uses	Total
Sources	
Sales proceeds from 30 Van Ness and 1660 and 1680 Mission Street	\$122,000,000
Total Sources	\$122,000,000
Uses	
Sales Commissions and Expenses	1,000,000
Defeasance of Series 2001A and 2007A COPs	27,065,000
Balance to Controller's Capital Project Fund Account for new Office Building	93,935,000
Total Uses	\$122,000,000

According to Mr. John Updike, Director of Real Estate, escrow closed on the two properties at 1660 and 1680 Mission Street on May 1, 2017 and on 30 Van Ness on May 5, 2017. As the sales commissions and defeasance costs were slightly lower than projected, the City actually received net proceeds of \$97,069,836 from these sales, instead of \$93,935,000, an increase of \$3,134,836.

As part of these sale transactions, the City entered into leases for these three properties which expire on April 30, 2020, with options to extend for two additional one-year terms. The initial termination date of these leases coincides with the anticipated completion of a new City office building at 1500 Mission Street, at which time the employees in these three buildings will relocate to the new City office building at 1500 Mission Street. If the Board of Supervisors does not approve the proposed resolution to develop a new City office building at 1500 Mission Street, the City employees located in these three office buildings will need to be relocated at the end of these leases.

Construction of the 1500 Mission Street City office building is anticipated to begin in October 2017 and extend for two years. The development is anticipated to be substantially complete by November 2019. City staff would then move into this building through the spring of 2020.

Approval of Planning and Environmental Authorizations

On March 23, 2017, the Planning Commission

(a) Certified the Final Environmental Impact Report (FEIR) and adopted California Environmental Quality Act (CEQA) findings for the 1500 Mission Street projects;

(b) Recommended a General Plan Amendment to revise the height and bulk limits, allow for additional office use parking and permit office uses above the fourth floor for non-City occupancy for this project;

(c) Recommended a Planning Code Amendment to create the 1500 Mission Street Special Use District to modify the height and bulk limits and related office enhancements while requiring the developer to provide 20% affordable housing units, instead of the required 13.5%;

(d) Adopted Shadow Findings that would not adversely affect public open space; and

(e) Approved a Downtown Project Authorization, which approves the office and residential development projects as proposed, subject to a lengthy list of conditions of approval and the

Board of Supervisors approval of the General Plan Amendment and the Planning Code Amendment.

On May 9, 2017, the Board of Supervisors approved the first reading on two ordinances (Files 17-0408 and 17-0348) to approve the above-noted General Plan Amendments and the Planning Code Amendments, incorporating the CEQA findings, as required for the 1500 Mission Street project.

Certificates of Participation

Certificates of Participation (COPs) are a form of long-term debt which are sold to investors for a portion of the lease revenues from a specific City-owned property, such that the investors “participate” in receiving lease revenues in the form of debt service payments. Although COPs generally have higher interest rates and are therefore more expensive than general obligation bonds, general obligation bonds require San Francisco voters’ approval whereas COPs can be approved by the Board of Supervisors and Mayor. Under the COP structure, the City leases a City-owned property to a trustee in consideration for a one-time lease payment from the trustee to the City that is equal to the proceeds from the issuance of the COPs. The trustee subsequently subleases the same City-owned property back to the City in return for semi-annual rent payments equal to the debt service (including principal and interest) due on the COPs. This lease-sublease structure is known as an asset transfer model. Under this asset transfer model, the City-owned property leased to the trustee serves as collateral to the trustee on the issued COPs. After the COPs are fully repaid by the City, the City-owned property, previously leased to the trustee, reverts back to the City.

DETAILS OF PROPOSED LEGISLATION

File 17-0468: The proposed ordinance would

- Authorize the execution and delivery of Certificates of Participation (COPs) on a tax-exempt or taxable basis for a not to exceed \$321,765,000 to fund a portion of the development costs, including construction, improvement and related furniture, fixture and equipment (FF&E), technology infrastructure and moving costs for the 1500 Mission Street office building;
- Authorize the issuance of commercial paper² notes in advance of the delivery of the COPs;
- Approve the form of Trust Agreement between the City and County of San Francisco (City) and the Trustee (including certain indemnities contained therein);
- Authorize the selection of the Trustee by Director of Public Finance;

² The City’s maximum authorization for commercial paper is \$250 million. Ms. Nadia Sesay, the Director of the Office of Public Finance advises that as of April 2017, \$218 million of the \$250 million is outstanding. However, the pending issuances of COPs for the Moscone Expansion and HopeSF will free up commercial paper capacity.

- Approve the respective forms of a Property Lease and a Lease Agreement, each between the City and the Trustee for the lease and lease back of 1500 Mission Street City property and facilities;
- Approve the forms of Purchase Contract, Official Notice of Sale and Notice of Intention to Sell COPs;
- Direct the publication of the Notice of Intention to Sell COPs;
- Approve the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of the COPs;
- Approve the form of the Continuing Disclosure Certificate;
- Grant general authority to City officials to take necessary actions in connection with the authorization, execution, sale and delivery of the COPs;
- Approve modifications to documents and agreements;
- Declare the City's intent to reimburse certain expenditures; and
- Ratify previous actions taken in connection therewith.

File 17-0464: The proposed ordinance would appropriate \$321,765,000 of proceeds from COPs to fund the development costs of the 1500 Mission Street office building and related furniture, fixture and equipment; technology and moving costs and place the total \$321,765,000 on Controller's Reserve pending the sale of the COPs.

File 17-0471: The proposed resolution would

- Ratify the Conditional Purchase Agreement for the City's acquisition of an office project at 1500 Mission Street and authorize the Director of Property and City staff to proceed with the proposed office project.
- Confirm the City's authorization to issue commercial paper and/or Certificates of Participation to pay for the land acquisition and complete the proposed office project.
- Adopt environmental findings under the California Environmental Quality Act (CEQA).
- Make findings of consistency with the City's General Plan and the eight priority policies of Planning Code Section 101.1.

As noted above, on December 9, 2014, the Board of Supervisors approved a Conditional Land Disposition and Acquisition Agreement with Related to develop a new City-owned office building at 1500 Mission Street; subject to final environmental review and final approval by the Board of Supervisors. As discussed above, on May 9, 2017³, the Board of Supervisors approved the first readings on Files 17-0408 and 17-0348, related to the General Plan, Planning Code and environmental requirements for the subject project. As provided in the previous Conditional Land Disposition and Acquisition Agreement, the Board of Supervisors must now either

³ The second and final approval of these ordinances is scheduled for the May 16, 2017 Board of Supervisors meeting.

(a) Ratify the Conditional Purchase Agreement and proceed with the City’s acquisition of the office parcel and developer’s completion of the proposed office project for the City, or

(b) Reject the Conditional Purchase Agreement and not proceed with the City’s acquisition of the office parcel solely on the basis of the environmental impacts of the proposed office project disclosed in the environmental review documents that have not been adequately mitigated or overridden under CEQA.

The proposed resolution would ratify the Conditional Purchase Agreement and authorize the Director of Property and City staff to proceed with the City’s acquisition of 1500 Mission Street and complete the proposed office project in accordance with the terms of the Conditional Purchase Agreement.

Under the proposed Conditional Purchase Agreement, Related would sell the City the fully-entitled post-CEQA approved property at 1500 Mission Street at a cost of \$32,332,524, including real estate commissions and fees. If the proposed resolution is approved, it is anticipated that the City would acquire this property on approximately July 1, 2017. Concurrent with the acquisition of the property, the City would also be authorized to enter into a Construction Management Agreement with Related to manage and complete the construction of a new City office building on this site.

As shown in Table 2 below, the City would pay Related an estimated \$56,180,772 under the previously approved Conditional Purchase and Sale Agreement, for the land acquisition and predevelopment costs, including environmental documents and approvals. The comparable current market value of this acquisition is \$74,000,000 based on an appraisal completed in April 2017 by R. Blum+ Associates for the Real Estate Division, such that the City’s cost is 76% of the current market value. The estimated costs of the Construction Management Agreement is \$270,510,181, with total maximum costs for the land acquisition, design, development and construction of the new City office building at 1500 Mission Street of \$326,690,953.

Table 2: Total Cost of 1500 Mission Street Project

Conditional Purchase and Sale Agreement	\$56,180,772
Construction Management Agreement	<u>270,510,181</u>
Total Project Cost	\$326,690,953

When the City acquires the land and enters into the Construction Management Agreement for \$270,510,181 with Related, Related will enter into a general construction contract, which is structured as a Guaranteed Maximum Price (GMP). Related, as the developer and construction manager, has contracted with Skidmore, Owings and Merrill as the architect and will enter into a GMP with a general contractor when the City acquires the land. If at any point, Related believes the total project cost will exceed \$326,690,953, Related must notify the City to discuss alternatives to design, square footage, finishes or other changes to be made so as not to exceed the \$326,690,953. Under these agreements, Related has no authority to increase the budget beyond \$326,690,953. Construction is anticipated to commence in the fall of 2017 and extend for approximately 26 months or through the end of 2019.

The proposed resolution would also adopt the CEQA findings and General Plan and Planning Code Section 101.1 findings from the General Plan amendment legislation and incorporate such findings in this resolution.

FISCAL IMPACT

In 2014, the Board of Supervisors approved nonrefundable payments to Related of \$1,000,000 for land acquisition and \$250,000 for schematic design. If the proposed resolution is approved, the \$1,250,000 will be credited to the City’s development costs. If the proposed resolution is not approved, the \$1,250,000 will not be refunded by Related.

In 2014, the Board of Supervisors also appropriated \$8,072,300 which was set aside to potentially reimburse Related for architecture, engineering, environmental and professional fees and permits costs. In accordance with the agreements, if the Board of Supervisors does not authorize the issuance of the subject COPs or does not approve the Conditional Purchase Agreement with Related, the City would be responsible for up to \$7,072,300 of costs from the \$8,072,300 appropriated funds to Related for reimbursement of their predevelopment and entitlement costs incurred on this project.

COPs and Supplemental Appropriation of Funds

Table 3 below identifies the sources and uses for the current supplemental appropriation (File 17-0464) and the proceeds from the sale of the COPs and recommended amendments. These amendments are recommended because as shown beneath Table 1 above, the proceeds from the sale of the three City buildings resulted in an additional \$3,134,836 for the Project Fund. These additional proceeds reduce the required Project Fund Costs as detailed in Table 4 and shown in Table 3 below from \$231,505,953 to \$228,371,117, a savings of \$3,134,836.

Table 3: Sources and Uses for COPs

Sources and Uses	Current	Recommended
Sources		
COP Par Amount	\$317,265,000	\$314,131,000
COP Reserve for Market Uncertainty	4,500,000	7,634,000
Total Sources	\$321,765,000	\$321,765,000
Uses		
- Project Fund Costs	\$231,505,953	\$228,371,117
- FF&E, Technology Equipment and Moving Costs	29,397,433	29,397,433
- Controller’s Internal Audit Fund (0.2% of project costs)	653,382	653,382
Total Project Fund Deposits	\$261,556,768	\$257,768,550
- Bond Reserve	21,832,100	21,832,100
- Capitalized Interest and Fees	31,051,471	31,051,471
- Bond Issuance Costs	603,807	604,643
- Underwriter’s Discount Fee	2,220,854	2,220,854
Total COP Delivery Expenses	\$55,708,232	\$55,709,068
- Reserve for Market Uncertainty	4,500,000	7,634,000
Total Uses	\$321,765,000	\$321,765,000

The proposed supplemental appropriation ordinance (File 17-0464) should therefore be amended to reflect the recommended amounts shown in Table 3 above.

Sources of Funds

COP Par Amount

As shown in Table 3 above, the Office of Public Finance is requesting authorization to issue a total not to exceed \$321,765,000 of COPs, including an estimated par amount of \$314,131,000. To date, the underwriter has not yet been selected. The ordinance (File 17-0468) authorizes the Office of Public Finance to conduct this transaction on a competitive or negotiated basis. The Office of Public Finance anticipates issuing this transaction on a competitive basis. However, Ms. Nadia Sesay, Director of the Office of Public Finance, advises that a negotiated sale could occur, if the City's credit rating significantly deteriorates or future market disruptions occur.

According to Ms. Sesay, the City's plan is to finance the initial acquisition and development of the 1500 Mission Street building's expenses from the net sales proceeds from 30 Van Ness and 1660 and 1680 Mission Street, and then to issue commercial paper as interim funding for up to two years, while the project is being constructed, before issuing the COPs. The proposed ordinance (File 17-0468) also authorizes the Office of Public Finance to issue commercial paper to fund the development costs prior to the issuance of the COPs.

Ms. Jamie Querubin in the Controller's Office of Public Finance advises that one issuance of the COPs are anticipated to be sold no earlier than summer 2018 and no later than fall 2019, depending on available commercial paper capacity at a par amount of \$314,131,000. Assuming a 30-year term and an estimated interest rate of 5.5%, the total estimated debt service to the City will be \$660,705,075⁴, which includes \$314,131,000 principal and \$346,574,075 of interest expense. The estimated average annual debt service on the COPs is \$21,044,000, which would be repaid by the City over the 30-year term, subject to Board of Supervisors annual appropriation approval.

To pay the annual debt service, the tenants that occupy the new City office building would be charged commensurate rental fees. Ms. Querubin estimates the cost per square foot will be approximately \$64 in year one, increasing to \$78 per square foot in the last year of the 30-year term, which includes debt service costs plus operating expenses. Although the composition of all the City tenants to occupy the new 1500 Mission Street building has not been determined, most of the City departments that will occupy 1500 Mission Street do not currently receive General Fund support.

Mr. John Updike, Director of Real Estate, advises that new Civic Center leases currently range from approximately \$60 to \$65 per year.⁵ Mr. Updike further advises that if the City was to lease office space beginning in 2019, the rate would be at least \$60 per square foot per year.

⁴ The \$660,705,075 reflects total gross debt service, including capitalized interest, reserve fund for the final debt service payment and ongoing annual costs of administration (i.e., insurance, trustee fees).

⁵ Based on CRBE 2016 fourth quarter data reported by Mr. Updike.

and under a conservative annual escalation of 1% per year, the rate per square foot per year after 30 years would be \$80 per square foot. After 30 years, assuming no major tenant improvements, the cost per square foot for the City-owned 1500 Mission Street would decrease after completing all debt service payments.

COP Reserve for Market Uncertainty

As noted above, the Office of Public Finance anticipates one issuance of the estimated par amount of \$314,131,000 of COPs no earlier than summer 2018 and no later than fall 2019, depending on available commercial paper capacity or in approximately 2.5 years. Given that the interest rates at the time of issuance are not currently known, the Office of Public Finance included \$7,634,000 as a COP Reserve due to market uncertainty. Ms. Sesay advises that the typical range for such a COP Reserve is between 1% and 3% of the par amount of the COPs. The \$7,634,000 represents 2.4% of the estimated par amount of \$314,131,000. If a portion of this COP Reserve for Market Uncertainty is not required, these funds will not be expended.

Uses of Funds

Project Fund Costs

Based on Public Works' total project development costs of \$326,690,953 and Board of Supervisors previous approvals, as shown in Table 4 below, the net Project Fund cost is \$228,371,117 to be financed with the subject COPs.

Table 4: Net Project Development Costs

Land Acquisition Costs	\$32,332,524
Financing Costs during Predevelopment	8,904,313
Architectural and Engineering, Professional Fees and Insurance	15,906,196
Construction Costs/ Fees, Permits & Taxes/ Development Management Fees and Return on Equity	269,547,920
Total Project Development Costs	\$326,690,953
FY 2014-15 funds appropriated for land acquisition and design ⁶	(\$1,250,000)
Total Appropriation Funds for Project Development	\$325,440,953
Net proceeds from the recent sale of 3 properties	(\$97,069,836)
Net Project Development Costs	\$228,371,117

Source: Samuel Chui, Public Works and Joshua Keene, Real Estate.

FF&E, Technology Equipment and Moving Costs

In December 2014, when the Board of Supervisors approved the Conditional Land Disposition and Acquisition Agreement with Related to develop a new City office building at 1500 Mission Street, the total estimated cost for furniture, fixtures and equipment (FF&E), technology and moving expenses was \$12,298,400. However, as shown in Table 3 above, the requested

⁶ In accordance with the original agreement between the City and Related in 2014, the City, through the Department of Building Inspection, paid Related non-reimbursable \$1,000,000 toward acquisition of the property at 1500 Mission Street and \$250,000 for schematic design.

supplemental appropriation would fund \$29,397,433 for FF&E, technology and moving costs, an increase of \$17,099,033 or 139%. Table 5 below compares the earlier \$12,298,400 estimate with the current \$29,397,433 request for FF&E, technology equipment and moving costs, an increase of \$17,099,033 or 139%.

Table 5: Comparison of Costs for FF&E, Technology and Moving Expenses

Description and Assumptions	2014 Costs	Current Estimated Costs	Increase/(Decrease) Over 2014 Costs
Workstation Furniture	\$4,500,000*	\$6,750,000**	\$2,250,000
Ancillary Furniture***	0	5,170,140	5,170,140
Moving	5,000,000	4,481,168	(518,832)
Department of Technology/IT Expenses	2,798,400	10,771,125	7,972,725
City staff and consultant services	0	2,225,000	2,225,000
Total	\$12,298,400	\$29,397,433	\$17,099,033

Source: Josh Keene of Real Estate Division and Samuel Chui of Public Works

* Assumes \$3,000 per FTE @ 1,500 FTEs.

** Assumes \$4,500 per FTE @ 1,500 FTEs.

*** Assumes \$12 per square feet of net rentable area of 430,845 square feet.

According to Mr. Samuel Chui, Project Manager at Public Works, Public Works began formally managing this project in 2016 and has incurred DPW staff and other costs associated with this project since then. Mr. Chui further advises that the Real Estate Division’s earlier estimate is comparable to the costs of moving into an existing office building and does not reflect the realities of new construction, which requires furniture and equipment that is not part of tenant improvements, furniture and equipment for a new permit center, common areas and building support, building connection to the City’s fiber infrastructure in the streets, application of Voice over Internet Protocol (VoIP) for the telephony system, network equipment and infrastructure for building systems and City business needs. In addition, the requested \$29,397,433 is not based on actual bids.

Based on DPW’s cost proposal provided to the City Administrator in September 2016, DPW will incur approximately \$1,000,000 of expenses for consultant peer review, two DPW project managers and City Attorney legal fees through FY 2017-18. Therefore, \$1,000,000 should be released at this time and the remaining \$28,416,265 placed on reserve pending details and reductions provided.

Controller’s Internal Audit Fund

The Controller’s City Services Auditor would receive \$653,382 from the subject COPs to provide internal audit functions. In accordance with Appendix F of the City’s Charter, this amount is based on 0.2% of City project development costs of \$326,690,953.

Total COP Delivery Expenses

The COP fees and expenses include the bond reserve, capitalized interest and fees, bond issuance costs, underwriter’s discount, and a reserve for market uncertainty. According to Ms. Querubjn, the bond reserve amount of \$21,832,100 (Table 3 above) is calculated at 100% of the maximum annual debt service for the COPs over the 30-year term and is required to be set

aside. The capitalized interest and fees amount of \$31,051,471 (Table 3 above) assumes estimated accrued interest and fees for the potential use of commercial paper for up to two years prior to the issuance of the COPs and the capitalized interest for up to one year from the date of bond issuance. Bond issuance costs of \$604,643 (Table 3 above) include legal fees, financial advisory fees, rating agency fees, printing, bond insurance and other issuance expenses. Underwriter's discount of \$2,220,855 (Table 3 above) is the fee paid to the underwriter of the COPs for dissemination of the bonds. The reserve for market uncertainty of \$7,634,000 (Table 3 above) represents the additional amount included in the supplemental to allow for fluctuations in market interest rates from the date of authorization by the Board of Supervisors until the time of the sale of the COPs.

POLICY CONSIDERATION

Relocation of City Departments and Use of Space at 1500 Mission Street

In July 2014, the Board of Supervisors approved Resolution No. 312-14 authorizing the City to enter into an Exclusive Negotiation Agreement and Letter of Intent with Related to develop a new City-owned office building. Resolution No. 312-14 also authorized the Director of Property to provide a report detailing City office space requirements, the specified projected uses and staffing for the new City office building and the overall plan for Civic Center office space. In response, working with Real Estate, the Controller's Office provided a report to the Board of Supervisors in the fall 2014 that projected potential City staff and square feet requirements for a new office building for FY 2018-19.

This 2014 report projected consolidating office space for five City departments, including (a) Public Works, (b) Department of Building Inspection, (c) City Planning, (d) Retirement and (e) Health Services System, currently in City-owned space or leasing office space in the Civic Center. At the time, the Board of Supervisors was advised that this new City office building was anticipated to add approximately 100,000 square feet of new City-owned office space and reduce the amount of leased space in the Civic Center. According to Mr. Updike, the net increase in square feet of City office space is now estimated at 154,760 square feet. With the information contained in the report, the Board of Supervisors on December 9, 2014 approved the Conditional Land Disposition and Development Agreement with Related for the City office building at 1500 Mission Street.

Table 6 below compares the square feet requirements specified in this 2014 report⁷ projected to FY 2018-19 to what Public Works and Real Estate are now reporting are City department requirements for the new City office building.

⁷ The square footage amounts in the 2014 report were based on 463,300 gross square feet, which has been converted to rentable square feet in Table 6 below to provide a comparison with the rentable square feet for 2017.

Table 6: Comparison of Square Footage Use of 1500 Mission Street

Departments	2014 Rentable Square Feet	2017 Rentable Square Feet	Increase/(Decrease) Square Feet
Public Works	181,018	194,588	13,570
Building Inspection	63,086	56,819	(6,267)
Planning	49,574	59,910	10,336
Health Service System ⁸	18,682	-	(18,682)
Retirement ⁹	35,360	-	(35,360)
Other Tenants (TBD)	5,405	25,102	25,102
Permit Center ¹⁰	28,791	38,960	10,169
Common Areas and Building Support	52,043	55,466	3,423
TOTAL	433,959	430,845	(3,114)

As shown in Table 6 above, the square feet allocated to Public Works, Planning and DBI are proposed to increase significantly. Regarding the differences in square footage for the various City departments, Mr. Chui advises that DBI's 6,267 square foot reduction in space is more than offset by the estimated 22,000 square feet of space that DBI will occupy in the new one-stop permit center, in which Building Inspection will be the anchor tenant, along with at least 11 other City departments. Mr. Chui also notes that the 10,336 square foot increase in Planning's space may enable another tenant to occupy a portion of this space. The Common Areas and Building Support include the lobby, conference center, childcare facilities, potential wellness center and other building support functions. According to Mr. Updike, the square footage requirements for the common areas and building support increased by 3,423 square feet because the entire first floor will now be common areas, with additional conference and training rooms and facilities.

However, the most notable change in the proposed plans is the elimination of Health Service System for 18,682 square feet and Retirement System for 35,360 square feet or a total of 54,042 square feet from the new City office building. Currently, both of these City departments rent space at 1145 Market Street at an annual rental cost of approximately \$2,314,000, with leases that expire in 2023 and 2024 respectively. In addition, the previous plan provided for an additional 5,405 square feet for other potential tenants or 59,447 square feet total for other City tenants. Instead, the current proposal only allows for 25,102 square feet for other City

⁸ Health Service System currently occupies 19,500 square feet of leased office space at 1145 Market Street, a ten-year lease, which commenced in 2013 and terminates in 2023, at a current rental rate of approximately \$42 per square foot, or total annual costs of \$826,000 in FY 2017-18, with 3% annual rent increases.

⁹ San Francisco Employees Retirement System currently occupies 35,579 square feet of leased office space at 1145 Market Street under a ten-year lease commencing in 2014 and terminating in 2024 at a current rent of approximately \$42 per square foot, or total annual rental costs of \$1,488,000 in FY 2017-18, with 3% annual rent increases.

¹⁰ Of the 38,960 square feet proposed, approximately 22,000 square feet, or 56% will be used by DBI.

departments to potentially relocate to 1500 Mission Street, a reduction of 34,345 square feet of space or 58%.

Based on information provided by Real Estate, Table 7 below shows the number of rentable square feet currently occupied by the three main City departments (Public Works, Building Inspection (DBI) and Planning) that are proposed to occupy the new City office building at 1500 Mission Street. As shown in Table 7 below, all three City departments would increase their amount of rentable space in the new City office building by a combined total of 27,667 square feet. At the same time, two City departments, notably Health Service System and Retirement System, will not relocate into this new City office building.

Table 7: Current and Proposed Square Footage for 3 City Departments

Location	Public Works	DBI	Planning	Total
30 Van Ness	101,144			101,144
1650 Mission		4,280	48,704	52,984
1660 Mission	748	68,821	543	70,112
1680 Mission	36,753			36,753
City Hall	5,426			5,426
1155 Market	38,922			38,922
Total	182,993	73,101	49,247	305,341
Proposed	194,279	78,819	59,910	333,008
Increased Space	11,286	5,718	10,663	27,667

The current proposed square footage use and City departments that would occupy the new 1500 Mission Street office building is not consistent with the information the Real Estate Division and the Controller's Office provided to the Board of Supervisors in 2014, when the Board of Supervisors approved this project. Most notably, the proposed use significantly expands the amount of space for three City departments, Public Works, Planning and Building Inspection and excludes Health Service System and Retirement System or significant space for other City departments. As previously noted, the proposed new office building will create an estimated net increase of 154,760 square feet of new space. With such significant increases in space, the amount of leased space and lease costs in the Civic Center should be reduced, resulting in the termination of existing City leases, as the Board of Supervisors were advised in 2014 when the 1500 Mission Street office building was approved.

In response, over the last several weeks, the Real Estate Division has identified seven leases containing a total of 93,970 square feet of space in the Civic Center that could potentially be terminated with the addition of the new 1500 Mission Street building and/or through backfilling space at 1650 Mission Street once the Planning Department vacates and moves into the new 1500 Mission Street building. Under these seven leases, the City currently spends approximately \$4.1 million annually. At this time, other than the approximately 25,000 square feet that is shown in Table 6 above in the current plan for Other Tenants to be determined (TBD), the Real Estate Division cannot commit to moving additional City employees into specific additional space in the new 1500 Mission Street building.

Need for Reduction in City FF&E, Technology and Moving Expenses

Given the requested increase of \$17,099,033 or 139% for furniture, fixtures, equipment, technology and moving expenses and the lack of any detailed information, the Board of Supervisors should approve the entire \$29,397,433, but only release \$1,000,000 at this time to fund City staff, legal and consultant expenses through FY 2017-18 and place the remaining \$28,397,433 on Budget and Finance Committee Reserve.

Before the Board of Supervisors approves the release of the remaining funds, Real Estate should provide a report to the Board of Supervisors that clearly identifies the (a) number of employees and amount of space that are currently used by each City department, (b) number of employees and amount of space that are proposed to be used by each City department in the new City building, and (c) existing City leases that will be terminated and the existing City leases that will be backfilled or otherwise reused, including the square footage of such leases, the amount of rent savings and any additional costs assumed. The City should maximize the number of leases being terminated and the number of City departments and employees relocated into the new City office building, as was originally proposed to the Board of Supervisors when this project was approved.

As part of the report identifying which City departments would be relocated to 1500 Mission Street, Public Works should rework the remaining \$28,397,433 for FF&E, technology and moving expenses request to maximize the amount of existing furniture that is reused and moved into the new building and minimize the additional City expenses. Details should be provided and bids obtained prior to requesting the release of a reduced amount of funding for this purpose.

RECOMMENDATIONS

1. Amend the proposed ordinance (File 17-0464) to reflect the recommended savings shown in Table 3 above, based on the proceeds from the sale of the three City buildings resulting in an additional \$3,134,836 for the Project Fund.
2. Amend the proposed ordinance (File 17-0464) to place \$28,397,433 of the requested \$29,397,433 on Budget and Finance Committee Reserve for FF&E, technology and moving to allow \$1,000,000 to be released now. The \$28,397,433 on reserve should not be released, pending a report that identifies (a) number of employees and amount of space currently used by each City department, (b) number of employees and amount of space proposed to be used by each City department in the new City building, and (c) existing City leases that will be terminated, existing City leases that will be backfilled or reused, including square footage of leases, rent savings and any additional costs. The City should maximize the leases terminated and City departments and employees relocated into the new City office building, as originally proposed to the Board of Supervisors when this project was approved. To request release of the \$28,397,433 being placed on reserve, Public Works should maximize the City's existing furniture for reuse and moved into the new building and minimize additional City expenses. Details should be provided and bids obtained prior to requesting the release of a reduced amount of funding for this purpose.

3. Approve the proposed ordinance (File 17-0464), as amended.
4. Approve the proposed ordinance (File 17-0468) and resolution (File 17-0471).



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Public Finance Director

SUBJECT: Ordinance Authorizing the Execution and Delivery of City and County of San Francisco Certificates of Participation (City Office Building - 1500 Mission Street) in an Aggregate Amount Not to Exceed \$321,765,000

DATE: Monday, April 24, 2017

Recommended Action:

I respectfully request that the Board of Supervisors consider for review and adoption the ordinance approving the execution and delivery of \$321,765,000 in City and County of San Francisco Certificates of Participation ("Certificates") to fund the development costs and related FF&E (furniture, fixture, or other equipment), technology, and moving costs for the 1500 Mission Street office building ("Project"). The ordinance appropriating the proceeds of the Certificates was introduced to the Board of Supervisors (the "Board") on April 4, 2017 and is anticipated to be heard at Budget and Finance Committee meeting on May 11, 2017.

In connection with this request, we would like to respectfully request consideration of the ordinance at the May 11, 2017 Budget and Finance Committee meeting.

Background:

In December 2014, per Ordinance No. 254-14, the Board approved a Conditional Land Disposition and Acquisition Agreement with Related California Urban Housing, LLC ("Related") to develop a city-owned office building located at 1500 Mission Street, subject to environmental review and approval. In addition to the city-owned office building, Related also plans to develop, adjacent to the office building, a 39-story, 550 residential unit development with ground floor retail located at Mission Street and South Van Ness Avenue.

On March 21, 2017, per Resolution No. 94-17 and Resolution No. 95-17, the Board approved the sale of three city-owned buildings located at 1660 Mission Street, 1680 Mission Street, and 30 Van Ness Avenue for a total combined sale price of \$122,000,000. Upon the closing of these three properties estimated in early May 2017, the City will receive the proceeds from the sales and dedicate \$27,065,000 to prepay the City's remaining debt service attributable to the 30 Van Ness property tied to outstanding debt on City Certificates of Participation, Series 2001A and Series 2007A. The prepayment of this debt is a precondition to closing the sale of 30 Van Ness. In addition, an estimated \$1,000,000 of the sales proceeds will be dedicated sales commissions and closing costs related to the sale of all three properties. The remaining \$93,935,000 in net sales proceeds will go directly to finance a portion of the development costs for the 1500 Mission Street project.

The 1500 Mission Street Project:

The proposed ordinance authorizes the City to execute and deliver not-to-exceed par amount of \$321,765,000 in City and County of San Francisco Certificates of Participation (1500 Mission) to fund a portion of the development costs, including construction and improvement, and related FF&E (furniture, fixture, or other equipment), technology, and moving costs for a city-owned office building located at 1500 Mission Street (the "Project").

Located at the intersection of Van Ness Avenue and Mission Street, the proposed office building at 1500 Mission Street will be a newly constructed 16-story building with an estimated 430,845 rentable square feet. The proposed office building was designed and developed through collaboration between San Francisco Real Estate Division (on behalf of numerous City departments and stakeholders) and Related California, the project developer. The inspiration for the project is the proposed "One-Stop Permit Center," bringing together 14 San Francisco permitting agencies to a single location to create a more efficient permitting process and experience. The size and location of the project allows for multiple city departments to be located in a single building. In addition to the administrative office workspace for multiple City departments, the proposed office building provides training and conference space as well as a childcare facility. Construction on the project is scheduled to commence in Fall 2017 with a tentative completion date in Fall 2019.

The Project's estimated total development cost and budget, including related FF&E (furniture, fixture, or other equipment), technology, and moving costs, is \$356,088,386. As mentioned above, \$93,935,000 of net sales proceeds from the sale of 1660 Mission, 1680 Mission, and 30 Van Ness will finance a portion of the project, and the remaining project costs will be paid by Certificates of Participation proceeds.

The Certificates:

Under the proposed ordinance, the City will structure the Certificates as an abatement lease-lease back structure between the City and a third-party trustee pursuant to a Property Lease, Lease Agreement, and Trust Agreement.

Property Lease and Lease Agreement: Pursuant to the Property Lease, the City leases a City-owned property to a third party trustee. Pursuant to the Lease Agreement, the City leases back the leased property, together with the improvements financed with proceeds of the Certificates, from the third party trustee. The City makes annual base rental payments to the third party trustee in amounts required to repay the Certificates. When the Certificates are finally paid, the Property Lease and the Lease Agreement terminate. The City's general fund secures the repayment of the Certificates (see The Current Plan of Finance below).

Trust Agreement: Pursuant to the Trust Agreement between the City and a third party trustee acting on behalf and for the benefit of Certificates holders, the trustee administers and disburses Certificate payments and enforces the covenants and remedies in the event of a default by the City. The Trust Agreement provides for the terms of the Certificates, prepayment provisions, events of default, remedies in the event of default, and other related administrative provisions. The trustee holds proceeds derived from the sale of the Certificates and disburses payments for the costs incurred for the Project, as directed by authorized City representatives. The ordinance delegates selection of the third party trustee to the Director of Public Finance, and the trustee will be selected based on the lowest fees and other considerations via a competitive request for proposal.

The Trust Agreement between the City and the trustee requires that the base rental payments be deposited semi-annually in the base rental fund maintained by the trustee. The trustee will apply such amounts as is necessary to make base rental payments with respect to the Certificates.

The Leased Property: It is anticipated that the 1500 Mission office building will serve as the Leased Property (the 'Leased Property') for the Certificates.

The Property Lease and Lease Agreement between the City and trustee, requires the City to make base rental payments semi-annually in an amount sufficient to pay total base rental payments when due.

The Current Plan of Finance:

The proposed ordinance authorizes the execution and delivery of Certificates in a par amount not to exceed \$321,765,000. Based on Project cost estimates and schedules, the Office of Public Finance expects to deliver \$317,265,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected delivery amount allows for fluctuations in market interest rates from the date of authorization by the Board to the time of the sale of the Certificates, as well as required deposits for capitalized interest, debt service reserve fund, and other delivery date expenses and costs of issuance.

Commercial Paper: The current plan of finance anticipates utilization of the City's commercial paper program launched by the City in June 2010 (Resolution No. 85-09 and Resolution No. 136-

10) to finance certain interim costs of the Project, including preliminary design, planning, and permitting costs. The City increased the total authorization level of its commercial paper program to \$250,000,000 in July 2013 (Resolution No. 247-13).

The Certificates: The Certificates are expected to be executed and delivered in an amount sufficient to fully pay the costs of the Project, including any previously issued commercial paper and capitalized interest financing the Project. Table 1 outlines anticipated sources and uses for the Certificates.

Table 1: Anticipated Sources and Uses from the Delivery of the Certificates.

Maximum Not to Exceed Amount:	\$321,765,000
<i>COP Reserve for Market Uncertainty</i>	<i>\$4,500,000</i>
Sources:	
COP Par Amount	<u>317,265,000</u>
Total Sources:	\$317,265,000
Uses:	
Project Fund Deposits:	
Development Costs (Net)	231,505,953
FF&E, DT and Moving Costs	<u>29,397,433</u>
Subtotal Project Fund Deposits:	\$260,903,386
CSA Audit Fee	<u>653,382</u>
Total Project Fund Deposits:	\$261,556,768
COP Delivery Expenses:	
Reserve Fund	21,832,100
CP Interest & Fees/Capitalized Interest	31,051,471
Cost of Issuance	603,807
Underwriter's Discount	<u>2,220,855</u>
Total COP Delivery Expenses:	\$55,708,232
Total Uses:	\$317,265,000
<i>COP Reserve for Market Uncertainty</i>	<i>\$4,500,000</i>
Maximum Not to Exceed Amount:	\$321,765,000

The authorized amount above the expected delivery amount of \$317,265,000 allows for fluctuations in market conditions from the date of authorization by the Board of Supervisors to

the time of the sale of the Certificates. The Office of Public Finance expects the Certificates to have a maturity of approximately 30 years.

Based upon conservative estimates of approximately 5.50% interest rate, the Office of Public Finance estimates that fiscal year net base rental payments on the Certificates average approximately \$21,044,000. The anticipated total par amount of \$317,265,000 is estimated to result in approximately \$343,440,075 in interest payments over the life of the Certificates. The total base rental payments over the life of the Certificates total approximately \$660,705,075. Based on market conditions expected to exist at the time of the sale, the Certificates could be structured with up to a 30-year life.

Method of Sale and Purchase Contract: In connection with the execution and delivery of the Certificates, the proposed ordinance delegates to the Director of Public Finance the authority to sell the Certificates by either a competitive or negotiated sale, subject to the Director of Public Finance's determination that a negotiated sale will result in the lowest borrowing cost to the City. The ordinance authorizes the sale of the Certificates by negotiated sale pursuant to a Purchase Contract, if a negotiated sale is expected to provide the lower cost of borrowing as compared to a competitive sale method. If a negotiated sale method is pursued, one or more firms from the City's pool underwriters will be selected to serve as underwriter(s) for the Certificates.

The Capital Plan:

The anticipated additional debt service as a result of the delivery and execution of the Certificates complies with the City's policy of limiting General Fund debt service payments at or below 3.25% of General Fund Discretionary Revenue, as set forth and maintained in the City's Capital Plan.

Additional Information:

The legislation is expected to be presented to the Capital Planning Committee on Monday, April 24, 2017 and introduced at the Board of Supervisors meeting on Tuesday, April 25, 2017. The related financing documents—including the Notice of Intention to Sell, Official Notice of Sale, Official Statement, Appendix A and Continuing Disclosure Certificate and related documents—will also be submitted.

Official Notice of Sale: The Official Notice of Sale for the Certificates announces the date and time of the competitive bond sale, including the terms relating to the Certificates; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents. Pending market conditions, the Certificates may be bid separately by series or bids may be received for all of the Certificates.

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Certificates. Pursuant to the Resolutions, the Controller is authorized to award the Certificates to

the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

Notice of Intention to Sell: The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell the Certificates. Such Notice of Intention to Sell will be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

Official Statement: The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of the Certificates. The Official Statement describes the Certificates, including sources and uses of funds; security for the Certificates; risk factors; and tax and other legal matters, among other information. The Official Statement also includes the City's Appendix A, the most recent Comprehensive Annual Financial Report of the City, the City's Investment Policy, and other forms of legal documents for the benefit of investors, holders and owners of the Certificates.

A Preliminary Official Statement is distributed to prospective bidders prior to the sale of the Certificates and within seven days of the public offering, the Final Official Statement (adding certain sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) is distributed to the initial purchasers of the Certificates.

The Board of Supervisors and the Mayor, in adopting and approving the resolution, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Certificates. For purposes of the Securities and Exchange Act of 1934, the Controller certifies, on behalf of the City, that the Preliminary and Final Official Statements are final as of their dates.

Appendix A: The City prepares the Appendix A: "City and County of San Francisco—Organization and Finances" (the "Appendix A") for inclusion in the Official Statement. The Appendix A describes the City's government and organization, the budget, property taxation, other City tax revenues and other revenue sources, general fund programs and expenditures, employment costs and post-retirement obligations, investment of City funds, capital financing and Certificates, major economic development projects, constitutional and statutory limitations on taxes and expenditures, and litigation and risk management. Pursuant to the Resolution, City staff will revise the Official Statement, including the Appendix A.

Continuing Disclosure Certificate: The City covenants to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made in order to assist initial purchasers of the Certificates in complying with the Securities and Exchange Commission Rule 15c212(b)(5).

Financing Timeline:

<u>Milestones:</u>	<u>Dates*:</u>
Capital Planning Committee	April 24
Board Introduction	April 25
Budget & Finance Committee Hearing	May 11
Board Approval of Resolution and 1st Reading of Appropriation Ordinance	May 23
Final Board Approval (2nd Reading)	June 6
Estimated Sale & Closing	TBD

*Please note that dates are preliminary and may change.

Your consideration of this matter is greatly appreciated. Please contact Nadia Sesay at 415-554-5956 or nadia.sesay@sfgov.org if you have any questions.

CC: Angela Calvillo, Clerk of the Board of Supervisors
Harvey Rose, Budget and Legislative Analyst
Nicole Elliott, Mayor's Office, Director of Legislative & Government Affairs
Mawuli Tugbenyoh, Mayor's Office, Liaison to the Board of Supervisors
Melissa Whitehouse, Mayor's Budget Director
Ben Rosenfield, Controller
Naomi Kelly, City Administrator
Mark Blake, Deputy City Attorney
John Updike, Director of Real Estate
Mohammed Nuru, SF Public Works Director

TRUST AGREEMENT

by and between the

CITY AND COUNTY OF SAN FRANCISCO

and

[TRUSTEE],
as Trustee

Dated as of [Dated Date]

Relating to:

 \$[Amount]
CERTIFICATES OF PARTICIPATION
(1500 MISSION PROJECT)
SERIES 201 ___

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TRUST AGREEMENT

THIS TRUST AGREEMENT, dated as of [Dated Date] (this "Trust Agreement"), by and between the CITY AND COUNTY OF SAN FRANCISCO (the "City"), a charter city and county organized and existing under its Charter and the Constitution and laws of the State of California, and [TRUSTEE], a _____ organized and existing under the laws of _____, both as trustee hereunder (the "Trustee" or "Certificates Trustee") and as Project Trustee (as defined herein);

WITNESSETH

WHEREAS, the City desires to fund a portion of the development costs, including construction and improvement, and related FF&E (furniture, fixture, or other equipment), technology, and moving costs for the 1500 Mission office building (as further described herein, the "201_ Project"); and

WHEREAS, in connection therewith, the City is causing certain property located at _____ and the facilities and structures related thereto (as further defined in the Lease Agreement, the "Facilities") and the real property on which such Facilities are situated (the "Site" and, together with the Facilities, the "Leased Property") to be conveyed to the Project Trustee, as trustee for the Project Trust, pursuant to a Property Lease, dated as of the date hereof (the "Property Lease"); and

WHEREAS, concurrently herewith, the City and the Project Trustee, as trustee for the Project Trust, have entered into a Lease Agreement, dated as of the date hereof (the "Lease Agreement"), pursuant to which the City has leased the Leased Property from the Project Trustee for the City's public purposes; and

WHEREAS, pursuant to the Lease Agreement the City has agreed to make certain payments of Base Rental and Additional Rental (both as hereinafter defined) to the Project Trustee for the use and occupancy of the Leased Property; and

WHEREAS, the Trustee, as Certificates Trustee, shall execute and deliver the hereinafter described certificates of participation (the "Certificates"), evidencing proportionate interests in all of the rights of the Trustee under the Property Lease and the Lease Agreement, including the right to receive Base Rental payments payable thereunder, and shall undertake such other responsibilities as are assigned to the Trustee pursuant to this Trust Agreement; and

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

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Trustee of its duties hereby imposed, and of the purchase and acceptance of the Certificates by the Owners (as defined hereinafter), and to fix and declare the terms and conditions upon which the Certificates are to be executed, delivered and accepted by all Persons who shall from time to

time be or become Owners thereof, and to secure the payment of the principal and interest evidenced by the Certificates according to their tenor, purport and effect, and to secure the performance and observance of all of the covenants, agreements and conditions contained herein, therein and in the Property Lease and the Lease Agreement, the City and the Project Trustee do hereby grant and assign to the Certificates Trustee for the benefit of the Owners, subject only to the provisions of this Trust Agreement, the Property Lease and the Lease Agreement (such property being collectively herein referred to as the "Trust Estate"), the following:

I.

All right, title and interest of the Project Trustee in and to the Property Lease and the Lease Agreement, including all Base Rental payments made by the City pursuant to the Lease Agreement;

II.

All right, title and interest of the City and the Project Trustee in and to all amounts on hand from time to time in the funds and accounts established hereunder (except for amounts on deposit in the Rebate Fund pursuant to the terms of this Trust Agreement); and

III.

All funds, moneys and securities and any and all other rights and interests in property whether tangible or intangible from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder for the Lease Agreement or the Certificates by the City or the Project Trustee or by anyone on its behalf or with its written consent to the Trustee, which is hereby authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms hereof;

TO HAVE AND TO HOLD all the same with all privileges and appurtenances hereby conveyed and assigned, or agreed or intended so to be, to the Trustee and its successors in said trust and to them and their assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth, for the equal and proportionate benefit, security and protection of all Owners from time to time of the Certificates executed and delivered under and secured by this Trust Agreement without privilege, priority or distinction as to the lien or otherwise of any Certificates over any of the other Certificates, upon the trusts and subject to the covenants and conditions hereinafter set forth;

ARTICLE I

APPOINTMENT OF TRUSTEE; DEFINITIONS

Section 1.01 **Appointment of Trustee.** The Trustee is hereby appointed to act solely as set forth herein, to receive, hold and disburse in accordance with the terms hereof the money to be paid to it, to execute and deliver the Certificates, which represent proportionate interests in the Lease Agreement, including the Base Rental payments payable thereunder, to apply and disburse payments received pursuant to the Lease Agreement to Owners of such Certificates, to

enforce the rights of the Trustee under the Lease Agreement, and to perform certain other functions, all as hereinafter provided. By executing and delivering this Trust Agreement, the Trustee accepts the contractual and fiduciary duties and obligations provided herein, but only upon the terms and conditions herein set forth.

Section 1.02 Definitions. Unless the context otherwise requires, the terms defined in this Section 1.02 shall, for all purposes of this Trust Agreement, have the meanings set forth below. All other capitalized terms used herein without definition shall have the meanings given to such terms in the Lease Agreement.

“201_ Certificates” means the Certificates of Participation (1500 Mission Project), Series 201_, authorized hereby and at any time Outstanding hereunder.

“201_ Project” has the meaning set forth in the recitals hereof.

“201_ Reserve Account” means the account within the Reserve Fund established pursuant to Section 4.06(f) hereof in connection with the 201_ Certificates.

“Additional Certificates” means any additional certificates of participation executed and delivered pursuant to Section 7.04 hereof.

“Additional Rental” means the amounts specified as such in Section 3.1(b) of the Lease Agreement.

“Administrative Code” means the San Francisco Administrative Code, as amended from time to time.

“Authorized Denominations” means \$5,000 or any integral multiple thereof.

“Base Rental” means the amounts specified as such in Section 3.1(a) of the Lease Agreement, as such amounts may be adjusted from time to time in accordance with the terms of the Lease Agreement, and any amounts as may specified in a supplement to the Lease Agreement in connection with Additional Certificates, but does not include Additional Rental.

“Base Rental Fund” means the fund of that name established pursuant to Section 4.05 hereof.

“Business Day” means a day which is not a Saturday or Sunday or a day on which banking institutions are authorized or required by law to be closed in the State for commercial banking purposes or a day on which trading on the New York Stock Exchange is suspended for more than four hours or a day on which the New York Stock Exchange is closed for a state or national holiday.

“Certificate Counsel” means a law firm that is nationally recognized in the practice of municipal finance.

“Certificate Payment Date” means, with respect to any Certificate, the [Payment Date 1] date designated therein, which is the date on which the principal component of the Base Rental evidenced and represented thereby shall become due and payable.

“Certificate Register” means the books referred to in Section 2.08 hereof.

“Certificates” means the 201_ Certificates and all Additional Certificates hereunder.

“City” means the City and County of San Francisco, and its successors and assigns.

“City Representative” means the Mayor, the Controller, the Director of Public Finance or any other official of the City designated and authorized by the Controller of the City to act on behalf of the City under or with respect to this Trust Agreement, the Lease Agreement, the Property Lease and all other agreements related hereto and thereto.

“Closing Date” means [Closing Date], the date of original execution and delivery of the 201_ Certificates and, as appropriate, the date of original execution and delivery of any Additional Certificates.

“Code” means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code shall be deemed to be a reference to any successor to any such section.

“Continuing Disclosure Certificate” means one or more Continuing Disclosure Certificates executed by the City, dated a Closing Date, as originally executed and as each may be amended from time to time.

“Costs of Issuance” means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with this Trust Agreement, the Property Lease, the Lease Agreement, the Certificates and the preliminary and final official statements pertaining to the Certificates; rating agency fees; CUSIP Service Bureau charges; market study fees; bond, disclosure and other legal fees and expenses of counsel with respect to the financing of the Project and with respect to any validation proceedings occurring in connection therewith; any computer and other expenses incurred in connection with the Certificates; the initial fees and expenses of the Trustee and any paying agent (including without limitation, origination fees and first annual fees payable in advance); fees and expenses of financial advisors; premium for title insurance; fees and expenses of publication of notices; and other fees and expenses incurred in connection with the execution and delivery of the Certificates or the implementation of the financing for the Project, to the extent such fees and expenses are approved by a City Representative.

“Costs of Issuance Fund” means the fund of that name established pursuant to Section 4.02 hereof.

“Credit Facility” means any letter of credit, line of credit, insurance policy, surety bond or other credit source deposited with the Trustee by the City to satisfy the Reserve Requirement as of the Closing Date.

"Defeasance Securities" means (i) Government Obligations and (ii) pre-refunded fixed interest rate municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instruction concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash and/or Government Obligations; (c) the principal of and interest on the Government Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (d) the Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the Government Obligations are not available to satisfy any other claims, including those of or against the trustee or escrow agent; and (f) the municipal obligations are rated AAA by S&P and Aaa by Moody's.

"Depository" means DTC and its successors and assigns, or if (a) the then Depository resigns from its functions as securities depository of the Certificates, or (b) the City discontinues use of the Depository pursuant to Section 2.13 hereof, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Certificates and which is selected by the City.

"Director of Property" means the City's Director of Property or any successor officer of the City who performs substantially the same duties as the Director of Property performs as of the date of this Trust Agreement.

"DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Electronic Notice" means notice given by The Bond Buyer Wire or Bloomberg Business News.

"Event of Default" means any one or more of the events described in Section 9.01 of this Trust Agreement.

"Facilities" means the improvements, structures and fixtures related thereto and located on the Site together with all other works, property or structures located from time to time on the Site.

"Financing Documents" mean this Trust Agreement, the Property Lease, the Lease Agreement and the Continuing Disclosure Certificate, including any amendments or supplements to any of the foregoing documents.

"Fiscal Year" means the fiscal year of the City being July 1 to the following June 30 or any subsequent fiscal year adopted by the City.

"Fitch" means Fitch Ratings, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“Government Certificates” means evidences of indebtedness or ownership of proportionate interests in future principal and interest payments of Government Obligations, including depository receipts thereof, wherein (i) a bank or trust company acts as custodian and holds the underlying Government Obligations; (ii) the owner of the Government Certificate is a real party in interest with the right to proceed directly and individually against the obligor of the underlying Government Obligations; and (iii) the underlying Government Obligations are held in trust in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian or any person claiming through the custodian, or any person to whom the custodian may be obligated.

“Government Obligations” means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury) or evidence of ownership in a portion thereof (which may consist of specified portions of interest thereon and obligations of the Resolution Funding Corporation which constitute interest strips) if held by a custodian on behalf of the Trustee, obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, and prerefunded municipal obligations rated in the highest rating category by Moody’s and S&P.

“Independent Counsel” means an attorney or firm of attorneys selected by the City.

“Interest Payment Date” means a date on which interest evidenced and represented by the Certificates becomes due and payable, being [Payment Date 1] and [Payment Date 2] in each year, commencing [First IPD], and continuing until the Certificate Payment Date or earlier prepayment date of the Certificates.

“Investment Earnings” means interest received in respect of the investment of money on deposit in any fund or account maintained hereunder.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“Net Proceeds” means any net proceeds of insurance or condemnation proceeds paid with respect to the affected portion of the Leased Property remaining after payment therefrom of any expenses (including attorneys’ fees) incurred in the collection thereof.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant hereto.

“Outstanding” when used as of any particular time with respect to any Certificate, means any Certificates theretofore executed and delivered by the Trustee under this Trust Agreement except:

- (1) any Certificate paid in accordance with its terms;

(2) any Certificate theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(3) any Certificate for the payment or prepayment of which funds or Defeasance Securities in the necessary amount shall have theretofore been deposited with the Trustee (whether prior to the Certificate Payment Date or prepayment date of such Certificate), provided that, if such Certificate is to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in Section 5.03 hereof or provision satisfactory to the Trustee shall have been made for the giving of such notice;

(4) any Certificate purchased by the City; and

(5) any Certificate in lieu of or in exchange for which another Certificate or other Certificates shall have been executed and delivered by the Trustee pursuant to Section 2.05 hereof.

“Owner” means the registered owner, as indicated in the Certificate Register, of any Certificate.

“Participants” means a member of or participant in, the Depository.

“Permitted Investments” means, if and to the extent permitted by law and by any policy guidelines promulgated by the City: [discuss]

(a) Government Obligations or Government Certificates;

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Farmers Home Administration (FmHA) - Certificates of beneficial ownership;

(ii) Federal Housing Administration Debentures (FHA);

(iii) General Services Administration - Participation certificates;

(iv) Government National Mortgage Association (GNMA or “Ginnie Mae”) - guaranteed mortgage backed bonds and GNMA guaranteed pass-through obligations (participation certificates);

(v) U.S. Maritime Administration - Guaranteed Title XI financing;

(vi) U.S. Department of Housing and Urban Development (HUD) - Project notes and local authority bonds; and

(vii) Any other agency or instrumentality of the United States of America the obligations of which are guaranteed by the full faith and credit of the United States of America;

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States of America government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(i) Federal Home Loan Bank System - Senior debt obligations (consolidated debt obligations);

(ii) Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") - Participation certificates (mortgage-backed securities) and senior debt obligations;

(iii) Fannie Mae - mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities which are valued greater than par on the portion of the unpaid principal);

(iv) Student Loan Marketing Association (SLMA or "Sallie Mae") - Senior debt obligations;

(v) Resolution Funding Corp. (REFCORP) - Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form;

(vi) Federal Farm Credit System - Consolidated systemwide bonds and notes; and

(vii) Any other agency or instrumentality of the United States of America the obligations of which are guaranteed by the non-full faith and credit of the United States of America;

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and having a rating by S&P of AAAM-G or AAAM and by Moody's of Aaa;

(e) Certificates of deposit issued by a state or national bank or a state or federal savings and loan; provided that such certificates of deposit shall be either (i) continuously and fully insured by the FDIC; or (ii) have a maturity of not greater than 365 days and have one of the two highest short-term letter and numerical ratings, at the time of purchase, of Moody's and S&P;

(f) Savings accounts or money market deposits that are fully insured by FDIC;

(g) Investment agreements, including guaranteed investment contracts, provided either (i) the long-term unsecured debt or claims ability of the issuer or guarantor thereof is rated, at the time of purchase, in one of the two highest rating category by Moody's and S&P, or

(ii) such agreement is fully collateralized by Government Obligations or Government Certificates;

(h) Commercial paper of "prime" quality rated, at the time of purchase, in one of the two highest rating category by Moody's and S&P, which commercial paper is limited to issuing corporations that are organized and operating within the United States;

(i) Bonds or notes issued by any state or municipality which are rated, at the time of purchase, by Moody's and S&P in one of the two highest long-term rating categories assigned by such agencies;

(j) Federal funds or banker's acceptances which are eligible for purchases by members of the Federal Reserve System, drawn on any bank the short-term obligations of which are rated in the highest rating category by Moody's and S&P; provided that the maturity cannot exceed 270 days;

(k) Repurchase agreements with maturities of either (a) 30 days or less, or (b) less than one year, provided that the collateral is marked-to-market daily, entered into with financial institutions such as banks or trust companies organized under state or federal law, insurance companies, or government bond dealers reporting to, or trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and a member of SPIC, or with a dealer or parent holding company that is rated, at the time of purchase, A or better by Moody's and S&P. The repurchase agreement must be in respect of Government Obligations or Government Certificates or obligations described in paragraph (b) herein, which, exclusive of accrued interest, shall be maintained at least 100% of par. In addition, repurchase agreements shall meet the following criteria: (i) the third party (who shall not be the provider of the collateral) has possession of the repurchase securities and the Government Obligations or Government Certificates; (ii) failure to maintain the requisite collateral levels shall require liquidation; and (iii) the third party having possession of the securities has a perfected, first priority security interest in the securities;

(l) Defeasance Securities described in clause (ii) of the definition thereof; and

(m) Any other debt or fixed income security specified by the City (except securities of the City and any agency, department, commission or instrumentality thereof) and rated, at the time of purchase, in one of the two highest rating category by Moody's and S&P, including prerefunded municipal obligations.

(n) The Local Agency Investment Fund administered by the State of California; and

(o) Any investment, with confirmation from the Rating Agencies that the ratings on the Certificates will not be lowered as a result of such investment.

In connection with the purchase of any Permitted Investment, the City may enter into agreements, including forward purchase agreements, with the seller thereof.

“Person” means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Prepayment Notice” shall have the meaning assigned to such term in Section 5.03 hereof.

“Prepayment Price” means the principal amount represented by the Certificates, plus any applicable premium.

“Principal Office of the Trustee” means the corporate trust office of the Trustee located at [____], or such other office that the Trustee may designate in writing to the City from time to time as the corporate trust office for purposes of this Trust Agreement; provided, however, that for purposes of the registration, transfer, exchange, payment or surrender of Certificates, the term “Principal Office of the Trustee” means care of the corporate trust office of the Trustee in [San Francisco].

“Project” means the 201_ Project and any facilities financed with Additional Certificates, as the same may be amended, modified or supplemented in accordance with the Trust Agreement.

“Project Costs” means the contract price paid or to be paid to or at the direction of any contractor for the acquisition, construction, installation or improvement to, or rehabilitation of, the Project, and reimbursement to the City for any payments made for or in connection with the acquisition of or improvement to the Project by the City prior to or subsequent to the Closing Date.

“Project Fund” means the fund of that name established pursuant to Section 4.03 hereof.

“Lease Agreement” means that certain Lease Agreement dated as of the date hereof, by and between the Project Trustee and the City, including any amendments or supplements thereto.

“Lease Agreement Term” means the term of the Lease Agreement as provided in Section 2 thereof.

“Lease Agreement Year” means the period from the Closing Date through [____] and thereafter the period from [____] to and including the following [____], as the case may be, during the Lease Agreement Term.

“Project Trust” means the trust established pursuant to Section 6.07 hereof.

“Project Trustee” means the Trustee, in its capacity as trustee of the Project Trust pursuant to Section 6.07 hereof.

“Property Lease” means that certain Property Lease dated as of the date hereof, by and between the City and the Project Trustee with respect to the Leased Property, including any amendments or supplements thereto.

“Rating Agencies” means S&P, Fitch and/or Moody’s, whichever then has a current rating on the Certificates.

“Rebate Fund” means the fund of that name established pursuant to Section 4.17 hereof.

“Record Date” means any Regular Record Date.

“Regular Record Date” means the close of business on the 15th day of the calendar month next preceding each Interest Payment Date, whether or not a Business Day.

“Reserve Fund” means the fund of that name established pursuant to Section 4.06 hereof.

“Reserve Requirement” means, as of any date of calculation, the least of (i) the maximum annual principal and interest evidenced by the Certificates payable in the then current Fiscal Year or any future Fiscal Year, (ii) 125% of average annual principal and interest evidenced by the Certificates payable in each Fiscal Year between the date of calculation and the last Certificate Payment Date of the Certificates or (iii) 10% of the stated principal amount of the Certificates originally executed and delivered (less original issue discount if in excess of two percent of the stated redemption price of the Certificates at maturity). The Reserve Requirement shall be applied separately for each series of Certificates or on an aggregate basis if the Reserve Fund or any account therein secures more than one series of Certificates on a parity basis.

“S&P” means S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, organized and existing under the laws of the State of New York, its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency for any reason, the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the City.

“Securities Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Sinking Account Installment” means the principal amount represented by the Certificates required to be paid on any Interest Payment Date pursuant to Section 5.01(c) hereof.

“Site” means the real property, as described in Exhibit A to the Lease Agreement, including any real property substituted therefor or added thereto pursuant to the Lease Agreement but excluding real property that has been released or for which new real property has been substituted in accordance with the Lease Agreement.

“State” means the State of California.

“Tax Certificate” means the Tax Certificate dated the Closing Date and executed by the City and as appropriate any Tax Certificate executed by the City in connection with Additional Certificates.

“Tax-Exempt” means, with respect to interest on, or with respect to, any obligations of a state or local government, including the Certificates, that such interest is excluded from the gross income of the Owners thereof (other than any Owner who is a “substantial user” of facilities financed with such obligations or a “related person” within the meaning of Section 147(a) of the

Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

“Treasurer” means the Treasurer of the City and County of San Francisco.

“Trust” means the “1500 Mission Project Trust” established pursuant to Section 6.07 hereof.

“Trust Agreement” means this Trust Agreement by and between the City and the Trustee, including any amendments or supplements hereto.

“Trust Estate” means all right, title and interest granted to the Trustee in the granting clauses of this Trust Agreement.

“Trustee” or “Certificates Trustee” means [TRUSTEE], a _____ organized and existing under the laws of _____], acting in its capacity as such under this Trust Agreement, or any successor appointed as herein provided.

“Written Certification,” “Written Direction” or “Written Request” means an instrument in writing signed on behalf of the City by a City Representative.

Section 1.03 Rules of Construction. Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context otherwise indicates, words importing the singular shall include the plural and vice versa, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons.

Section 1.04 Timing of Actions. Whenever in this Trust Agreement there is designated a time of day at or by which a certain action must be taken, such time shall be local time in San Francisco, California, except as otherwise specifically provided herein. If the date for making any payment or the last day for the performance of any act or the exercise of any right, as provided in this Trust Agreement, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day with the same force and effect as if done on the nominal date provided in this Trust Agreement, except as otherwise specifically provided herein. Notwithstanding the foregoing, if an Interest Payment Date for the Certificates falls on a day which is not a Business Day, then amounts due with respect to the Outstanding Certificates on such Interest Payment Date shall be paid on the next succeeding Business Day but interest shall accrue only to such Interest Payment Date.

Section 1.05 Authorization. Each of the parties hereby represents and warrants that it has full legal authority and is duly empowered to enter into this Trust Agreement, and has taken all actions necessary to authorize the execution and delivery of this Trust Agreement.

ARTICLE II

CERTIFICATES OF PARTICIPATION

Section 2.01 **Authorization and Designation.** The Trustee is hereby authorized and directed to execute and deliver the 201_ Certificates to the original purchaser or purchasers thereof. The Certificates evidence proportionate interests in the right to receive Base Rental payments under the Lease Agreement, as more particularly described therein, herein and in the Certificates. The 201_ Certificates shall be designated "Certificates of Participation (1500 Mission Project), Series 201_" and shall be executed and delivered in the aggregate principal amount of \$[Amount].

Section 2.02 **Description of the Certificates.** Each Certificate shall be executed and delivered in fully registered form and shall be numbered as determined by the Trustee. The Certificates shall be dated the Closing Date. The Certificates shall be executed and delivered in Authorized Denominations; provided, however, that the Certificates shall initially be executed and delivered in book-entry form pursuant to Section 2.11 hereof.

The 201_ Certificates shall be executed and delivered in the aggregate principal amount of \$[Amount], and shall have Certificate Payment Dates of [Payment Date 1] in the years and shall evidence and represent principal components in the amounts, with an interest component with respect thereto calculated on the basis of a 360-day year composed of twelve 30-day months at the rates, as follows:

Certificate Payment Date ([Payment Date 1])	Principal Amount	Interest Rate
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† Term Certificates

The interest evidenced and represented by the 201_ Certificates shall be payable on [Payment Date 1] and [Payment Date 2] of each year, beginning on [First IPD] and continuing to and including their Certificate Payment Dates or on prepayment prior thereto, and shall evidence and represent the sum of the portions of the Base Rental designated as interest components coming due on such date in each year.

The principal evidenced and represented by the 201_ Certificates shall be payable on [Payment Date 1] of each year, beginning on [] and continuing to and including [] and

shall evidence and represent the sum of the portions of the Base Rental Payments designated as principal components coming due on each [Payment Date 1].

The 201_ Certificates with Certificate Payment Dates of [] and [] shall be subject to mandatory sinking account installment prepayment as set forth in Section 5.01(c).

Section 2.03 Form. The Certificates shall be substantially in the form set forth in Exhibit A attached hereto and incorporated herein by this reference. The Certificates may be printed, lithographed, photocopied or typewritten.

Section 2.04 Execution. The Certificates shall be executed by and in the name of the Trustee by the manual signature of an authorized officer or signatory of the Trustee.

Section 2.05 Transfer and Exchange. The registration of any Certificate may be transferred upon the Certificate Register upon surrender of such Certificate to the Trustee. Such Certificate shall be endorsed or accompanied by delivery of the written instrument of transfer shown in Exhibit A hereto, duly executed by the Owner, together with the payment of such transfer fees as the Trustee may establish. Upon such registration of transfer, a new Certificate or Certificates, of authorized denominations, for the same series, principal amount, Certificate Payment Date and interest rate will be executed and delivered to the transferee in exchange therefor.

Subject to the provisions of Section 2.11 hereof, the City and the Trustee shall deem and treat the person in whose name any Outstanding Certificate shall be registered upon the Certificate Register as the absolute Owner of such Certificate, whether the principal of or interest with respect to such Certificate shall be overdue or not, for the purpose of receiving payment of principal and interest with respect to such Certificate and for all other purposes, and any such payments so made to any such Owner or upon his or her order shall be valid and effective to satisfy and discharge the liability upon such Certificate to the extent of the sum or sums so paid, and neither the City nor the Trustee shall be affected by any notice to the contrary.

Certificates may be exchanged at the Principal Office of the Trustee for a like principal amount of Certificates of authorized denominations of the same series, Certificate Payment Date and interest rate.

All Certificates surrendered for transfer or exchange shall, upon the execution and delivery of the new Certificates, be canceled by the Trustee. The Trustee may charge a reasonable sum for each new Certificate executed and delivered and the Trustee may require the payment by the Owner requesting such transfer or exchange of any tax or other governmental charge required to be paid thereon.

The Trustee shall not be required to register the transfer or exchange of any Certificate, whether or not that Certificate shall thereafter be selected for prepayment, during the period established by the Trustee for selection of Certificates to be prepaid or to transfer or exchange any Certificate selected for prepayment, except for the unprepaid portion of any Certificate prepaid only in part.

Section 2.06 Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner of such Certificate, shall execute and deliver a new Certificate of like series, denomination, Certificate Payment Date and interest rate in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and destroyed with a certificate of destruction furnished to the City. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and if such evidence is satisfactory to the Trustee and a City Representative and an indemnity satisfactory to the Trustee and a City Representative has been given, the Trustee shall, at the expense of the Owner, execute and deliver a new Certificate of like series, tenor and denomination in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of an appropriate fee for each new Certificate delivered under this Section 2.06 and of the expenses that may be incurred by the Trustee in carrying out its duties under this Section 2.06. Any Certificate executed and delivered under the provisions of this Section 2.06 in lieu of any Certificate claimed to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of this Trust Agreement with all other Certificates. Notwithstanding any other provision of this Section 2.06, in lieu of delivering a new Certificate for one which has been mutilated, lost, destroyed or stolen, and which has matured or has been called for prepayment, the Trustee may make payment of the principal of, premium, if any, or interest with respect to such Certificate, subject to receipt of an indemnity satisfactory to it.

Section 2.07 Execution of Documents and Proof of Ownership. Any request, direction, consent, revocation of consent or other instrument in writing required or permitted by this Trust Agreement to be signed or executed by Owners may be in any number of concurrent instruments of similar tenor, and may be signed or executed by such Owners in person or by their attorneys or agents appointed by an instrument in writing for that purpose. Proof of the execution of any such instrument, or of any instrument appointing any such attorney or agent shall be sufficient for any purpose of this Trust Agreement (except as otherwise herein provided), if made in the following manner, the fact and date of the execution by any Owner or his attorney or agent of any such instrument, and of any instrument appointing any such attorney or agent, may be proved by a certificate, which need not be acknowledged or verified; of an officer of any bank or trust company located within the United States of America; or of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in such jurisdictions, that the person signing such instrument acknowledged before him or her the execution thereof. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such certificate shall also constitute sufficient proof of his or her authority.

Nothing contained in this Article II shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which it may deem sufficient. Any request or consent of the Owner of any Certificate shall bind every future Owner of the same Certificate in respect of anything done or suffered to be done by the Trustee in pursuance of such request or consent.

Section 2.08 Certificate Register. The Trustee shall keep or cause to be kept at its Principal Office sufficient books for the registration and transfer of the Certificates, which books

shall at all times during regular business hours be open to inspection by the City and an Owner with an interest of not less than 10% of the aggregate principal amount of the Certificates then Outstanding. Upon presentation for registration of transfer, the Trustee shall, as above provided and under such reasonable regulations as it may prescribe subject to the provisions hereof, register, or register the transfer of, the Certificates, or cause the same to be registered or cause the transfer of the same to be registered, on such books.

Section 2.09 Nonpresentment of Certificates. If any Certificate shall not be presented for payment when the principal evidenced thereby becomes due, if funds sufficient to pay such Certificate shall be held by the Trustee for the benefit of the Owner thereof, all liability of the City to the Owner thereof for the payment of principal, premium, if any, and interest represented by such Certificate shall forthwith cease and be completely discharged and thereupon it shall be the duty of the Trustee to hold such funds (subject to Section 2.10 hereof), without liability for interest thereon, for the benefit of the Owner of such Certificate who shall thereafter be restricted exclusively to such funds for any claim of whatever nature on, or with respect to, such Certificate.

Section 2.10 Unclaimed Money. All money which the Trustee shall have received from any source and set aside for the purpose of paying any Certificate shall be held in trust for the Owner of such Certificate, but any money which shall be so set aside or deposited by the Trustee and which shall remain unclaimed by the Owner of such Certificate for a period of one year after the date on which any payment with respect to such Certificate shall have become due and payable shall be paid to the City; provided, however, that the Trustee shall, before making any such payment, notify the City and, at the direction and expense of the City, shall cause notice to be mailed to the Owner of such Certificate, by first-class mail, postage prepaid, and by a single publication in *The Bond Buyer* or *The Wall Street Journal* (or if such notice cannot be published in *The Bond Buyer* or *The Wall Street Journal*, in some other financial newspaper selected by the Trustee which regularly carries such notices for obligations similar to the Certificates) not less than 90 days prior to the date of such payment to the effect that such money has not been claimed and that after a date named therein any unclaimed balance of such money then remaining will be returned to the City. During any period in which the Trustee holds such unclaimed money, the Trustee shall not be required to invest such money; nonetheless if the Trustee should invest such money any earnings on such amounts shall be remitted to the City as such earnings are realized. Thereafter, the Owner of such Certificate shall look only to the City for payment and then only to the extent of the amount so returned to the City without any interest thereon, and the Trustee shall have no responsibility with respect to such money.

Section 2.11 Book-Entry System; Limited Obligation. The 201_ Certificates and any Additional Certificates shall be initially executed and delivered in the form of a separate single fully registered Certificate (which may be typewritten, printed, lithographed or photocopied) for each of the Certificate Payment Dates of the Certificates. Upon initial execution and delivery, the ownership of each such global Certificate shall be registered in the Certificate Register in the name of the Nominee as nominee of the Depository. Except as provided in Section 2.13 hereof, all of the Outstanding Certificates shall be registered in the Certificate Register kept by the Trustee in the name of the Nominee and the Certificates may be transferred, in whole but not in part, only to the Depository; to a successor Depository or to another nominee of the Depository or a successor Depository.

With respect to Certificates registered in the Certificate Register in the name of the Nominee, the City and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds a beneficial interest in the Certificates. Without limiting the immediately preceding sentence, the City and the Trustee shall have no responsibility or obligation with respect to (a) the accuracy of the records of the Depository, the Nominee or any Participant with respect to any beneficial ownership interest in the Certificates, (b) the delivery to any Participant, beneficial owner or any other person, other than the Depository, of any notice with respect to the Certificates, including any Prepayment Notice, (c) the selection by the Depository and the Participants of the beneficial interests in the Certificates to be prepaid in part, or (d) the payment to any Participant, beneficial owner or any other person, other than the Depository, of any amount with respect to principal of, premium, if any, or interest with respect to the Certificates. The City and the Trustee may treat and consider the person in whose name each Certificate is registered in the Certificate Register as the holder and absolute owner of such Certificate for the purpose of payment of principal of, premium, if any, and interest with respect such Certificate, for the purpose of giving Prepayment Notices and other notices with respect to such Certificate, and for all other purposes whatsoever, including, without limitation, registering transfers with respect to the Certificates.

The Trustee shall pay all principal of, premium, if any, and interest with respect to the Certificates only to or upon the order of the respective Certificate Owners, as shown in the Certificate Register kept by the Trustee, or their respective attorneys duly authorized in writing, and all such payments shall be valid hereunder with respect to payment of principal of, premium, if any, and interest with respect to the Certificates to the extent of the sum or sums so paid. No person other than a Certificate Owner, as shown in the Certificate Register, shall receive a Certificate evidencing the obligation to make payments of principal of, premium, if any, and interest pursuant to this Trust Agreement. Upon delivery by the Depository to the Trustee and the City of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Trust Agreement shall refer to such new nominee of the Depository.

Section 2.12 Representation Letter. To qualify the Certificates for the Depository's book-entry system, the City has executed and delivered to such Depository a representation letter from the City representing such matters as shall be necessary to so qualify the Certificates (the "Representation Letter"). The execution and delivery of the Representation Letter shall not in any way limit the provisions of Section 2.11 hereof or in any other way impose upon the City any obligation whatsoever with respect to persons having beneficial interests in the Certificates other than the Owners, as shown in the Certificate Register kept by the Trustee. In addition to the execution and delivery of the Representation Letter, any City Representative and all other officers of the City, and their respective deputies and designees, each are hereby authorized to take any other actions, not inconsistent with this Trust Agreement, to qualify the Certificates for the Depository's book-entry program.

Section 2.13 Transfers Outside Book-Entry System. If at any time the Depository notifies the City and the Trustee that it is unwilling or unable to continue as Depository with respect to the Certificates or if at any time the Depository shall no longer be registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and a

successor Depository is not appointed by the City within 90 days after the City and the Trustee receive notice or become aware of such condition, as the case may be, Section 2.11 hereof shall no longer be applicable and the Trustee shall execute and deliver certificates representing the Certificates as provided below. In addition, the City may determine at any time that the Certificates shall no longer be represented by global certificates and that the provisions of Section 2.11 hereof shall no longer apply to the Certificates. In any such event, the Trustee shall execute and deliver certificates representing the Certificates as provided below. Certificates executed and delivered in exchange for global certificates pursuant to this Section 2.13 shall be registered in such names and delivered in such Authorized Denominations as the Depository, pursuant to instructions from the Participants or otherwise, shall instruct the City and the Trustee. The Trustee shall deliver such certificates representing the Certificates to the persons in whose names such Certificates are so registered.

If the City determines to replace the Depository with another qualified securities depository, the City shall prepare or cause to be prepared a new fully-registered global certificate for each of Certificate Payment Date of the Certificates, registered in the name of such successor or substitute securities depository or its nominee, or make such other arrangements as are acceptable to the City, the Trustee and such securities depository and not inconsistent with the terms of this Trust Agreement.

Section 2.14 Payments and Notices to the Nominee. Notwithstanding any other provision of this Trust Agreement to the contrary, so long as any Certificate is registered in the name of the Nominee, all payments with respect to principal of, premium, if any, and interest with respect to such Certificate and all notices with respect to such Certificate shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

Section 2.15 Initial Depository and Nominee. The initial Depository under this Trust Agreement shall be DTC. The initial Nominee shall be Cede & Co., as nominee of DTC.

ARTICLE III

INTEREST RATE PROVISIONS

Section 3.01 Interest with Respect to the Certificates. Interest represented by the 201_ Certificates shall be payable at the respective per annum rates set forth in Section 2.02 hereof. The interest evidenced and represented by the 201_ Certificates shall be payable on [Payment Date 1] and [Payment Date 2] of each year, beginning on [First IPD] and continuing to and including their Certificate Payment Dates or on prepayment prior thereto, and shall evidence and represent the sum of the portions of the Base Rental designated as interest components coming due on such date in each year.

Section 3.02 Medium of Payment; Interest Accrual. Principal, premium, if any, and interest evidenced and represented by the Certificates shall be payable in lawful money of the United States of America which at the time of payment is legal tender for the payment of public and private debts. Payments of interest represented by the Certificates will be made on each Interest Payment Date by check of the Trustee sent by first-class mail, postage prepaid, or by

wire transfer to any Owner of \$1,000,000 or more of Certificates to the account in the United States of America specified by such Owner in a written request delivered to the Trustee on or prior to the Regular Record Date for such Interest Payment Date, to the Owner thereof on the Regular Record Date; provided, however, that payments of defaulted interest shall be payable to the person in whose name such Certificate is registered at the close of business on a special record date fixed therefor by the Trustee which shall not be more than 15 days and not less than 10 days prior to the date of the proposed payment of defaulted interest. Payment of the principal of the Certificates upon prepayment or upon the Certificate Payment Date will be made upon presentation and surrender of such Certificates at the Principal Office of the Trustee.

Interest evidenced and represented by each Certificate shall accrue from the Interest Payment Date next preceding the date of execution and delivery thereof, unless (i) it is executed after a Regular Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest represented thereby shall be payable from such Interest Payment Date; or (ii) it is executed prior to the close of business on the first Regular Record Date, in which event interest represented thereby shall be payable from the Closing Date; provided, however, that if at the time of execution of any Certificate interest represented thereby is in default, such interest shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or, if no interest has been paid or made available for payment, from the Closing Date.

ARTICLE IV

FUNDS AND ACCOUNTS

Section 4.01 **Application of Sale Proceeds of the 201_ Certificates.** Upon payment for the 201_ Certificates, when the same shall be sold to the original purchaser thereof, an amount of proceeds from such sale equal to \$[_____] shall be delivered to the Trustee and deposited by the Trustee as follows:

- (1) The Trustee shall deposit into the Costs of Issuance Fund the sum of \$[_____].
- (2) The Trustee shall deposit into the 201_ Reserve Account in the Reserve Fund the sum of \$[_____], representing the Reserve Requirement applicable to the 201_ Certificates as of the Closing Date.
- (3) [The Trustee shall deposit into the Base Rental Fund the sum of \$[_____], representing capitalized interest with respect to the Certificates.]
- (4) The Trustee shall deposit into the Project Fund the remainder of said proceeds, being \$[_____].

Section 4.02 **Establishment and Application of Costs of Issuance Fund.** There is hereby established in trust a special fund designated as the "Costs of Issuance Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall administer such fund as provided in this Article IV.

There shall be deposited in the Costs of Issuance Fund that portion of the proceeds of the Certificates required to be deposited therein pursuant to Section 4.01(1) hereof. The Trustee shall disburse money from the Costs of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Issuance, in each case, promptly after receipt of, and in accordance with, a Written Request of a City Representative in the form attached hereto as Exhibit B. Any amounts remaining in the Costs of Issuance Fund on the earlier of the date on which a City Representative has notified the Trustee in writing that all Costs of Issuance have been paid or the date twelve months from the Closing Date shall be transferred by the Trustee to the Base Rental Fund, provided that such transfer has been approved in writing by a City Representative, and the Cost of Issuance Fund shall then be closed.

Section 4.03 Establishment and Application of Project Fund. There is hereby established in trust a special fund designated as the "Project Fund," which fund shall be deemed held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall administer such fund as provided in this Article IV. There shall be deposited in the Project Fund that portion of the proceeds of the Certificates required to be deposited therein pursuant to Section 4.01(4) hereof.

The Trustee shall, from time to time, disburse money from the Project Fund to pay Project Costs, as hereinafter provided, in each case promptly after receipt of, and in accordance with, a Written Request of the City in the form attached hereto as Exhibit C. Each officer of the City required to execute such Written Request shall have full authority to execute such Written Request without any further approval of the Board of Supervisors of the City.

In making such payments, the Trustee may rely upon the representations made in the requisition of the City therefor in the form set forth in Exhibit C. If for any reason the City should decide prior to the payment of any item in said requisition not to pay such item, then it shall give written notice of such decision to the Trustee and thereupon the Trustee shall not make such payment, and the Trustee shall have no liability to the City or the designated payee as a result of such nonpayment. In no event shall the Trustee be responsible for the adequacy or the performance of any construction and similar contracts relating to the Project or for the use or application of money properly disbursed pursuant to requests made under this Section 4.03.

If, after payment by the Trustee of all requisitions theretofore tendered to the Trustee under the provisions of this Section 4.03, and delivery to the Trustee of a Written Certificate of the City to the effect that all Project Costs have been paid and that the Project has been substantially completed in the form of Exhibit D hereto, there shall remain any balance of money in the Project Fund, all money so remaining shall be transferred as directed by the City after consultation with Certificate Counsel.

Notwithstanding any other provision of this Trust Agreement, including in particular, Section 4.16, the City may, in its sole discretion and at any time, direct the Trustee to transfer moneys on deposit in the Project Fund representing investment earnings on amounts therein to the Base Rental Fund if the City determines, in its sole discretion that such moneys will not be needed for the improvement of the Project. The Trustee shall make such transfer upon the receipt of a request executed by a City Representative directing it to make such transfer.

Section 4.04 Establishment and Application of Base Rental Fund.

(a) Base Rental Fund. There is hereby established in trust a special fund designated as the "Base Rental Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall administer such fund as provided in this Article IV. The Base Rental Fund shall be maintained by the Trustee until all required Base Rental is paid in full pursuant to the terms of the Lease Agreement, or until such earlier date as there are no Certificates Outstanding. The Trustee shall deposit in the Base Rental Fund (i) all Base Rental payments, (ii) all amounts, if any, required to be deposited in the Base Rental Fund pursuant to Section 3 of the Lease Agreement, (iii) all investment earnings required to be deposited therein pursuant to the provisions of this Trust Agreement, (iv) all amounts required to be deposited pursuant to paragraph (b) below and (v) that portion of the proceeds of the Certificates required to be deposited therein pursuant to Section 4.01(3) hereof.

Moneys from the proceeds of the 201_ Certificates deposited in the Base Rental Fund and earnings thereon shall be credited as amounts due in respect of the interest components of Base Rental from the City (allocable to the 201_ Certificates) on the following dates in the following amounts:

<u>Date</u>	<u>Amount</u>
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Payments of Base Rental received by the Trustee under the Lease Agreement shall be net of amounts in the Reserve Fund in excess of the Reserve Requirement on each succeeding Interest Payment Date and net of amounts on deposit in the Base Rental Fund that are available for the payment of interest and principal with respect to the Certificates. These amounts shall be deposited into the Base Rental Fund, as appropriate, based upon Exhibit B of the Lease Agreement, as adjusted pursuant to the terms thereof.

Moneys held in the Base Rental Fund, other than as provided in paragraph (b) below, shall be applied by the Trustee to the payment of (i) interest due and payable with respect to the Certificates on each Interest Payment Date and (ii) principal or Sinking Account Installment, if any, due and payable with respect to the Certificates on each Interest Payment Date. If insufficient amounts are available in the Base Rental Fund or otherwise to pay interest and principal represented by the Certificates when due, available amounts shall be allocated proportionately among the Certificates based on the amount of interest and principal then due with respect to each Certificate.

(b) Prepayment. Any net proceeds of insurance or awards in respect of a taking under the power of eminent domain not required to be used for repair or replacement of the Project or Leased Property, as applicable, and, under the terms of Section 4.09 or Section 4.10 of this Trust Agreement, required to be deposited into the Base Rental Fund, any amounts required to be transferred to the Base Rental Fund pursuant to this Section 4.05, and any other amounts provided for the prepayment of Certificates in accordance with Section 5.01(a) hereof, shall be

deposited by the Trustee in the Base Rental Fund. The Trustee shall, on the scheduled prepayment date withdraw from the Base Rental Fund and pay to the Owners entitled thereto an amount equal to the prepayment price of the Certificates to be prepaid on such date.

(c) **Delinquent and Surplus Base Rental Payments.** All delinquent Base Rental payments received pursuant to the Lease Agreement and any proceeds of rental interruption insurance received by the Trustee shall be deposited into the Base Rental Fund. All proceeds of rental interruption insurance and delinquent Base Rental payments so received shall be applied first to the payment of overdue installments of interest, then to the payment of overdue installments of principal and then to make up any deficiency in the Reserve Fund (proportionately among any Reserve Accounts in the Reserve Fund). Commencing [____], any amounts remaining in the Base Rental Fund on each Interest Payment Date which are not required for the payment of principal of or interest with respect to the Certificates on such Interest Payment Date shall be, first, transferred as directed in writing by a City Representative to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Requirement and, second, retained in such Fund unless the City otherwise directs, in writing, that such amount be remitted to the City (except that any remaining money representing delinquent Base Rental payments and any proceeds of rental interruption insurance shall remain on deposit in the Base Rental Fund until expended).

Section 4.05 Establishment and Application of Reserve Fund.

(a) There is hereby established in trust a special fund designated as the "Reserve Fund," together with such accounts therein as the City may request the Trustee to establish, which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. The Trustee shall administer such fund as provided in this Article IV. There shall be initially deposited into the Reserve Fund the amount required to be deposited therein pursuant to Section 4.01(2) hereof.

(b) The Reserve Fund shall be maintained by the Trustee until the Base Rental is paid in full pursuant to the Lease Agreement or until there are no longer any Certificates Outstanding; provided, however, that the final Base Rental payment may, at the City's option, be paid from the Reserve Fund. A Credit Facility in the amount of the Reserve Requirement may be substituted for all or a portion of the funds held by the Trustee in the Reserve Fund by the City at any time, provided that with respect to any such substitution (i) such substitution shall not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Certificates at the time of such substitution (and the City shall notify each Rating Agency prior to making any such substitution), and (ii) the Trustee shall receive prior to any such substitution becoming effective an opinion of Independent Counsel stating that such substitution will not, by itself, adversely affect the exclusion from gross income for federal income tax purposes of interest components of the Base Rental evidenced and represented by the Certificates. If the Credit Facility is a surety bond or insurance policy such Credit Facility shall be for the term of the Certificates. If a Credit Facility provider is downgraded or a rating is withdrawn with respect to such provider for any reason, there shall be no obligation to replace or secure the Credit Facility. Amounts on deposit in the Reserve Fund for which a Credit Facility has been substituted shall be transferred as directed in writing by a City Representative.

(c) If on any Interest Payment Date the amounts on deposit in the Base Rental Fund are less than the principal and interest payments due with respect to the Certificates on such date, the Trustee shall transfer from the Reserve Fund for credit to the Base Rental Fund an amount sufficient to make up such deficiency (provided that if the amounts on deposit in a Reserve Account within the Reserve Fund are restricted to a series of Certificates, then such amounts shall only be available for such series of Certificates). In the event of any such transfer, the Trustee shall immediately provide written notice to the City of the amount and the date of such transfer.

(d) For purposes of determining the amount on deposit at any time in the Reserve Fund, the Trustee shall value all Permitted Investments on or before each [Payment Date 1] and [Payment Date 2] at the higher of cost or market value. In making any such valuations hereunder, the Trustee may utilize and rely upon securities pricing services that may be available to it, including those within its regular accounting system. Any moneys in the Reserve Fund in excess of the Reserve Requirement on each [Payment Date 1] and [Payment Date 2], commencing [First IPD], and at such other time or times as directed by the City in a written order signed by a City Representative and delivered to the Trustee, shall be transferred to the Base Rental Fund and applied to the payment of the principal of and interest with respect to the Certificates on the next succeeding Interest Payment Date therefor, or transferred to such other fund as may be designated in such written order.

(e) The Reserve Fund may secure Additional Certificates on a parity basis or, alternatively, a separate account in the Reserve Fund may be established for one or more series of Additional Certificates.

(f) The 201_ Reserve Account is hereby established in connection with the 201_ Certificates. The 201_ Reserve Account shall only be available to support payments with respect to the 201_ Certificates.

Section 4.06 Surplus. After (a) (i) payment or prepayment or provision for payment or prepayment of all amounts due with respect to the Certificates and payment of all fees and expenses to the Trustee, or (ii) defeasance of the Certificates pursuant to Section 11.01(a)(ii) or (iii) hereof, and (b) the transfer of any additional amounts required to be deposited into the Rebate Fund pursuant to a Written Request from a City Representative in accordance with Section 4.7(h) of the Lease Agreement and the Tax Certificate, any amounts remaining in any of the funds, accounts or subaccounts established hereunder (except for the Rebate Fund) and not required for such purposes shall after payment of any amounts due to the Trustee as evidenced by a Written Certificate of a City Representative, be remitted to the City and used for any lawful purpose thereof; provided, however, that in the event of defeasance, amounts shall not be remitted to the City until the City has delivered or caused to be delivered an opinion of Independent Counsel to the effect that remission of such amounts to the City shall not affect the exclusion from gross income for federal income tax purposes of interest with respect to the Certificates. Investment Earnings on amounts on deposit in all funds, accounts or subaccounts established hereunder shall be applied as provided in Section 4.16 hereof.

Section 4.07 Additional Rental. In the event the Trustee receives Additional Rental pursuant to the Lease Agreement, the Trustee shall establish a separate fund for such Additional Rental and deposit any such amounts therein and such Additional Rental shall be applied by the Trustee solely to the payment of any costs in respect of which such Additional Rental was received, and shall not be commingled in any way with any other funds received by the Trustee pursuant to the Lease Agreement or this Trust Agreement. Notwithstanding the foregoing, to the extent such Additional Rental was for deposit into the Rebate Fund, such amounts shall be deposited into such fund.

Section 4.08 Repair or Replacement.

(a) **Application of Insurance Proceeds.** If the Leased Property or any portion thereof shall be damaged or destroyed, the City shall make an election either to prepay Certificates or to repair or replace the Leased Property or affected portion thereof in accordance with the provisions of the Lease Agreement. Notwithstanding the provisions of the Lease Agreement, a City Representative shall, within 180 days of the occurrence of the event of damage or destruction (unless such time period is extended at the option of the City), notify the Trustee in writing of its election. The proceeds of any insurance (other than any rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Leased Property or a portion thereof shall as soon as possible be deposited with the Trustee and be held by the Trustee in a special fund (the "Special Fund") and made available for and, to the extent necessary, shall be applied to the prepayment of Certificates in accordance with Section 5.01(b) hereof or applied to the cost of repair or replacement of the Leased Property or the affected portion thereof, in either case upon receipt of a written request of a City Representative. The Trustee may conclusively rely on any such written request. Pending such application, such proceeds may be invested by the Trustee as directed by a City Representative in Permitted Investments that mature not later than such times that such moneys are expected to be needed.

The proceeds of any insurance, including the proceeds of any self-insurance, remaining after the Leased Property or any portion thereof which was damaged or destroyed is restored to and made available to the City in substantially the same condition and fair rental value as that which existed prior to the damage or destruction or the prepayment, or provision for the prepayment, of Certificates as required in Section 5.01(b), in each case as evidenced by a certificate signed by a City Representative to such effect, shall be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement. Any amounts not required to be so deposited into the Reserve Fund pursuant to the preceding sentence shall, if there is first delivered to the Trustee a written certificate of the Director of Property to the effect that the annual fair rental value of the Leased Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to the maximum amount of Base Rental payments becoming due under the Lease Agreement in the then current Lease Agreement Year or any subsequent Lease Agreement Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence it shall so notify the Trustee in writing, and then any excess amounts shall be transferred by the Trustee to the Base Rental Fund and used to prepay Certificates pursuant to

Section 5.01(b) hereof unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

(b) **Eminent Domain.** If the Leased Property or any portion thereof shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) then the provisions set forth in Section 6 of the Lease Agreement shall apply. Notwithstanding the provisions of the Lease Agreement, the City shall, with the prior written consent of a City Representative, within 90 days of the conclusion of the eminent domain proceeding, notify the Trustee in writing of whether the Leased Property will be replaced or the Certificates prepaid. The proceeds of any condemnation award shall as soon as possible be deposited with the Trustee and be held by the Trustee in a special fund and made available for and, to the extent necessary, shall be applied to prepay Certificates in accordance with Section 5.01(b) hereof or applied to the cost of replacement of the Leased Property, in either case upon receipt of a written request of a City Representative. The Trustee may conclusively rely on any such written request. Pending such application, such proceeds may be invested by the Trustee as directed by a City Representative in Permitted Investments that mature not later than such times that such moneys are expected to be needed.

The proceeds of any condemnation award remaining after the Leased Property has been replaced by property available to the City in substantially the same condition and fair rental value as that which existed prior to the eminent domain proceedings or the prepayment, or provision for the prepayment, of Certificates as required in Section 5.01(b), in each case as evidenced by a certificate signed by a City Representative to such effect, shall be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement (proportionately among any Reserve Accounts in the Reserve Fund). Any amounts not required to be so deposited into the Reserve Fund pursuant to the preceding sentence shall, if there is first delivered to the Trustee a written certificate of the Director of Property to the effect that the annual fair rental value of the Leased Property (including any replacement property) is at least equal to the maximum amount of Base Rental payments becoming due under the Lease Agreement in the then current Lease Agreement Year or any subsequent Lease Agreement Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence it shall so notify the Trustee in writing, and then any excess amounts shall be transferred by the Trustee to the Base Rental Fund and used to prepay Certificates pursuant to Section 5.01(b) hereof, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

Section 4.09 Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Leased Property or any portion thereof for the benefit of the Owners shall be applied and disbursed by the Trustee as follows:

(a) If the City determines that the title defect giving rise to such proceeds has not materially affected the City's right to the use and possession of the Leased Property and will not result in an abatement of Base Rental payable by the City under the Lease Agreement, upon written direction of the City such proceeds shall be deposited into the Reserve Fund to the extent that the amount therein is less than the Reserve Requirement. Amounts not required to be so deposited shall, if there is first delivered to the Trustee a written certificate of a City Representative to the effect that the annual fair rental value of the Leased Property,

notwithstanding the title defect for which the payment was made, is at least equal to the maximum amount of Base Rental becoming due under the Lease Agreement in the then current Lease Agreement Year or any subsequent Lease Agreement Year, be paid to the City to be used for any lawful purpose. If the City cannot deliver the certificate described in the preceding sentence, then such amounts shall be transferred to the Base Rental Fund and used to prepay Certificates pursuant to Section 5.01(b) hereof, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund.

(b) If any portion of the Leased Property has been affected by such title defect, and if the City certifies in writing that such title defect will result in an abatement of Base Rental payable by the City under the Lease Agreement, then upon written direction of the City either (i) the Trustee on behalf of the City shall use the insurance proceeds to remove the title defect, or (ii) the Trustee shall, if not notified in writing by a City Representative within 90 days of the receipt by the Trustee of the insurance proceeds that the City will use the proceeds to remove the title defect, deposit such proceeds in the Base Rental Fund, and such proceeds shall be applied to the prepayment of Certificates in the manner provided in Section 5.01(b) hereof.

(c) Any excess proceeds with respect to title insurance remaining after application pursuant to the terms of this Trust Agreement shall be paid to the City to be used for any lawful purpose.

Section 4.10 Application of Amounts After Default by City. All damages or other payments received by the Trustee from the enforcement of any rights and powers of the Trustee under Section 13 of the Lease Agreement shall be held and applied in accordance with Section 9.07 hereof.

Section 4.11 Moneys Held in Trust. The money and investments held by the Trustee hereunder are irrevocably held in trust for the purposes herein specified, and such money and investments, and any income or interest earned thereon, shall be expended only as provided herein, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of (i) the City, (ii) the Trustee, or (iii) any Owner or beneficial owner of any Certificate.

Section 4.12 Investments Authorized. Money held by the Trustee in any fund or account hereunder shall be invested by the Trustee in Permitted Investments, pending application as provided herein, solely at the Written Direction of a City Representative, shall be registered in the name of the Trustee, if registrable, for the benefit of the Owners, and shall be held by the Trustee. A City Representative shall, where applicable, direct the Trustee prior to 12:00 p.m. Pacific time on the Business Day prior to the date any Permitted Investment matures or is redeemed as to the reinvestment of the proceeds thereof. Money held in any fund, account, or subaccount hereunder may be commingled for purposes of investment only; provided, however, that each fund, account, or subaccount held by the Trustee hereunder shall be accounted for separately. If a City Representative shall fail to provide the Trustee with Written Direction with respect to any moneys subject to investment, the Trustee shall, nevertheless, invest such moneys in Permitted Investments listed in clause (a) that mature on the day prior to the next Interest Payment Date or in Permitted Investments described in clause (d) of the definition thereof, whichever yield is greater on the date of such investment; provided, however, that with respect to funds on deposit in the Reserve Fund, absent Written Direction to the Trustee, the Trustee shall,

nevertheless, invest such moneys in Permitted Investments listed in clauses (a), (d) or (h), which (i) will mature on the day prior to the next Interest Payment Date; and (ii) bears the highest net yield.

The Trustee understands and acknowledges that any investments and reinvestments shall be made after giving full consideration to the time at which funds are required to be available hereunder and to the highest yield practicably obtainable giving due regard to the safety of such funds and the date upon which such funds will be required for the uses and purposes required by this Trust Agreement; provided, however, that investments purchased with funds on deposit in the Reserve Fund shall have an average aggregate weighted term to maturity not greater than five years. The Trustee may act as agent in the making or disposing of any investment. The Trustee shall not invest any moneys held hereunder in Permitted Investments offered by or through the Trustee or its affiliates unless (1) the Trustee determines such investment is consistent with the investment restrictions contained herein, (2) all fees charged are reasonable, and (3) a City Representative expressly consents in writing to the investment of the funds in the specific Permitted Investment. The foregoing consent must be received for each specific investment; blanket consents shall have no effect. All consents must be express and in writing and signed by a City Representative.

Section 4.13 Reports. The Trustee shall furnish monthly to the City a report of all investments made by the Trustee, which will contain a list of investments and the interest payment dates of such investments, and of all amounts on deposit in each fund and account maintained hereunder, and the cost and market value of such investments, provided that the Trustee shall not be obligated to deliver an accounting for any fund or account that (a) has a balance of zero and (b) has not had any activity since the last report was delivered.

Section 4.14 Valuation and Disposition of Investments. For the purpose of determining the amount in any fund or account hereunder other than the Reserve Fund, all Permitted Investments shall be valued on or before each [Payment Date 1] and [Payment Date 2] at the greater of cost or market value. All Permitted Investments on deposit in the Reserve Fund shall be valued on or before each [Payment Date 1] and [Payment Date 2]. The Trustee may sell at the best price obtainable (the highest bid among three arm-length bids deemed to be satisfaction of such requirement), but not to itself, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it shall be necessary in order to provide money to meet any required payment, transfer, withdrawal or disbursement from any fund or account hereunder, and the Trustee shall not be liable or responsible for any loss resulting from such investment or sale, except any loss resulting from its own negligence or misconduct.

Section 4.15 Application of Investment Earnings. The Trustee shall deposit, as and when received, all Investment Earnings on amounts on deposit in all funds, accounts and subaccounts maintained by it hereunder with respect to the Certificates as follows (i) all Investment Earnings on amounts on deposit in the Base Rental Fund and the Project Fund (subject to the fifth paragraph of Section 4.03) shall be retained therein; (ii) all Investment Earnings on amounts on deposit in the Reserve Fund shall be transferred to the Base Rental Fund, unless the City otherwise directs in writing that such amounts are to be transferred to the Rebate Fund; (iii) all Investment Earnings on amounts on deposit in the Rebate Fund shall be retained therein; and (iv) all Investment Earnings on amounts on deposit in the Costs of Issuance

Fund shall be retained therein; in each case, until such moneys are expended or such funds are closed as provided in this Trust Agreement.

Section 4.16 **Establishment and Application of Rebate Fund.** There is hereby established in trust a special fund designated the "Rebate Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds and money held by the Trustee. Amounts received by the Trustee as Additional Rental with respect to any rebate requirement as set forth in written instructions of a City Representative in accordance with Section 4.7(h) of the Lease Agreement and the provisions of the Tax Certificate shall be deposited in the Rebate Fund. Amounts on deposit in the Rebate Fund shall only be applied to payments made to the United States of America in accordance with written instructions of a City Representative or returned to the City as directed in writing by a City Representative.

ARTICLE V

PREPAYMENT

Section 5.01 **Prepayment.** The 201_ Certificates shall be subject to optional and mandatory prepayment prior to their stated Certificate Payment Dates only as set forth below:

(a) Optional Prepayment. The 201_ Certificates with a Certificate Payment Date on or after [____], are subject to optional prepayment prior to their respective Certificate Payment Dates in whole or in part on any date on or after [____], at the option of the City, in the event the City exercises its option under Section 7 of the Lease Agreement to prepay the principal component of the Base Rental payments at a prepayment price equal to 100% of the principal component to be prepaid, plus accrued interest to the date fixed for prepayment, without premium.

In the event the City gives notice to the Trustee of its intention to exercise such option, but fails to deposit with the Trustee on or prior to the prepayment date an amount equal to the prepayment price, the City will continue to pay the Base Rental payments as if no such notice were given.

(b) Special Mandatory Prepayment. The Certificates are subject to mandatory prepayment prior to their respective Certificate Payment Dates in whole or in part on any date, at the Prepayment Price (plus accrued but unpaid interest to the prepayment date), without premium, from amounts deposited in the Base Rental Fund pursuant to Section 4.09 or Section 4.10 hereof following an event of damage, destruction or condemnation of the Leased Property or any portion thereof or loss of the use or possession of the Leased Property or any portion thereof due to a title defect.

(c) Sinking Account Installment Prepayment. The 201_ Certificates with a Certificate Payment Date of [____], are subject to sinking account installment prepayment prior to their Certificate Payment Date in part, by lot, on each [Payment Date 1], beginning [____], in the amounts set forth below, from scheduled payments of the principal component of Base Rental payments, at the principal amount of Certificates to be prepaid, plus accrued interest to the prepayment date, without premium:

Prepayment Date
(Payment Date 1)

Sinking Account
Installment Amount

The 201_ Certificates with a Certificate Payment Date of [____], are subject to sinking account installment prepayment prior to their Certificate Payment Date in part, by lot, on each [Payment Date 1], beginning [____], in the amounts set forth below, from scheduled payments of the principal component of Base Rental payments, at the principal amount of Certificates to be prepaid, plus accrued interest to the prepayment date, without premium:

Prepayment Date
(Payment Date 1)

Sinking Account
Installment Amount

Section 5.02 Selection of Certificates for Prepayment. Whenever provision is made in this Trust Agreement for the prepayment of Certificates (other than from Sinking Account Installments) and less than all Outstanding Certificates are to be prepaid, the City shall direct the principal amount of each Certificate Payment Date to be prepaid. Within a maturity, the Trustee, with the consent of the City, shall select Certificates for prepayment by lot in any manner that the Trustee in its sole discretion deems fair and appropriate. The Trustee shall promptly notify the City in writing of the Certificates so selected for prepayment. Prepayment by lot shall be in such manner as the Trustee shall determine; provided, however, that the portion of any Certificate to be prepaid shall be in Authorized Denominations and all Certificates to remain Outstanding after any prepayment in part shall be in Authorized Denominations.

Section 5.03 Notice of Prepayment. (a) When prepayment is authorized or required pursuant to Section 5.01 hereof, the Trustee shall give notice (a "Prepayment Notice"), at the expense of the City, of the prepayment of the Certificates. Such Prepayment Notice shall specify: (i) the Certificates or designated portions thereof (in the case of prepayment of the Certificates in part but not in whole) which are to be prepaid, (ii) the date of prepayment, (iii) the place or places where the prepayment will be made, including the name and address of the Trustee, (iv) the prepayment price, (v) the CUSIP numbers (if any) assigned to the Certificates to be prepaid, (vi) the Certificate numbers of the Certificates to be prepaid in whole or in part and, in the case of any Certificate to be prepaid in part only, the amount of such Certificate to be prepaid, and (vii) the original issue date and stated Certificate Payment Date of each Certificate to be prepaid in whole or in part. Such Prepayment Notice shall further state that on the specified date there shall become due and payable with respect to each Certificate or portion thereof being prepaid the prepayment price, together with interest represented thereby accrued but unpaid to the prepayment date, and that from and after such date, if sufficient funds are available for prepayment, interest with respect thereto shall cease to accrue and be payable.

(b) The Trustee shall take the following actions with respect to such Prepayment Notice:

(i) At least 20 but not more than 45 days prior to the prepayment date, such Prepayment Notice shall be given to the respective Owners of Certificates designated for prepayment by Electronic Notice or first-class mail, postage prepaid, at their addresses appearing on the Certificate Register; provided, however, that notice with respect to all Certificates registered in the name of the nominee shall be given in accordance with Section 2.14 of this Trust Agreement.

(ii) At least 20 but not more than 45 days prior to the prepayment date, such Prepayment Notice shall be given by (A) registered or certified mail, postage prepaid, (B) email or telephonically confirmed facsimile transmission, (C) overnight delivery service, or (D) Electronic Notice, to DTC.

(c) Neither failure to receive any Prepayment Notice nor any defect in such Prepayment Notice so given shall affect the sufficiency of the proceedings for the prepayment of such Certificates. Each check or other transfer of funds issued by the Trustee for the purpose of prepaying Certificates shall bear the CUSIP number identifying, by issue, series and maturity, the Certificates being prepaid with the proceeds of such check or other transfer.

(d) The City may direct the Trustee to provide a conditional notice of prepayment and such notice shall specify its conditional status. Any notice of prepayment may be rescinded by notice delivered in the same manner as the original notice of prepayment.

Section 5.04 Partial Prepayment of Certificates. Upon the surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the City, a new Certificate or Certificates of Authorized Denominations equal to the unprepaid portion of the Certificates surrendered and of the same Certificate Payment Date and interest rate. Such partial prepayment shall be valid upon payment of the amount required to be paid to such Owner, and the City and the Trustee shall be released and discharged thereupon from all liability to the extent of such payment.

Section 5.05 Effect of Notice of Prepayment. The Certificates to be prepaid shall become due and payable on the date of prepayment set forth in the Prepayment Notice.

If on such prepayment date money for the prepayment of all of the Certificates to be prepaid, together with accrued interest to such prepayment date, shall be held by the Trustee so as to be available therefor on such prepayment date, and if a prepayment notice shall have been given as provided in Section 5.03(b)(i) hereof, then from and after such prepayment date, no additional interest shall become due with respect to the Certificates to be prepaid. All money held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners thereof.

On each prepayment date other than with respect to Sinking Account Installments, the City shall recompute the amount of Base Rental to become due in each remaining year of the Lease Agreement following prepayment of the Certificates to be prepaid and shall notify the Trustee and the City in writing of the amount of such Base Rental.

All Certificates paid at their Certificate Payment Date or prepaid prior to their Certificate Payment Date pursuant to the provisions of this Article V shall be canceled and destroyed by the Trustee upon surrender thereof.

Section 5.06 Certificates No Longer Outstanding. When any Certificate or portion thereof has been duly called for prepayment prior to its Certificate Payment Date under the provisions of this Trust Agreement, or with respect to which irrevocable instructions to call for prepayment prior to its Certificate Payment Date at the earliest prepayment date have been given to the Trustee, in form satisfactory to it, and sufficient money shall be held by the Trustee irrevocably in trust for the payment of the Prepayment Price of such Certificate, or portion thereof, and accrued interest represented thereby to the date fixed for prepayment, all as provided in this Trust Agreement, then such Certificate or portion thereof shall no longer be deemed Outstanding under the provisions of this Trust Agreement. If the City shall acquire any Certificate by purchase or otherwise, such Certificate shall no longer be deemed Outstanding and shall be surrendered to the Trustee for cancellation.

Section 5.07 Cancellation of Optional Prepayment. Notwithstanding any other provision of this Trust Agreement, a conditional Prepayment Notice may be provided and if the Certificates are subject to optional prepayment in accordance with Section 5.01(a) and the Trustee shall not have on deposit moneys sufficient to prepay the principal, plus the applicable premium, if any, represented by the Certificates proposed to be prepaid on the date fixed for prepayment, and interest with respect thereto, on or prior to such date, the prepayment shall be canceled and in each and every such case, the City, the Trustee and the Owners, as the case may be, shall be restored to their former positions and rights hereunder. Such a cancellation of a prepayment shall not constitute a default hereunder nor an event that with the passage of time or giving of notice or both shall constitute a default hereunder and the Trustee and the City shall have no liability from such cancellation. In the event of such cancellation, the Trustee shall send notice of such cancellation to the Owners in the same manner as the related notice of prepayment. Neither the failure to receive such cancellation notice nor any defect therein shall affect the sufficiency of such cancellation.

Section 5.08 Purchase of Certificates. Unless expressly provided otherwise herein, money held in the Base Rental Fund hereunder in respect of principal may be used to reimburse the City for the purchase of Certificates that would otherwise be subject to prepayment from such moneys upon the delivery of such Certificates to the Trustee for cancellation at least 10 days prior to the date on which the Trustee is required to select Certificates for prepayment. The purchase price of any Certificates purchased by the City hereunder shall not exceed the applicable prepayment price of the Certificates that would be prepaid but for the operation of this Section 5.08. Any such purchase must be completed prior to the time notice would otherwise be required to be given to prepay the related Certificates. All Certificates so purchased shall be surrendered to the Trustee for cancellation and applied as a credit against the obligation to prepay such Certificates from such moneys.

ARTICLE VI

THE TRUSTEE

Section 6.01 Appointment of the Trustee. The City hereby appoints the Trustee to receive, deposit and disburse the Base Rental and Additional Rental, to register, execute, deliver and transfer the Certificates and to perform the other functions contained herein; all in the manner provided herein and subject to the conditions and terms hereof. By executing and delivering the Trust Agreement, the Trustee accepts the appointment hereinabove referred to and accepts the rights and obligations of the Trustee provided herein, subject to the conditions and terms hereof. In carrying out its duties hereunder, the Trustee shall use the same degree of care and skill in its exercise as a prudent person would exercise or use in the conduct of such person's own affairs.

Section 6.02 Duties and Liabilities of Trustee.

(a) **Duties of Trustee Generally.** The Trustee shall, prior to an Event of Default, and after the curing, or the waiving by the Owners of the Certificates as provided in Section 9.05, of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in this Trust Agreement. The Trustee shall, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by this Trust Agreement, and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) **Removal of Trustee.** The City may remove the Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (e) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or any substantial portion thereof or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee and thereupon shall appoint a successor Trustee by an instrument in writing.

(c) **Resignation of Trustee.** The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the City and to the Owners. Upon receiving such notice of resignation, the City shall appoint a successor Trustee by an instrument in writing. The Trustee shall not be relieved of its duties until such successor Trustee has accepted appointment, other than pursuant to court order.

(d) **Appointment of Successor Trustee.** Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon the acceptance of appointment by the successor Trustee; provided, however, that under any circumstances the successor Trustee shall be qualified as provided in subsection (e) of this Section. If no qualified

successor Trustee shall have been appointed and have accepted appointment within 60 days following giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Owner (on behalf of itself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Trust Agreement shall signify its acceptance of such appointment by executing and delivering to the City and to its predecessor Trustee a written acceptance thereof and to the predecessor Trustee an instrument indemnifying the predecessor Trustee for any costs or claims arising during the time the successor Trustee serves as Trustee hereunder, and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but nevertheless at the written request of a City Representative or the request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance, including a quitclaim deed, and further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Trust Agreement and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trust and conditions herein set forth. Upon request of the successor Trustee, the City shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Trustee as provided in this subsection, the City shall mail or cause the successor Trustee to mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts hereunder to the Owners at the addresses shown on the registration books. If the City fails to mail such notice within 15 days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed at the expense of the City.

(e) **Trustee Qualifications.** There shall at all times be a trustee hereunder, which shall be a corporation, banking association, national association or trust company doing business and having a corporate trust office in California and (i) having a combined capital and surplus of at least \$75,000,000 and subject to supervision or examination by federal or state authority or (ii) a wholly-owned subsidiary of a bank, trust company or bank holding company meeting on an aggregate basis the tests set out in clause (i) above. If such corporation, banking association, or trust company publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such corporation, banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, the Trustee shall resign immediately in the manner and with the effect specified in Section 6.02(c).

Section 6.03 Merger or Consolidation. Any bank or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank or trust company shall be eligible under

Section 6.02(e) to be the successor to such trustee, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 6.04 **Liability of Trustee.**

(a) The Trustee shall be responsible for its representations contained in the Certificates. The Trustee shall not be responsible for the sufficiency of the Property Lease, Lease Agreement or of the title to or value of the Leased Property. The Trustee shall be under no responsibility or duty with respect to: (i) the execution and delivery of the Certificates for value; or (ii) the application of the proceeds thereof except to the extent that such proceeds are received and held by it in its capacity as Trustee. The Trustee shall not be liable in connection with the performance of its duties hereunder except for its own negligence, willful misconduct, or breach of an obligation hereunder. The Trustee may buy, sell, own, hold and deal in any of the Certificates and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party hereto.

(b) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Trust Agreement.

(c) The Trustee is authorized and directed, in its capacity as Trustee hereunder, to execute the Property Lease and the Lease Agreement.

(d) Except with respect to Events of Default specified in Section 9.01(a) hereof, Trustee shall not be deemed to have knowledge of any Event of Default unless and until the Trustee shall have actual knowledge thereof or the Trustee shall have received written notice thereof at the Corporate Trust Office.

(e) The Trustee (i) may execute any of the trusts or powers set forth herein and perform the duties required of it hereunder by or through attorneys, agents, or receivers and (ii) shall be entitled to the advice of counsel and to rely conclusively on such advice.

(f) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, director or employee unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(g) No provision of this Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers.

(h) The Trustee shall have no responsibility, opinion or liability with respect to any information, statement or recital found in any official statement or other disclosure material, prepared or distributed with respect to the execution and delivery of the Certificates, except for information provided by the Trustee.

(i) Every provision of the Lease Agreement and Property Lease relating to the conduct or liability of the Trustee shall be subject to the provisions of the Trust Agreement, including without limitation, this Article.

(j) In acting as Trustee hereunder and under the Property Lease and the Lease Agreement, the Trustee acts solely in its capacity as Trustee hereunder and not in its individual or personal capacity, and all persons, including without limitation the Owners and the City, having any claim against the Trustee shall look only to the funds and accounts held by the Trustee hereunder for payment, except as otherwise provided herein. Under no circumstances shall the Trustee be liable in its individual or personal capacity for the obligations evidenced by the Certificates.

(k) Before taking any action under Article IX hereof or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorney and advisors, and protect it against all liability it may incur.

(l) Notwithstanding anything to the contrary herein, the Trustee shall not be required to enter or take possession of, or take any other action whatsoever with respect to the Leased Property or the Site unless it shall be satisfied that it will not be subject to liability for the existence of, or contamination by environmentally hazardous substances of any kind whatsoever or other discharges, emissions or release thereof with respect to the Leased Property or the Site.

Section 6.05 Preservation and Inspection of Documents. All documents received by the Trustee under the provisions of this Trust Agreement shall be retained in its possession and shall be subject to inspection, during business hours and upon reasonable notice, of the City, the Owners and their agents and representatives duly authorized in writing.

Section 6.06 Compensation of the Trustee. The City shall from time to time, subject to any agreement then in effect with the Trustee, pay the Trustee compensation for its services and reimburse the Trustee for all its advances and expenditures hereunder, including but not limited to advances to and fees and expenses of accountants, agents, appraisers, consultants, counsel or other experts employed by it in the exercise and performance of its rights and obligations hereunder. All fees, charges, and rates that the Trustee may charge as Trustee hereunder are attached hereto as Exhibit E. So long as any Certificate remains Outstanding, the Trustee shall not increase any of the fees and charges on Exhibit E without the prior written consent of a City Representative.

Section 6.07 Creation of the Project Trust; Assignment; Acceptance. There is hereby created by the City, as trustor, a trust named the "1500 Mission Project Trust" for the benefit of the holders from time to time of the Certificates. The Trustee is hereby appointed to act as trustee with respect to the Trust (the "Project Trustee"). The purpose of the Trust will be to (a) act as lessee under the Property Lease, (b) to act as sublessor under the Lease Agreement, and (c) to assign certain of its rights and interests under the Property Lease and the Lease Agreement to the Trustee for the benefit of the holders from time to time of the Certificates. The assets of the Trust shall consist of all right, title and interest of the Trust in, to and under the Property Lease and the Lease Agreement and the proceeds thereof. The City, as trustor, and the

Project Trustee, as trustee of the Trust, acknowledge and agree that the arrangement created by this Section 6.07 is intended to and shall constitute a grantor trust for federal income tax purposes. Neither the City, as trustor nor the Project Trustee, as trustee, shall pledge, assign, place a lien on, or grant a security interest in the Project Trust or the assets therein other than as provided in the Property Lease, the Lease Agreement and this Trust Agreement. The Trust established by this Section 6.07 shall terminate when no Certificates remain Outstanding under this Trust Agreement.

The Project Trustee, as trustee of the Project Trust, for the sum of one dollar and other good and valuable consideration, the receipt of which is acknowledged, unconditionally grants, transfers, and assigns to the Certificates Trustee, without recourse, all of its rights, title, and interest under the Property Lease and the Lease Agreement, including without limitation the following: (i) all of its rights to receive the Base Rental payments scheduled to be paid by the City under and pursuant to the Lease Agreement, (ii) all rents, profits, products, and proceeds from the Leased Property to which the Project Trustee, as trustee of the Project Trust, has any right or claim under the Property Lease or the Lease Agreement, other than Additional Rental not payable to the Project Trustee, as trustee of the Project Trust, (iii) the right to take all actions and give all consents under the Property Lease and the Lease Agreement, (iv) any rights of access provided in the Property Lease and the Lease Agreement, and (v) any and all other rights and remedies of the Project Trustee, as trustee of the Project Trust, in the Property Lease as lessee and the Lease Agreement as lessor.

The Certificates Trustee accepts the foregoing assignment for the benefit of the Owners of the Certificates, subject to the conditions and terms of this Trust Agreement, and all such rights and obligations so assigned shall be exercised by the Certificates Trustee as provided in this Trust Agreement.

ARTICLE VII

AMENDMENTS

Section 7.01 **Amendments to Trust Agreement.** This Trust Agreement may be amended in writing by agreement between the parties, but no such amendment shall become effective as to the Owners unless and until approved in writing by the Owners of a majority in aggregate principal amount of Certificates then Outstanding. Notwithstanding the foregoing, this Trust Agreement and the rights and obligations provided hereby may also be modified or amended at any time without the consent of any Owners upon the written agreement of a City Representative and the Trustee, but only (a) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in this Trust Agreement, (b) in regard to questions arising under this Trust Agreement which the City and the Trustee may deem necessary or desirable and not inconsistent with this Trust Agreement and which shall not materially adversely affect the interests of the Owners of the Certificates then Outstanding, (c) to preserve and maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Certificates, (d) to qualify this Trust Agreement under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect, (e) to execute and deliver Additional Certificates in accordance with Section 7.04 hereof, or (f) for any other reason, provided such modification or

amendment does not adversely affect the interests of the Owners of the Certificates then Outstanding; provided that the City and the Trustee may rely, in entering into any such amendment or modification hereof, upon the opinion of Independent Counsel (which opinion may rely upon the opinions of other experts, consultants or advisors) stating that the requirements of this sentence have been met with respect to such amendment or modification. No amendment shall impair the right of any Owner to receive principal and interest with respect to his or her Certificate without the consent of the affected Owner. No such amendment or supplement shall (1) extend the payment date of any Certificate or reduce the rate of interest with respect thereto or extend the time of payment of such interest or reduce the amount of principal represented thereby without the prior written consent of the Owner of the Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment hereof or any supplement hereto, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) amend this Section 7.01, without the prior written consent of the Owners of all Certificates then Outstanding.

Section 7.02 Amendments to Property Lease or Lease Agreement. The Property Lease or the Lease Agreement may be amended in writing by agreement between the parties thereto, with the written consent of the Trustee, but no such amendment shall become effective as to the Owners of the Certificates Outstanding unless and until approved in writing by the Owners of not less than a majority of the aggregate principal amount of Certificates then Outstanding. Notwithstanding the foregoing, the Property Lease, the Lease Agreement and the rights and obligations provided thereby may also be modified or amended at any time without the consent of any Owners, upon the written agreement between the respective parties thereto, but only (a) for the purpose of curing any ambiguity or omission relating thereto, or of curing, correcting or supplementing any defective provision contained in the Property Lease or the Lease Agreement, (b) in regard to questions arising under the Property Lease or the Lease Agreement, which the City and the Trustee deem necessary or desirable and not inconsistent with the terms thereof and which shall not materially adversely affect the interests of the Owners of the Certificates then Outstanding, (c) to modify or amend the description of the Leased Property to release from the Property Lease or the Lease Agreement any portion thereof or to add or substitute other property and/or improvements for the Leased Property or any portion thereof in accordance with Section 16 of the Lease Agreement, (d) to execute and deliver Additional Certificates in accordance with Section 7.04 hereof, or (e) for any other reason, provided such modification or amendment does not materially adversely affect the interests of the affected Owners; provided that the City and the Trustee may request and rely, in entering into any such amendment or modification thereof or giving its consent thereto, upon the opinion of Independent Counsel (which opinion may rely upon the certificates or opinions of other experts, consultants or advisors) stating that the requirements of this sentence have been met with respect to such amendment or modification.

Notwithstanding anything herein to the contrary, no amendment to the Property Lease or the Lease Agreement for the purpose of adding, substituting or releasing property and/or improvements as set forth in clause (c) above shall be effective unless and until the City shall have satisfied the requirements set forth in Section 16 of the Lease Agreement.

Section 7.03 Consent of Owners. If the City should desire to obtain any consent in writing of Owners, the governing body of the City may, by resolution, propose the amendment to

which consent is desired. A copy of such resolution, together with a request to Owners for their consent to the amendment proposed to therein, shall be mailed by first-class mail, postage paid, to each Owner at such Owner's address as it appears on the Certificate Register.

The lack of actual receipt by any Owner of such resolution and request for consent and any defects in such resolution and request for consent shall not affect the validity of the proceedings for the obtaining of such consent.

Any such written consent shall be binding upon the Owner giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or by the subsequent Owner. To be effective, any revocation of consent must be filed at the address provided in the request for consent before the adoption of the resolution accepting consents as hereinafter provided.

After the Owners of at least a majority of the aggregate principal amount of the Certificates then Outstanding shall have consented in writing, the governing body of the City shall adopt a resolution accepting such consents and such resolution shall constitute complete evidence of the consent of Owners under this Section.

Notice specifying the amendment that has received the consent of Owners as required by this Section shall be sent by first-class mail, postage prepaid, not more than 60 days following the final action in the proceedings for the obtaining of such consent, to each Owner at such Owner's address as it appears on the Certificate Register. Such notice is only for the information of Owners, and failure to mail such notice or any defect therein shall not affect the validity of the proceedings theretofore taken in the obtaining of such consent.

Section 7.04 Additional Certificates. The City may, from time to time, by a supplement or amendment to this Trust Agreement, authorize one or more series of Additional Certificates, secured by Base Rental payments under the Lease Agreement, on a parity with the Outstanding Certificates. The Trustee shall execute and deliver the Additional Certificates of any series only upon the receipt by the Trustee of:

(a) A copy of a supplement to this Trust Agreement, in substantially the form of Exhibit F hereto, providing for such series of Additional Certificates which shall, among other provisions, specify: (i) the authorized principal amount, designation and series of such Additional Certificates, (ii) the purpose for which such Additional Certificates are to be executed and delivered, (iii) the maturity date or dates of such Additional Certificates, (iv) the interest payment dates for and the interest rate or rates payable with respect to the Additional Certificates of such series, (v) the denominations of and the manner of dating and numbering such Additional Certificates, (vi) the prepayment provisions and prepayment dates and prices and any defeasance provisions for such Additional Certificates, (vii) the form of such Additional Certificates, (viii) the establishment of and provisions concerning additional accounts and subaccounts in the funds and accounts held by the Trustee under this Trust Agreement to provide for the payment of principal of, premium, if any, and interest with respect to such Additional Certificates, (ix) the Reserve Requirement immediately following the issuance of such Additional Certificates, and (x) the establishment of and provisions concerning such other funds, accounts and subaccounts

as the City shall deem necessary or desirable for such Additional Certificates, including, without limitation, construction and acquisition funds, accounts or subaccounts.

(b) A duly executed copy of amendments to the Lease Agreement and Property Lease such that (i) the Base Rental payable thereunder, as amended, is sufficient to pay all principal of and interest with respect to the Outstanding Certificates and such Additional Certificates and that the Base Rental payable thereunder is not in excess of the fair rental value of the Leased Property, and (ii) the insurance provisions of the Lease Agreement shall provide adequate coverage for any new Leased Property. Satisfaction of the requirements set forth in clauses (i) and (ii) of the preceding sentence shall be evidenced by a written certificate of a City Representative. If appropriate, such amendment may contain any modifications necessary to include additional real property, buildings or improvements in the Leased Property in connection with the issuance of such Additional Certificates.

(c) Evidence that any amendments to any Property Lease or Lease Agreement or executed in connection with such Additional Certificates have been duly recorded in the official records of the recorder of the City.

(d) An opinion or opinions of Independent Counsel substantially to the effect that (i) the supplement or amendment to this Trust Agreement and any amendments to the Lease Agreement and Property Lease executed in connection therewith are authorized or permitted by the Constitution and laws of the State and this Trust Agreement and have been duly and validly authorized, executed and delivered by the City, as appropriate, and constitute the valid and binding obligations of the City, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally and subject to such other exceptions as are acceptable to the Trustee, and (ii) the execution and delivery of such Additional Certificates will not adversely affect the exclusion for federal or State income tax purposes of interest with respect to the Certificates or any Additional Certificates previously executed and delivered on a tax-exempt basis.

ARTICLE VIII

COVENANTS

Section 8.01 City to Perform Property Lease and Lease Agreement. The City covenants and agrees with the Owners to perform all obligations and duties imposed on it under the Property Lease and the Lease Agreement.

Section 8.02 Compliance with Trust Agreement. The Trustee will not execute or deliver any Certificates in any manner other than in accordance with the provisions hereof, and the City will not suffer or permit any default by it to occur hereunder, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms hereof required to be complied with, kept, observed and performed by it.

Section 8.03 Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions

relating to the receipt, deposit and disbursement of the Base Rental, and such accounting records shall be available for inspection by the City or any Owner or his agent duly authorized in writing with prior notice at reasonable hours and under reasonable conditions.

Section 8.04 Access to Books and Records. The Trustee shall, upon reasonable notice to the City and during regular business hours, have access to those books and records of the City that may be reasonably required by the Trustee to fulfill its duties and obligations hereunder.

Section 8.05 General. The City certifies, declares, recites and warrants that upon the date of execution and delivery of any of the Certificates, all conditions, acts and things required by law and this Trust Agreement to exist, to have happened and to have been performed precedent to the execution and delivery of the Lease Agreement do exist, have happened and have been performed in due time, form and manner as may be required by law, and that the City is now duly authorized to execute and deliver the Lease Agreement and the Certificates upon execution and delivery by the Trustee shall be entitled to the benefit, protection and security of the provisions of this Trust Agreement and shall comply in all respects with the applicable laws of the State.

Section 8.06 Tax Matters.

(a) **General.** The City hereby covenants with the holders of the Certificates that, notwithstanding any other provisions of this Trust Agreement, it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest evidenced by the Certificates under Section 103 of the Code.

(b) **Use of Proceeds.** The City shall not take any action, or fail to take any action, if any such action or failure to take action would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code, and in furtherance thereof, shall not make any use of the proceeds of the Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, or any other funds of the City, that would cause the Certificates to be "private activity bonds" within the meaning of Section 141 of the Code. To that end, so long as any Certificates are outstanding, the City, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder, to the extent such requirements are, at the time, applicable and in effect. The City shall establish reasonable procedures necessary to ensure continued compliance with Section 141 of the Code and the continued qualification of the Certificates as "governmental bonds."

(c) **Arbitrage.** The City shall not, directly or indirectly, use or permit the use of any proceeds of any Certificates, or of any property financed or refinanced thereby, or other funds of the City, or take or omit to take any action, that would cause the Certificates to be "arbitrage bonds" within the meaning of Section 148 of the Code. To that end, the City shall comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to the Certificates.

(d) Federal Guarantee. The City shall not make any use of the proceeds of the Certificates or any other funds of the City, or take or omit to take any other action, that would cause the Certificates to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

(e) Compliance with Tax Certificate; Survival of Tax Covenants. In furtherance of the foregoing tax covenants of this Section 8.06, the City covenants that it will comply with the provisions of the Tax Certificate, which is incorporated herein as if fully set forth herein, and the tax covenants in the Lease Agreement. These covenants shall survive payment in full or defeasance of the Certificates.

Section 8.07 Performance. The City shall faithfully observe all covenants and other provisions contained in the Financing Documents to which it is a party.

Section 8.08 Prosecution and Defense of Suits. The City shall promptly take such action as may be necessary to cure any defect in the title to the Leased Property or any part thereof, whether now existing or hereafter occurring, and shall prosecute and defend all such suits, actions and all other proceedings as may be appropriate for such purpose.

Section 8.09 Further Assurances. The City will make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Trust Agreement, and for the better assuring and confirming to the Owners the rights and benefits provided herein.

Section 8.10 Continuing Disclosure. The City has covenanted under the Lease Agreement that it will comply with the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of this Trust Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee, to the extent indemnified from and against any cost, liability or expense, may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Certificate) or the Owners of at least 25% aggregate principal amount of Outstanding Certificates, shall) or any Certificateholder or Beneficial Owner may, take such actions as may be necessary and appropriate, to cause the City to comply with the provisions of the Continuing Disclosure Certificate.

ARTICLE IX

EVENTS OF DEFAULT

Section 9.01 Events of Default. Any one or more of the following events are an "Event of Default" hereunder:

- (a) the City defaults under Section 13(a)(i) of the Lease Agreement; or
- (b) the City breaches any other provision of the Lease Agreement or fails to observe or perform any covenant, condition or agreement on its part to be observed or performed under this Trust Agreement, other than such failure as may constitute an Event of Default under clause (a) of this Section 9.01, for a period of 60 days after written notice, specifying such failure

and requesting that it be remedied, has been given to the City by the Trustee or to the City and the Trustee by the Owners of not less than a majority in aggregate principal amount of the Certificates then Outstanding, provided, that failure to comply with the Continuing Disclosure Certificate shall not constitute an Event of Default hereunder; provided, further, however, if the failure stated in the notice cannot be corrected within such 60-day period, then such period will be extended so long as corrective action is instituted by the City within such period and diligently pursued until the default is corrected, but only if such extension would not materially adversely affect the interest of any Owner.

Section 9.02 Remedies on Default. Upon the occurrence and continuance of any Event of Default specified in Section 9.01(a) of this Trust Agreement, the Trustee shall proceed, or upon the occurrence and continuance of any other Event of Default hereunder, the Trustee may proceed (and upon written request of the Owners of not less than a majority of the aggregate principal amount of the Certificates then Outstanding, shall proceed) to exercise the remedies set forth in Section 13(b) of the Lease Agreement to the extent an Event of Default has occurred under the Lease Agreement.

Section 9.03 Notice of Events of Default. If an Event of Default occurs hereunder, the Trustee shall give notice, at the expense of the City of such Event of Default to the Owners. Such notice shall state that an Event of Default has occurred and shall provide a brief description of such Event of Default. The Trustee in its discretion may withhold notice if it deems it in the best interests of the Owners. The notice provided for in this Section 9.03 shall be given by first-class mail, postage prepaid, to the Owners within 30 days of the Trustee's receipt of knowledge of the occurrence of such Event of Default.

Section 9.04 No Remedy Exclusive. No remedy conferred upon or reserved to the Trustee under this Trust Agreement is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder, or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any Event of Default shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Owners to exercise any remedy reserved to it or them, it shall not be necessary to give any notice other than such notice as may be required in this Article IX or by law.

Section 9.05 Waiver; No Additional Waiver Implied by One Waiver. The Trustee may in its discretion waive any Event of Default and its consequences and shall also do so upon the written request of the Owners of not less than a majority of the aggregate principal amount of the Certificates then Outstanding; provided, however, that no default in the payment of the principal, premium, if any, or interest with respect to any Certificate shall be waived unless prior to such waiver, all arrears of such payments have been made and all fees and expenses of the Trustee have been paid. In case of any such waiver, the Trustee, the City and the Owners shall be restored to their former positions and rights hereunder, respectively, but such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 9.06 Action by Owners. If the Trustee fails to take any action to eliminate an Event of Default hereunder, the Owners of not less than a majority of the aggregate principal

amount of the Certificates then Outstanding may institute suit, action, mandamus or other proceeding in equity or at law for the protection or enforcement of any right under this Trust Agreement, but only if such Owners shall have first made written request of the Trustee after the right to exercise such powers or right of action shall have arisen, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted therein or herein or otherwise granted by law or to institute such action, suit or proceeding in its name, and unless, also, the Trustee shall have been offered security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time.

Notwithstanding any other provision in this Trust Agreement, the right of any Owner to receive principal and interest in accordance with the terms of his or her Certificate or to institute suit for the enforcement of any such payment on or after such payments become due shall not be impaired or affected without the consent of such Owner.

Section 9.07 Application of Proceeds in Event of Default. Except to the extent necessary to compensate the Trustee for its reasonable fees and expenses (including reasonable attorneys' fees and expenses) and to pay all principal of and interest then due and unpaid with respect to all Outstanding Certificates, all damages or other payments received by the Trustee from the enforcement of any rights and powers of the Trustee under this Trust Agreement or Section 13(b) of the Lease Agreement shall be deposited by the Trustee into the Base Rental Fund and used first to pay interest with respect to the Certificates and then to pay the principal with respect to the Certificates. If the amount deposited into the Base Rental Fund is not sufficient to pay all overdue interest payments, the amounts deposited shall be distributed pro rata to Owners on the basis of the amount of interest due and unpaid to such Owners. If the amount deposited into the Base Rental Fund is not sufficient to pay all overdue payments of principal, the amounts deposited shall be distributed pro rata to Owners on the basis of the amount of principal due and unpaid to such Owners.

To the extent not required to be deposited into the Base Rental Fund pursuant to the immediately preceding paragraph, all damages or other payments received by the Trustee from the enforcement of any rights and powers under this Trust Agreement shall be applied as follows in the order of priority indicated: (i) deposited into the Reserve Fund to the extent that the amount in the Reserve Fund is less than the Reserve Requirement; and (ii) any remaining amounts shall be deposited into and retained in the Base Rental Fund for application to the payments due with respect to the Certificates on the next succeeding payment dates thereof.

ARTICLE X

LIMITATION OF LIABILITY

Section 10.01 No Liability of City for Trustee Performance. The City shall not have any obligation or liability to the Owners with respect to the performance by the Trustee of any duty imposed upon it hereunder, including the distribution by the Trustee of principal and interest to the Owners.

Section 10.02 No Liability of Trustee for Payment to Owners. The Trustee shall have no obligation or liability to the Owners with respect to the payment of principal, premium, if any or interest with respect to the Certificates when due, other than from moneys available to it under this Trust Agreement, or with respect to the performance by the City of any covenant made by it in this Trust Agreement.

Section 10.03 No Liability of City Except as Stated. Except for the performance by the City of its obligations and duties as set forth in the Lease Agreement and this Trust Agreement, the City shall have no obligation or liability to the Trustee or the Owners.

Section 10.04 Limited Liability of Trustee. The Trustee shall have no obligation or responsibility for providing information to the Owners concerning the investment quality of the Certificates, for the sufficiency or collection of any Base Rental or for the actions or representations of the City. The Trustee shall have no obligation or liability to the City or to the Owners with respect to the failure or refusal of the City to perform any covenant or agreement made by it under this Trust Agreement, but shall be responsible solely for the performance of the duties expressly imposed upon it hereunder. The recitals of facts, covenants and agreements contained herein and in the Certificates shall be taken as statements, covenants and agreements of the City, and the Trustee assumes no responsibility of the correctness of the same and makes no representation as to the validity or sufficiency of this Trust Agreement, the Lease Agreement or the Certificates, or as to the value of or title to the Leased Property, and shall not incur any responsibility in respect thereof, other than in connection with the duties or obligations expressly assigned to or imposed upon it.

Section 10.05 Limitations of Rights. Nothing in this Trust Agreement or in the Certificates expressed or implied is intended or shall be construed to give any person other than the City, the Trustee and the Owners any legal or equitable right, remedy or claim under or in respect of this Trust Agreement or any covenant, condition or provision hereof and all such covenants, conditions and provisions are and shall be for the sole and exclusive benefit of the City, the Trustee and such Owners.

ARTICLE XI

MISCELLANEOUS

Section 11.01 Defeasance. (a) If all Certificates shall be paid and discharged as provided in this Section, then all obligations of the Trustee and the City under this Trust Agreement with respect to all Certificates shall cease and terminate, except only (i) the obligation of the Trustee to pay or cause to be paid to the Owners thereof all sums due with respect to the Certificates and to register, transfer and exchange Certificates pursuant to Sections 2.05 and 2.06 hereof, (ii) the obligation of the City to pay the amounts owing to the Trustee under Section 6.06, and (iii) the obligation of the City to comply with Section 4.17 and Section 8.06 hereof. Any funds held by the Trustee at the time of such termination which are not required for payment to Owners, or for payment to be made to the Trustee by the City, shall be paid to the City to the extent of any amounts owed to it as evidenced by a certificate of a City Representative and any excess shall be paid to the City.

Any Certificate or portion thereof in an Authorized Denomination shall be deemed no longer Outstanding under this Trust Agreement if paid or discharged in any one or more of the following ways:

(i) by well and truly paying or causing to be paid the principal and interest with respect to such Certificates which have become due and payable;

(ii) by depositing with the Trustee, in trust, cash (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with Government Obligations) which, together with the amounts then on deposit in the Base Rental Fund and the Reserve Fund and dedicated to this purpose is fully sufficient to pay when due all principal of, premium, if any, and interest due with respect thereto; or

(iii) by depositing with the Trustee, in trust, Defeasance Securities in such amount as in the written report of a certified public accountant or other financial consultant will, together with the interest to accrue on such Defeasance Securities without the need for reinvestment, be fully sufficient to pay when due all principal, premium, if any, and interest with respect to such Certificate to the Certificate Payment Date or earlier prepayment date thereof, notwithstanding that such Certificates shall not have been surrendered for payment.

(b) Notwithstanding the foregoing, no deposit under clauses (a)(ii) or (a)(iii) above shall be deemed a payment of such Certificates until the earlier to occur of:

(i) proper notice of prepayment of such Certificate shall have been previously given in accordance with Article V hereof to the Owners thereof or, in the event such Certificate is not by its terms subject to prepayment within the next 45 days of making the deposit under clauses (ii) and (iii) of subsection (a) above, a City Representative shall have given the Trustee irrevocable written instructions to mail by first-class mail, postage prepaid, notice to the Owners of such Certificate as soon as practicable stating that the deposit required by clauses (ii) and (iii) of subsection (a) above, as applicable, has been made with the Trustee and that such Certificate is deemed to have been paid and further stating such prepayment date or dates upon which money will be available for the payment of the principal and accrued interest thereon; or

(ii) the Certificate Payment Date of such Certificates.

(c) Any funds held by the Trustee at the time of the first to occur of the events described above with respect to all Certificates, which are not required for payment to Owners, or for payment to be made to the Trustee by the City, shall be paid to the City to the extent of any amounts owed to it as evidenced by a certificate of a City Representative.

Section 11.02 Records. Until six years following the full payment of principal and interest due with respect to the Certificates, the Trustee shall keep complete and accurate records of all money received and disbursed by it under this Trust Agreement, which records shall be

available for inspection by the City and by any Owner, or the agent of either of them, at any time during regular business hours and upon reasonable prior written notice.

Section 11.03 Notices. All notices under this Trust Agreement by any party shall be in writing (unless otherwise specified herein) and shall be sufficiently given and served upon the parties named below if delivered by hand directly to the offices named below or sent by United States first-class mail, postage prepaid, and addressed as follows:

If to the City: City and County of San Francisco
City Hall, 1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, California 94102
Attention: City Controller

with copies to: City and County of San Francisco
City Hall, 1 Dr. Carlton B. Goodlett Place, Room 336
San Francisco, California 94102
Attention: Director of Public Finance

Office of the City Attorney
City Hall, 1 Dr. Carlton B. Goodlett Place, Room 234
San Francisco, California 94102
Attention: Special Projects/Finance Team

If to the Trustee: [Trustee]

if to any Owner, to his or her address as indicated on the Certificate Register; or to such other address or addresses as any such person shall have designated to the others by notice given in accordance with the provisions of this Section.

Section 11.04 Governing Law. This Trust Agreement shall be governed and construed in accordance with the laws of the State.

Section 11.05 Partial Invalidity. Any provision of this Trust Agreement found to be prohibited by law shall be ineffective only to the extent of such prohibition, and shall not invalidate the remainder of this Trust Agreement.

Section 11.06 Binding Effect; Successors. This Trust Agreement shall be binding upon and shall inure to the benefit of the parties hereto and the Owners and their respective successors. Whenever in this Trust Agreement any party is named or referred to, such reference shall be deemed to include such party's successors, and all covenants and agreements contained in this

Trust Agreement by or on behalf of any party hereto shall bind and inure to the benefit of such party's successors whether so expressed or not.

Section 11.07 Destruction of Canceled Certificates. Whenever in this Trust Agreement provision is made for the surrender to or cancellation of Certificates by the Trustee, the Trustee shall, upon such cancellation, destroy such Certificates and deliver a certificate evidencing such destruction to the City.

Section 11.08 Excess Payments. Notwithstanding anything to the contrary contained herein, if for any reason, including but not limited to damage, destruction, condemnation or disposition of the Leased Property, the City or the Trustee receive payments, proceeds or awards with respect to the Leased Property in excess of the amount necessary to make all of the payments required herein or amounts otherwise due to the City, or to provide in accordance with this Trust Agreement for all of such payments, such excess shall represent the City's equity interest in the Leased Property and shall be paid to the City at the written order of a City Representative.

Section 11.09 Headings. The headings or titles of the several Articles and Sections hereof, and the table of contents appended hereto, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of this Trust Agreement. Unless the context requires otherwise, all references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Trust Agreement.

Section 11.10 Assignment. The services to be performed by the Trustee are personal in character and neither this Trust Agreement nor any duties or obligations hereunder may be assigned or delegated by the Trustee unless first approved by the City by written instrument executed and approved in the same manner as this Trust Agreement.

Section 11.11 City Contracting Provisions. The Trustee covenants and agrees to comply with the provisions set forth in Exhibit G to this Trust Agreement, which is incorporated in and made a part of this Trust Agreement by this reference.

Section 11.12 Execution in Several Counterparts. This Trust Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the City and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Trust Agreement as of the date first above written.

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Mayor

[SEAL]

ATTEST:

By: _____
Clerk of the Board of Supervisors

APPROVED AS TO FORM BY:

DENNIS J. HERRERA,
CITY ATTORNEY

By: _____
Deputy City Attorney

[TRUSTEE],
as Trustee

By: _____
Authorized Signatory

EXHIBIT A

FORM OF CERTIFICATE OF PARTICIPATION

CERTIFICATE OF PARTICIPATION
(1500 MISSION PROJECT),
SERIES 201_

Evidencing a Proportionate Interest of the
Owner Hereof in the Right to Receive
Base Rental Payments to be Made by the

CITY AND COUNTY OF SAN FRANCISCO

Certificate
Payment Date

Interest Rate

Original
Certificate Date

CUSIP

REGISTERED OWNER:

PRINCIPAL AMOUNT:

THIS IS TO CERTIFY THAT the registered owner identified above or registered assigns, as the registered owner of this Certificate of Participation (the "Certificate"), is the owner of a proportionate interest in the right to receive Base Rental payments payable under a Lease Agreement (the "Lease Agreement"), dated as of [Dated Date], by and between the City and County of San Francisco (the "City"), a political subdivision of the State of California (the "State"), as lessee, and [Trustee], a _____, as trustee (the "Trustee").

The registered owner of this Certificate is entitled to receive, subject to the terms of the Lease Agreement and unless sooner paid in full, on the Certificate Payment Date identified above, the principal amount identified above, representing a portion of the Base Rental payments designated as principal coming due on or prior to such date, and to receive on [First IPD] and on each [Payment Date 1] and [Payment Date 2] thereafter (each, a "Payment Date"), until payment in full of such principal sum, the registered owner's proportionate share of the Base Rental payments designated as interest coming due on or prior to each of such dates. Such proportionate share of the portion of the Base Rental designated as interest is the result of the multiplication of the aforesaid portion of the Base Rental designated as principal by the interest rate specified above. Such proportionate share of the portion of the Base Rental designated as interest shall be computed on the basis of a 360-day year composed of 12 months of 30 days each.

Interest with respect to this Certificate shall accrue from the Certificate Payment Date next preceding the date of execution hereof, unless (i) this Certificate is executed after the close of business on the fifteenth (15th) day of the month next preceding any Payment Date (the "Record Date") and before the close of business on the immediately following Payment Date, in which event interest shall accrue with respect hereto from such Payment Date, or (ii) this Certificate is executed on or before the Record Date immediately preceding the first Payment Date, in which event interest with respect hereto shall accrue from its Original Certificate Date

set forth above; provided, however, that if at the time of execution of this Certificate, interest with respect hereto is in default, interest with respect hereto shall accrue from the Payment Date to which interest has previously been paid or made available for payment or from its Original Certificate Date if no interest has been paid or made available for payment.

Amounts due hereunder in respect of principal and premium, if any, are payable in lawful money of the United States of America at the Principal Office of the Trustee (or any successor Trustee or paying agent). Amounts representing interest are payable by check mailed by first class mail to the owner of this Certificate at such owner's address as it appears on the registration books of the Trustee as of the Record Date, provided that the payment with respect to the Certificates to each Owner of at least \$1,000,000 aggregate principal amount of Certificates shall be made to such Owner by wire transfer to such wire address in the United States that such Owner may request in writing for all Payment Dates following the fifteenth day after the Trustee's receipt of such notice. Payments of defaulted interest, if any, with respect to this Certificate shall be paid by check to the registered owner of this Certificate as of a special record date to be fixed by the Trustee, notice of which special record date shall be given to the owner of this Certificate not less than 10 days prior thereto.

The City is authorized to enter into the Lease Agreement pursuant to the laws of the State. The City has entered into the Lease Agreement for the purpose of leasing certain facilities (the "Leased Property") in connection with the performance of the City's governmental functions.

This Certificate has been executed and delivered by the Trustee pursuant to the terms of the Trust Agreement, dated as of [Dated Date] (the "Trust Agreement"), by and between the City and the Trustee. Under the Trust Agreement the Trustee is authorized to execute and deliver the Certificates of Participation (1500 Mission Project), Series 201_ in the aggregate principal amount of \$[Amount]. Reference is hereby made to the Lease Agreement and the Trust Agreement (copies of which are on file at the aforesaid offices of the Trustee) for a description of the terms on which the Certificates are delivered, and the rights thereunder of the registered owners of the Certificates and the rights, duties and immunities of the Trustee and the rights and obligations of the City under the Lease Agreement, to all of the provisions of which the registered owner of this Certificate, by acceptance hereof, assents and agrees.

The obligation of the City to pay Base Rental does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to pay Base Rental does not constitute an indebtedness of the City, the State, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. The City's obligation to pay Base Rental shall be abated during any period in which, by reason of material damage, destruction, condemnation, noncompletion or title defect, there is substantial interference with the City's right of use and occupancy of the Leased Property or any portion thereof. Failure of the City to pay Base Rental during any such period shall not constitute a default under the Lease Agreement, the Trust Agreement or this Certificate.

To the extent and in the manner permitted by the terms of the Trust Agreement, the provisions of the Trust Agreement may be amended by the parties thereto with the written consent of the owners of a majority in aggregate principal amount of Certificates (as defined in the Trust Agreement) then outstanding. The Trust Agreement may be amended without such consent under certain circumstances provided that the interests of the owners of the Certificates are not adversely affected. No amendment shall impair the right of any owner to receive in any case such owner's proportionate share of any Base Rental payment in accordance with such owner's Certificate.

Registration of this Certificate is transferable by the registered owner hereof, in person or by his attorney duly authorized in writing, at the aforesaid offices of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Trust Agreement and upon surrender and cancellation of this Certificate. Upon such registration of transfer a new Certificate or Certificates, of authorized denomination or denominations, for the same principal amount of Certificates (as defined in the Trust Agreement) will be issued to the transferee in exchange therefor. The City and the Trustee may treat the registered owner hereof as the absolute owner hereof for all purposes, whether or not this Certificate shall be overdue, and shall not be affected by any notice to the contrary.

The Certificates are subject to mandatory prepayment prior to Certificate Payment Date in whole or in part on any date, at the prepayment prices set forth in the Trust Agreement, without premium, (i) upon the occurrence of damage to, or destruction or condemnation of, all or a portion of the Leased Property, from the proceeds of insurance or condemnation, and (ii) in the event of a title defect which results in abatement of Base Rental, from the title insurance proceeds.

The Certificates are subject to optional prepayment and mandatory sinking account installment prepayment as provided in the Trust Agreement.

Notice of any prepayment shall be given to the respective owners of Certificates designated for prepayment at their addresses appearing on the registration books of the Trustee as of the close of business on the day before such notice is given. The Trustee shall give notice by first-class mail, postage prepaid, at least 30 days but not more than 45 days prior to the prepayment date. Such notice shall set forth, in the case of each Certificate to be prepaid only in part, the portion of the principal thereof which is to be prepaid. Such notice may be conditional and may be canceled as provided in the Trust Agreement. Neither failure to receive such notice nor any defect in any notice so given shall affect the sufficiency of the proceedings for the prepayment of such Certificates.

If this Certificate is called for prepayment and the principal amount of this Certificate plus accrued interest due with respect hereto are duly provided therefor as specified in the Trust Agreement, then interest shall cease to accrue with respect hereto from and after the date fixed for prepayment.

The Trustee has no obligation or liability to the Certificate owners to make payments of principal or interest with respect to the Certificates, except from amounts on deposit for such purposes with the Trustee. The Trustee's sole obligations are to administer the various funds and accounts established under the Trust Agreement in accordance therewith, and, to the extent provided in the Trust Agreement, to enforce the rights of the Trustee under the Lease Agreement. The Trustee has executed this Certificate solely in its capacity as Trustee under the Trust Agreement.

The recitals of fact contained herein shall be taken as those of the City and not the Trustee, and the Trustee does not warrant the accuracy of any recitals hereof.

This Certificate shall not be entitled to any benefit under the Trust Agreement or become valid for any purpose until it has been duly executed and delivered by the Trustee.

THE CITY HAS CERTIFIED, RECITED AND DECLARED that all things, conditions and acts required by the Constitution and laws of the State and the Trust Agreement to exist, to have happened and to have been performed precedent to and in the execution and the delivery of this Certificate, do exist, have happened and have been performed in due time, form and manner, as required by law.

Unless this Certificate is presented by an authorized representative of The Depository Trust Company to the Trustee for registration of transfer, exchange or payment, and any Certificate executed and delivered is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.

IN WITNESS WHEREOF, this Certificate has been executed and delivered by the Trustee, acting pursuant to the Trust Agreement.

DATE OF EXECUTION: [Closing Date] [Trustee], as Trustee

By: _____
Authorized Signatory

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM_ as tenants in common

TEN ENT_ as tenants by the entireties

JT TEN_ as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT _____ Custodian _____

(Cust) (Minor)

under Uniform Gifts to Minors Act _____

(State)

**ADDITIONAL ABBREVIATIONS MAY ALSO BE USED
THOUGH NOT IN THE LIST ABOVE**

ASSIGNMENT

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

(Name, Address and Tax Identification or Social Security Number of Assignee)

the within-registered Certificate and hereby irrevocably constitute(s) and appoints(s) _____ attorney, to transfer the same on the registration books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature Guaranteed: _____

Note: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Certificate in every particular without alteration or enlargement or any change whatsoever.

Note: Signature(s) must be guaranteed by an eligible guarantor.

EXHIBIT B

FORM OF WRITTEN REQUEST FOR PAYMENT OF COSTS OF ISSUANCE

[Trustee]

Attention: _____

\$ _____
Certificates of Participation
(1500 Mission Project),
Series 201_

PAYMENT REQUEST NO. ____

Re: Disbursement from the Costs of Issuance Fund

Ladies and Gentlemen:

Pursuant to Section 4.02 of the Trust Agreement, dated as of [Dated Date] between the City and County of San Francisco and you, as Trustee (the "Trust Agreement"), you are hereby instructed to pay to the person(s) listed on Schedule 1 attached hereto the amounts shown for the purposes indicated from the Costs of Issuance Fund established under the Trust Agreement. The City hereby certifies that each item in the amount set forth on Schedule 1 is a proper charge against the Costs of Issuance Fund and that each such item has not been paid.

Dated: _____

CITY AND COUNTY OF SAN FRANCISCO

By: _____
City Representative

SCHEDULE 1

Payee

Purpose

Amount

EXHIBIT C

FORM OF WRITTEN REQUEST FOR PAYMENT FROM PROJECT FUND

[Letterhead of City]

[Trustee]

Attention: _____

\$ _____
Certificates of Participation
(1500 Mission Project),
Series 201_

DISBURSEMENT REQUEST NO.: _____

Re: Disbursements from the Project Fund

Ladies and Gentlemen:

In accordance with the terms of a Trust Agreement, by and between you and the undersigned, dated as of [Dated Date] (the "Trust Agreement"), you are hereby authorized and requested to make immediate disbursement of funds held by you in the Project Fund for Project Costs (as defined in the Trust Agreement) pursuant to Section 4.03 of the Trust Agreement.

You are hereby requested to pay from the Project Fund established by the Trust Agreement, to the person, corporation or other entity designated below as Payee, the sum set forth below such designation, in payment of all () or a portion () (designated by the insertion of an "x" in the parentheses following the correct word or phrase) of the Project Costs described below.

Payee:
Address:

Amount:

Description of Project Costs or portion thereof accepted by the undersigned and authorized to be paid to the Payee:

The undersigned hereby certifies that (i) no part of the amount requested herein has been included in any other request previously filed with you; (ii) to the knowledge of the undersigned, there has not been filed with or served upon the City any notice of any lien or attachment upon or claim (except for any preliminary notice of lien as may be filed in accordance with law) affecting the right of the person, corporation or other entity stated below to receive payment of the amount stated below, which lien has not been released or will not be released simultaneously with the payment requested hereunder; and (iii) the labor, services and/or materials covered hereby have been performed upon or furnished to the Leased Property and the payment requested herein is due and payable under a purchase order, contract or other authorization.

You are hereby requested to pay the sum set Amount:
forth below as described above:

Dated: _____, 20__.

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Project Manager
Department of Public Works

By: _____
Controller

By: _____
City Representative

EXHIBIT D

FORM OF WRITTEN CERTIFICATE OF PROJECT COMPLETION

[Letterhead of City]

[Trustee]

Attention: _____

\$ _____
Certificates of Participation
(1500 Mission Project),
Series 201_

Re: Substantial Completion of the Project

Ladies and Gentlemen:

In accordance with the terms of a Trust Agreement, by and between you and the City and County of San Francisco, dated as of [Dated Date] (the "Trust Agreement"), you are hereby notified that all Project Costs have been paid and that the Project is substantially completed. Capitalized terms used herein shall have the meanings assigned in the Trust Agreement.

Dated: _____, 20__.

CITY AND COUNTY OF SAN FRANCISCO

By: _____
City Representative

EXHIBIT E

SCHEDULE OF TRUSTEE'S FEES AND CHARGES

EXHIBIT F

FORM OF SUPPLEMENT TO TRUST AGREEMENT RELATING TO
ADDITIONAL CERTIFICATES

SUPPLEMENT TO TRUST AGREEMENT

by and between the

CITY AND COUNTY OF SAN FRANCISCO,

and

[TRUSTEE], as Trustee,

Dated as of _____ 1, _____

Relating to:

\$ _____
CERTIFICATES OF PARTICIPATION
(_____),
Series 20__

SUPPLEMENT TO TRUST AGREEMENT

THIS SUPPLEMENT TO TRUST AGREEMENT, dated as of _____ 1, _____ (this "Supplement to Trust Agreement"), by and between the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation organized and existing under its charter and the Constitution and laws of the State of California (the "City") and [TRUSTEE], a _____, as Trustee (the "Trustee");

WITNESSETH:

WHEREAS, the City desires to provide for _____ (as further defined herein, the "Project"), and the City is authorized pursuant to its charter and the laws of the State to enter into lease financing for such purpose; and

WHEREAS, the City and the Trustee have entered into a Property Lease, dated as of [Dated Date] (the "Property Lease"), pursuant to which the City has leased certain real property (the "Site") and all works, property, improvements, structures and fixtures thereon (collectively, the "Leased Property") to the Trustee; and

WHEREAS, pursuant to the Lease Agreement, dated as of [Dated Date], by and between the City and the Trustee, the Trustee shall lease the Leased Property back to the City; and

WHEREAS, the Trustee is executing and delivering Additional Certificates pursuant to the Trust Agreement, dated [Dated Date] between the City and the Trustee (the "Trust Agreement"), to provide funds for the Project;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree to supplement the Trust Agreement as follows:

Section 1. Definitions. Capitalized terms used herein without definition shall have the meanings as set forth in the Trust Agreement.

Section 2. Authorization, Designation and Description of the Additional Certificates. The Trustee is hereby authorized and directed to execute and deliver the Additional Certificates to the original purchaser or purchasers thereof. The Additional Certificates shall be designated "Certificates of Participation, (_____), Series 20__" and shall be executed and delivered in the aggregate principal amount of [_____]. Each Additional Certificate shall be executed and delivered in fully registered form and shall be numbered as determined by the Trustee. The Additional Certificates shall be dated _____. The Additional Certificates shall be executed and delivered in Authorized Denominations; provided, however, that the Certificates shall initially be executed and delivered in book-entry form pursuant to Section 2.11 of the Trust Agreement.

The Additional Certificates shall be executed and delivered in the aggregate principal amount of [_____] and shall have Certificate Payment Dates of [_____] 1 in the years and shall evidence and represent principal components in the amounts, with an interest component with respect thereto calculated on the basis of a 360-day year composed of twelve 30-day months at the rates, as follows:

Certificate
Payment Date
()

Principal Amount

Interest Rate

† Term Certificates

The interest evidenced and represented by the Additional Certificates shall be payable on [] 1 and [] 1 of each year, beginning on [] 1, 20__ and continuing to and including their Certificate Payment Dates or on prepayment prior thereto, and shall evidence and represent the sum of the portions of the Base Rental designated as interest components coming due on such date in each year.

The principal evidenced and represented by the Additional Certificates shall be payable on [] 1 of each year, beginning on [] 1, _____ and continuing to and including [] 1, 20__ and shall evidence and represent the sum of the portions of the Base Rental Payments designated as principal components coming due on each [] 1.

[The Certificates with Certificate Payment Dates of ____ 1, 20__, _____ 1, 20__ and _____ 1, __ shall be subject to mandatory sinking account installment prepayment as set forth in Section ____.]

Section 3. Application of Sale Proceeds of the Additional Certificates. Upon sale of the Additional Certificates, when the same shall be sold to the original purchaser thereof, an amount of proceeds from such sale equal to [\$ _____], shall be delivered to the Trustee and deposited by the Trustee as follows: _____

(1) The Trustee shall deposit into the Costs of Issuance Fund the sum of [\$ _____].

(2) The Trustee shall deposit into the Reserve Fund the sum of [\$ _____], representing the Reserve Requirement as of the Closing Date.

(3) The Trustee shall deposit into the Base Rental Fund the sum of [\$ _____], representing capitalized interest with respect to the Additional Certificates.

(4) The Trustee shall deposit into the Project Fund the remainder of said proceeds, being [\$ _____].

Section 4. Prepayment. The Additional Certificates shall be subject to prepayment prior to their stated Certificate Payment Dates only as set forth below:

(a) Optional Prepayment. The Additional Certificates with a Certificate Payment Date on or after [_____] 1, _____] are subject to optional prepayment prior to their respective Certificate Payment Dates in whole or in part on any date on or after [_____] 1, _____], at the option of the City, in the event the City exercises its option under Section 7 of the Lease Agreement to prepay the principal component of the Base Rental payments, at the following prepayment prices (expressed as a percentage of the principal component to be prepaid), plus accrued interest to the date fixed for prepayment:

Prepayment Date

Prepayment Price

If the City gives notice to the Trustee of its intention to exercise such option, but fails to deposit with the Trustee on or prior to the prepayment date an amount equal to the prepayment price, the City will continue to pay the Base Rental payments as if no such notice were given.

(b) Special Mandatory Prepayment. The Additional Certificates are subject to mandatory prepayment prior to their respective Certificate Payment Dates in whole or in part on any date, at the Prepayment Price (plus accrued but unpaid interest to the prepayment date), without premium, from amounts deposited in the Base Rental Fund pursuant to Section 4.09 or Section 4.10 hereof following an event of damage, destruction or condemnation of the Leased Property or any portion thereof or loss of the use or possession of the Leased Property or any portion thereof due to a title defect.

(c) Sinking Account Installment Prepayment. The Additional Certificates with a Certificate Payment Date of [_____] 1, _____], are subject to sinking account installment prepayment prior to their Certificate Payment Date in part, by lot, on each [_____] 1], beginning [_____] 1, _____], in the amounts set forth below, from scheduled payments of the principal component of Base Rental payments, at the principal amount of Additional Certificates to be prepaid, plus accrued interest to the prepayment date, without premium:

Prepayment Date
(_____] 1)

Sinking Account
Installment Amount

The Additional Certificates with a Certificate Payment Date of [_____] 1, _____], are subject to sinking account installment prepayment prior to their Certificate Payment Date in part, by lot, on each [_____] 1], beginning [_____] 1, _____], in the amounts set forth below, from scheduled payments of the principal component of Base Rental payments, at the principal

amount of Additional Certificates to be prepaid, plus accrued interest to the prepayment date, without premium:

Prepayment Date
(_____ 1)

Sinking Account
Installment Amount

The Additional Certificates with a Certificate Payment Date of [_____ 1, _____], are subject to sinking account installment prepayment prior to their Certificate Payment Date in part, by lot, on each [_____ 1], beginning [_____ 1, _____], in the amounts set forth below, from scheduled payments of the principal component of Base Rental payments, at the principal amount of Certificates to be prepaid, plus accrued interest to the prepayment date, without premium:

Prepayment Date
(_____ 1)

Sinking Account
Installment Amount

Section 5. Amendments to Trust Agreement. The City and the Trustee hereby agree to amend the Trust Agreement as follows: [other amendments necessary or desirable in connection with Additional Certificates].

Section 6. 201 Certificates Subject to the Trust Agreement. Except as in this Supplement to Trust Agreement expressly provided, every term and condition contained in the Trust Agreement shall apply to this Supplement to Trust Agreement and to the 201 Certificates with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this Supplement to Trust Agreement.

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

Section 7. Governing Law. This Supplemental to Trust Agreement shall be governed by and construed in accordance with the laws of the State of California.

Section 8. Counterparts. This Supplemental to Trust Agreement may be signed in several counterparts, each of which will constitute an original, but all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto
have executed this Supplement to Trust
Agreement as of the date first above written.

[TRUSTEE], as Trustee

By: _____
Authorized Signatory

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Mayor

[SEAL]

ATTEST:

By: _____
Clerk of the Board of Supervisors

APPROVED AS TO FORM:

DENNIS J. HERRERA
City Attorney

By: _____
Deputy City Attorney

[ACKNOWLEDGED BY:

By: _____]

EXHIBIT G

CITY AND COUNTY OF SAN FRANCISCO MANDATORY CONTRACTING PROVISIONS

The following provisions shall apply to this Trust Agreement as if set forth in the body thereof. Capitalized terms used but not defined in this Exhibit G shall have the meanings given in this Trust Agreement.

Section 1. Nondiscrimination; Penalties.

(i) *Nondiscrimination.* In the performance of this Trust Agreement, the Trustee agrees not to discriminate against any employee, City employee working with the Trustee, applicant for employment with the Trustee, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

(ii) *Subcontracts.* The Trustee shall incorporate by reference in all subcontracts the provisions of §§12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code (copies of which are available from the City) and shall require all subcontractors to comply with such provisions. The Trustee's failure to comply with the obligations in this subsection shall constitute a material breach of this Trust Agreement.

(iii) *Nondiscrimination in Benefits.* The Trustee does not as of the date of this Trust Agreement and will not during the term of this Trust Agreement, in any of its operations in San Francisco, on real property owned by the City, or where work is being performed for the City elsewhere in the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the conditions set forth in §12B.2(b) of the San Francisco Administrative Code.

(iv) *Condition to Contract.* As a condition to this Trust Agreement, the Trustee shall execute the "Chapter 12B Declaration: Nondiscrimination in Contracts and Benefits" form (form HRC-12B-101) with supporting

documentation and secure the approval of the form by the San Francisco Human Rights Commission.

(v) *Incorporation of Administrative Code Provisions by Reference.* The provisions of Chapters 12B and 12C of the San Francisco Administrative Code are incorporated in this Section by reference and made a part of this Trust Agreement as though fully set forth herein. The Trustee shall comply fully with and be bound by all of the provisions that apply to this Trust Agreement under such Chapters, including but not limited to the remedies provided in such Chapters. Without limiting the foregoing, the Trustee understands that pursuant to §§12B.2(h) and 12C.3(g) of the San Francisco Administrative Code, a penalty of \$50 for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Trust Agreement may be assessed against the Trustee and/or deducted from any payments due the Trustee.

Section 2. MacBride Principles—Northern Ireland. Pursuant to San Francisco Administrative Code §12F.5, the City urges companies doing business in Northern Ireland to move towards resolving employment inequities, and encourages such companies to abide by the MacBride Principles. The City urges San Francisco companies to do business with corporations that abide by the MacBride Principles. By signing this Trust Agreement, the person executing this Trust Agreement on behalf of the Trustee acknowledges and agrees that he or she has read and understood this Section.

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

Section 4. Drug-Free Workplace Policy. The Trustee acknowledges that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited on City premises. The Trustee agrees that any violation of this prohibition by the Trustee, its employees, agents or assigns will be deemed a material breach of this Trust Agreement.

Section 5. Compliance with Americans with Disabilities Act. The Trustee acknowledges that, pursuant to the Americans with Disabilities Act (ADA), programs, services and other activities provided by a public entity to the public, whether directly or through a contractor, must be accessible to the disabled public. The Trustee shall provide the services specified in this Trust Agreement in a manner that complies with the ADA and any and all other applicable federal, state and local disability rights legislation. The Trustee agrees not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Trust Agreement and further agrees that any violation of this prohibition on the part of the Trustee, its employees, agents or assigns will constitute a material breach of this Trust Agreement.

Section 6. Sunshine Ordinance. In accordance with San Francisco Administrative Code §67.24(e), contracts, contractors' bids, responses to solicitations and all other records of communications between the City and persons or firms seeking contracts, shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person or organization's net worth or other proprietary financial data submitted for qualification for a contract or other benefit until and unless that person or organization is awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

Section 7. Limitations on Contributions. Through execution of this Trust Agreement, the Trustee acknowledges that it is familiar with Section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or the board of a state agency on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. The Trustee acknowledges that the foregoing restriction applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of \$50,000 or more. The Trustee further acknowledges that the prohibition on contributions applies to each prospective party to the contract; each member of the Trustee's board of directors; the Trustee's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in the Trustee; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by the Trustee. Additionally, the Trustee acknowledges that the Trustee must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126. The Trustee further agrees to provide to the City the names of each person, entity or committee described above.

Section 8. Requiring Minimum Compensation for Covered Employees. The Trustee agrees to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance (MCO), as set forth in San Francisco Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Sections 12P.5 and 12P.5.1 of Chapter 12P are incorporated herein by reference and made a part of this Trust Agreement as though fully set forth. The text of the MCO is available on the web at www.sfgov.org/olse/mco. A partial listing of some of the Trustee's obligations under the MCO is set forth in this Section. The Trustee is required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Section.

(i) The MCO requires the Trustee to pay the Trustee's employees a minimum hourly gross compensation wage rate and to provide minimum compensated and uncompensated time off. The minimum wage rate may change from year to year and the Trustee is obligated to keep informed of the then-current requirements. Any subcontract entered into by the Trustee shall require the

subcontractor to comply with the requirements of the MCO and shall contain contractual obligations substantially the same as those set forth in this Section. It is the Trustee's obligation to ensure that any subcontractors of any tier under this Trust Agreement comply with the requirements of the MCO. If any subcontractor under this Trust Agreement fails to comply, the City may pursue any of the remedies set forth in this Section against the Trustee.

(ii) The Trustee shall not take adverse action or otherwise discriminate against an employee or other person for the exercise or attempted exercise of rights under the MCO. Such actions, if taken within 90 days of the exercise or attempted exercise of such rights, will be rebuttably presumed to be retaliation prohibited by the MCO.

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

(iv) The City, upon reasonable notice to the Trustee, is authorized to inspect the Trustee's job sites during normal business hours, conduct interviews with employees and conduct audits of the Trustee.

(v) The Trustee's commitment to provide the Minimum Compensation is a material element of the City's consideration for this Trust Agreement. The City in its sole discretion shall determine whether such a breach has occurred. The City and the public will suffer actual damage that will be impractical or extremely difficult to determine if the Trustee fails to comply with these requirements. The Trustee agrees that the sums set forth in Section 12P.6.1 of the MCO as liquidated damages are not a penalty, but are reasonable estimates of the loss that the City and the public will incur for the Trustee's noncompliance. The procedures governing the assessment of liquidated damages shall be those set forth in Section 12P.6.2 of Chapter 12P.

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

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

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

Section 9. Requiring Health Benefits for Covered Employees. The Trustee agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance (HCAO), as set forth in San Francisco Administrative Code Chapter 12Q, including the remedies provided, and implementing regulations, as the same may be amended from time to time. The provisions of Section 12Q.5.1 of Chapter 12Q are incorporated by reference and made a part of this Trust Agreement as though fully set forth herein. The text of the HCAO is available on the web at www.sfgov.org/olse. Capitalized terms used in this Section and not defined in this Trust Agreement shall have the meanings assigned to such terms in Chapter 12Q.

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

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

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

(iv) Any Subcontract entered into by the Trustee shall require the Subcontractor to comply with the requirements of the HCAO and shall contain contractual obligations substantially the same as those set forth in this Section. The Trustee shall notify the City's Office of Contract Administration when it enters into such a Subcontract and shall certify to the Office of Contract Administration that it has notified the Subcontractor of the obligations under the HCAO and has imposed the requirements of the HCAO on Subcontractor through the Subcontract. The Trustee shall be responsible for its Subcontractors' compliance with this Chapter. If a Subcontractor fails to comply, the City may

pursue the remedies set forth in this Section against the Trustee based on the Subcontractor's failure to comply, provided that the City has first provided the Trustee with notice and an opportunity to obtain a cure of the violation.

(v) The Trustee shall not discharge, reduce in compensation, or otherwise discriminate against any employee for notifying the City with regard to the Trustee's noncompliance or anticipated noncompliance with the requirements of the HCAO, for opposing any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

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

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

(viii) The Trustee shall keep itself informed of the current requirements of the HCAO.

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

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

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

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

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

Section 10. Prohibition on Political Activity with City Funds. In accordance with San Francisco Administrative Code Chapter 12.G, the Trustee may not participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure (collectively, "Political Activity") in the performance of the services provided under this Trust Agreement. The Trustee agrees to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. If the Trustee violates the provisions of this Section, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Trust Agreement, and (ii) prohibit the Trustee from bidding on or receiving any new City contract for a period of two (2) years. The Controller will not consider the Trustee's use of profit as a violation of this Section.

Section 11. Protection of Private Information. The Trustee has read and agrees to the terms set forth in San Francisco Administrative Code Sections 12M.2, "Nondisclosure of Private Information," and 12M.3, "Enforcement" of Administrative Code Chapter 12M, "Protection of Private Information," which are incorporated herein as if fully set forth. The Trustee agrees that any failure of the Trustee to comply with the requirements of Section 12M.2 of this Chapter shall be a material breach of this Trust Agreement. In such an event, in addition to any other remedies available to it under equity or law, the City may terminate this Trust Agreement, bring a false claim action against the Trustee pursuant to Chapter 6 or Chapter 21 of the Administrative Code, or debar the Trustee.

Section 12. Graffiti Removal. Graffiti is detrimental to the health, safety and welfare of the community in that it promotes a perception in the community that the laws protecting public and private property can be disregarded with impunity. This perception fosters a sense of disrespect of the law that results in an increase in crime; degrades the community and leads to urban blight; is detrimental to property values, business opportunities and the enjoyment of life; is inconsistent with the City's property maintenance goals and aesthetic standards; and results in additional graffiti and in other properties becoming the target of graffiti unless it is quickly removed from public and private property. Graffiti results in visual pollution and is a public nuisance. Graffiti must be abated as quickly as possible to avoid detrimental impacts on the City and its residents, and to prevent the further spread of graffiti.

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

the California Art Preservation Act (California Civil Code Sections 987 *et seq.*) or as a work of visual art under the Federal Visual Artists Rights Act of 1990 (17 U.S.C. §§ 101 *et seq.*).

Any failure by the Trustee to comply with this Section of this Trust Agreement shall constitute a material breach of this Trust Agreement.

Section 13. Reserved.

Section 14. Submitting False Claims; Monetary Penalties. Pursuant to San Francisco Administrative Code §21.35, any contractor, subcontractor or consultant who submits a false claim shall be liable to the City for penalties set forth in that Section. The text of Section 21.35, along with the entire San Francisco Administrative Code is available on the web at <http://www.municode.com/Library/clientCodePage.aspx?clientID=4201>. A contractor, subcontractor or consultant will be deemed to have submitted a false claim to the City if the contractor, subcontractor or consultant: (a) knowingly presents or causes to be presented to an officer or employee of the City a false claim or request for payment or approval; (b) knowingly makes, uses, or causes to be made or used a false record or statement to get a false claim paid or approved by the City; (c) conspires to defraud the City by getting a false claim allowed or paid by the City; (d) knowingly makes, uses, or causes to be made or used a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the City; or (e) is a beneficiary of an inadvertent submission of a false claim to the City, subsequently discovers the falsity of the claim, and fails to disclose the false claim to the City within a reasonable time after discovery of the false claim.

Section 15. Conflict of Interest. Through its execution of this Trust Agreement, the Trustee acknowledges that it is familiar with the provision of Section 15.103 of the City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 *et seq.* and Section 1090 *et seq.* of the Government Code of the State of California, and certifies that it does not know of any facts which constitutes a violation of said provisions and agrees that it will immediately notify the City if it becomes aware of any such fact during the term of this Trust Agreement.

Section 16. Food Service Waste Reduction Requirements. The Trustee agrees to comply fully with and be bound by all of the provisions of the Food Service Waste Reduction Ordinance, as set forth in San Francisco Environment Code Chapter 16, including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Trust Agreement as though fully set forth. This provision is a material term of this Trust Agreement. By entering into this Trust Agreement, the Trustee agrees that if it breaches this provision, the City will suffer actual damages that will be impractical or extremely difficult to determine; further, the Trustee agrees that the sum of one hundred dollars (\$100) liquidated damages for the first breach, two hundred dollars (\$200) liquidated damages for the second breach in the same year, and five hundred dollars (\$500) liquidated damages for subsequent breaches in the same year is reasonable estimate of the damage that the City will incur based on the violation, established in light of the circumstances existing at the time this Trust Agreement was made. Such amount shall not be considered a penalty, but rather agreed monetary damages sustained by the City because of the Trustee's failure to comply with this provision.

Section 17. Proprietary or Confidential Information of City. The Trustee understands and agrees that, in the performance of the work or services under this Trust Agreement or in contemplation thereof, the Trustee may have access to private or confidential information which may be owned or controlled by City and that such information may contain proprietary or confidential details, the disclosure of which to third parties may be damaging to the City. The Trustee agrees that all information disclosed by City to the Trustee shall be held in confidence and used only in the performance of this Trust Agreement. The Trustee shall exercise the same standard of care to protect such information as a reasonably prudent contractor would use to protect its own proprietary data.

Section 18. Earned Income Credit (EIC) Forms. Administrative Code Section 120 requires that employers provide their employees with IRS Form W-5 (The Earned Income Credit Advance Payment Certificate) and the IRS EIC Schedule, as set forth below. Employers can locate these forms at the IRS Office, on the Internet, or anywhere that Federal Tax Forms can be found. The Trustee shall provide EIC Forms to each Eligible Employee at each of the following times: (i) within thirty days following the date on which this Trust Agreement becomes effective (unless the Trustee has already provided such EIC Forms at least once during the calendar year in which such effective date falls); (ii) promptly after any Eligible Employee is hired by the Trustee; and (iii) annually between January 1 and January 31 of each calendar year during the term of this Trust Agreement. Failure to comply with any requirement contained in subparagraph (a) of this Section shall constitute a material breach by the Trustee of the terms of this Trust Agreement. If, within thirty days after the Trustee receives written notice of such a breach, the Trustee fails to cure such breach or, if such breach cannot reasonably be cured within such period of thirty days, the Trustee fails to commence efforts to cure within such period or thereafter fails to diligently pursue such cure to completion, the City may pursue any rights or remedies available under this Trust Agreement or under applicable law. Any Subcontract entered into by the Trustee shall require the subcontractor to comply, as to the subcontractor's Eligible Employees, with each of the terms of this Section. Capitalized terms used in this Section and not defined in this Trust Agreement shall have the meanings assigned to such terms in Section 120 of the San Francisco Administrative Code.

RECORDING REQUESTED BY:

CITY AND COUNTY OF SAN FRANCISCO

When Recorded Mail To:

CITY AND COUNTY OF SAN FRANCISCO

Office of the City Attorney

City Hall

1 Dr. Carlton B. Goodlett Place, Room 234

San Francisco, California 94102

Attention: Mark Blake

LEASE AGREEMENT

By and Between

[TRUSTEE], as Trustee,
as Lessor

and

THE CITY AND COUNTY OF SAN FRANCISCO,
as Lessee

Dated as of [Dated Date]

NO DOCUMENTARY TRANSFER TAX IS DUE PURSUANT
TO REVENUE AND TAXATION CODE SECTION 11922
AND THIS DOCUMENT IS EXEMPT FROM RECORDING FEES
PURSUANT TO GOVERNMENT CODE SECTION 27383

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LEASE AGREEMENT

THIS LEASE AGREEMENT, dated as of [Dated Date] (this "Lease Agreement"), by and between the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation organized and existing under its charter and the Constitution and laws of the State of California (the "City"), as lessee, and [TRUSTEE], a _____, duly organized under the laws of the _____, solely in its capacity as trustee under the Project Trust (as defined in the hereinafter defined Trust Agreement), as lessor (the "Trustee");

WITNESSETH:

WHEREAS, the City desires to provide for the acquisition, construction and installation of certain additions and improvements for an office building located at 1500 Mission Street in the City (as further defined herein, the "201_ Project"), to be used primarily for governmental purposes, and the City is authorized pursuant to its Charter and the laws of the State to enter into a lease for such purpose; and

WHEREAS, the City and the Trustee have entered into a Property Lease, dated as of [Dated Date] (the "Property Lease"), recorded concurrently herewith, pursuant to which the City has leased certain real property situated in the City and further described in Exhibit A hereto (the "Site") and all works, property, improvements, structures and fixtures now situated or hereafter constructed thereon (collectively, the "Leased Property") to the Trustee; and

WHEREAS, pursuant to this Lease Agreement, the Trustee shall lease the Leased Property back to the City; and

WHEREAS, the Trustee, as Certificate Trustee, is simultaneously executing and delivering certificates of participation pursuant to the Trust Agreement, dated the date hereof, between the City and the Trustee (the "Trust Agreement"), to provide funds for the Project;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions. Unless the context otherwise requires, the terms defined in this Section 1 shall, for all purposes of this Lease Agreement, have the meanings as set forth below. All other capitalized terms used herein without definition shall have the meanings as set forth in the Trust Agreement.

"201_ Project" has the meaning set forth in the recitals hereof.

"Additional Rental" means the amounts specified as such in Section 3.1(b) hereof.

"Base Rental" means the amounts specified as such in Section 3.1(a) hereof, as such amounts may be adjusted from time to time in accordance with the terms hereof, but does not include Additional Rental.

“Business Day” means any day other than a Saturday, a Sunday, a day on which banking institutions are authorized or required by law or executive order to be closed in the State for commercial banking purposes or a day on which trading on the New York Stock Exchange is suspended for more than four hours or a day on which the New York Stock Exchange is closed for a state or national holiday.

“Certificate of Final Completion” means the executed Certificate of Project Completion in the form set forth in Exhibit D to the Trust Agreement, delivered in accordance with the Trust Agreement.

“Certificates” means the Certificates of Participation (1500 Mission Project), Series 201_ and any Additional Certificates authorized by and at any time Outstanding under and pursuant to the Trust Agreement.

“City” means the City and County of San Francisco, and its successors and assigns.

“City Representative” means the Mayor, the Controller, the Director of Public Finance, or any other official of the City designated and authorized by the Controller of the City to act on behalf of the City under or with respect to this Lease Agreement, the Property Lease, the Trust Agreement and all other agreements related hereto and thereto.

“Director of Property” means the City’s Director of Real Property or any successor officer of the City who performs substantially the same duties as the Director of Real Property performs as of the date of this Lease Agreement.

“Facilities” means the improvements, structures and fixtures related thereto and located on the Site together with all other works, property or structures located from time to time on the Site.

“Final Completion” or “Final Completion of the Facilities” means the construction, the installation of improvements and the substantial readiness of the Facilities for use and occupancy by the City (subject to minor architectural finish items e.g., ‘punch list’ items) as evidenced by the delivery of the Certificate of Final Completion.

“Fiscal Year” means the fiscal year of the City, which at the date of this Lease Agreement is the period from July 1 to and including the following June 30.

“Hazardous Substances” means any and all substances, wastes, pollutants and contaminants now or hereafter included within such (or any similar) term under federal, state or local statute, ordinance, code or regulation now existing or hereinafter enacted or amended.

“Leased Property” means the Site and the Facilities, as the same may be modified, substituted or supplemented in accordance with the terms of the Lease Agreement.

“Permitted Encumbrances” has the meaning provided in Section 4.1 hereof.

“Pro Forma Policy” means the Pro Forma Title Insurance Policy prepared by the Title Company with respect to the Site.

“Project” means the 201_ Project and any facilities financed with Additional Certificates, as the same may be amended, modified or supplemented from time to time in accordance with this Lease Agreement.

“Lease Agreement” means this Lease Agreement, including any amendments or supplements hereto made or entered into in accordance with the terms hereof and of the Trust Agreement.

“Lease Agreement Event of Default” means the occurrence and continuation of any event specified in Section 13(a) hereof.

“Lease Agreement Term” means the term of this Lease Agreement, as provided in Section 2 hereof.

“Lease Agreement Year” means the period from the Closing Date through [_____] and thereafter the period from each July 1 to and including the following June 30, during the Lease Agreement Term.

“Property Lease” means the Property Lease, dated as of the date hereof, by and between the City and the Trustee with respect to the Leased Property, including any amendments or supplements thereto.

“Rental Payments” means all Base Rental and Additional Rental payable hereunder.

“Risk Manager” means the Risk Manager of the City or any successor officer of the City performing substantially the same duties as the Risk Manager performs as of the date of this Lease Agreement.

“Site” means the real property described in Exhibit A hereto, including any real property substituted therefor or added thereto pursuant to Section 16 hereof, but excluding real property that has been released or for which new real property has been substituted in accordance with Section 16.

“State” means the State of California.

“Stated Termination Date” has the meaning provided in Section 2 hereof.

“Title Company” means _____.

“Trust Agreement” means that certain Trust Agreement, dated as of the date hereof, by and between the City and the Trustee, including any amendments or supplements thereto made or entered into in accordance with its terms.

“Trustee” means [TRUSTEE], as lessor hereunder and as trustee under the Project Trust (as defined in the Trust Agreement), or as Certificates Trustee under the Trust Agreement, as appropriate, or any successor appointed as therein provided.

Section 2. Lease Agreement Term; Transfer of Title to City.

The Trustee hereby leases the Leased Property to the City, and the City hereby leases the Leased Property from the Trustee and agrees to pay the Base Rental and the Additional Rental as provided herein for the right to use and occupy the Leased Property, all on the terms and conditions set forth herein.

The term of this Lease Agreement shall begin on the Closing Date and end on the earliest of (a) [DATE] (the "Stated Termination Date") or (b) at such earlier date as the Certificates and all other amounts due hereunder and under the Trust Agreement shall have been paid or provision for their payment shall have been made in accordance with Section 11.01 of the Trust Agreement, or (c) the date of termination of this Lease Agreement due to casualty or condemnation in accordance with the terms of Section 5 or 6 hereof; provided, however, that to the extent permitted by law, if Base Rental has been abated in any year in accordance with Section 3.5 or has otherwise gone unpaid in whole or in part, the term of this Lease Agreement shall end on the earlier of [DATE plus up to 10 years] or the date on which no Certificates remain outstanding and all Additional Rental has been paid. The foregoing provisions may be modified in connection with Base Rental relating to Additional Certificates.

Upon the termination of this Lease Agreement (other than as provided in Section 6 or Section 13 hereof), all of the Trustee's right, title and interest with respect to the Leased Property, and any improvements thereon or additions thereto, shall be transferred directly to the City or, at the option of the City, to any assignee or nominee of the City, in accordance with the provisions of this Lease Agreement, free and clear of any interest of the Trustee. Upon such termination, the Trustee shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

Section 3. Rent.

3.1 Rental Payments. The City hereby agrees, subject to the terms hereof, to pay to the Trustee the Base Rental and to pay to the parties entitled thereto Additional Rental in an aggregate amount not greater than the fair rental value of the Leased Property in each Lease Agreement Year. In satisfaction of its obligations hereunder, the City shall pay the Base Rental and Additional Rental in the amounts, at the times and in the manner hereinafter set forth, such amounts constituting the aggregate rent payable under this Lease Agreement.

(a) Base Rental. The City agrees to pay, from any legally available funds, aggregate Base Rental in the amounts set forth under the caption "Base Rental" in Exhibit B hereto, which constitutes the principal and interest represented by the Certificates. The Base Rental consists of annual rental payments with principal and interest components. The interest components of the Base Rental payments evidenced by the Certificates shall accrue and be calculated as provided in Section 2.02 of the Trust Agreement. The Base Rental payable by the City shall be due on [Payment Date 1] and [Payment Date 2] in each year and payable on each [] and [] during the Lease Agreement Term, commencing []. The Base Rental may be supplemented pursuant to the terms of a supplement to this Lease Agreement in connection with Additional Certificates as provided in Section 7.04 of the Trust Agreement.

The City shall deposit the Base Rental with the Trustee for application by the Trustee in accordance with the terms of the Trust Agreement. In the event any such date of deposit is not a

Business Day, such deposit shall be made on the next succeeding Business Day. In no event shall the amount of Base Rental payable exceed the aggregate amount of principal and interest required to be paid or prepaid on the corresponding Interest Payment Date as represented by the Outstanding Certificates, according to their tenor.

Notwithstanding any other provision of this Lease Agreement, the City shall receive a credit for any Base Rental payment if and to the extent (i) moneys are on deposit in the Base Rental Fund held under the Trust Agreement (or will be transferred from the Capitalized Interest Account or the Reserve Fund to the Base Rental Fund pursuant to Section 4.06(d) of the Trust Agreement) and are available for the payment of Base Rental evidenced by the Certificates or (ii) investment earnings on Permitted Investments (as defined in the Trust Agreement) will be deposited in or credited to the Base Rental Fund on or after a Base Rental payment date but on or prior to the applicable Interest Payment Date.

(b) Additional Rental. In addition to the Base Rental set forth herein, the City agrees to pay as Additional Rental all of the following:

(i) All taxes and assessments of any nature whatsoever, including but not limited to excise taxes, ad valorem taxes, ad valorem and specific lien special assessments and gross receipts taxes, if any, levied upon the Leased Property or upon any interest of the Trustee or the Owners therein or in this Lease Agreement;

(ii) Insurance premiums, if any, on all insurance required under the provisions of Section 4.3 hereof;

(iii) All fees, costs and expenses (not otherwise paid or provided for out of the proceeds of the sale of the Certificates) of the Trustee and any paying agent in connection with the Trust Agreement;

(iv) Amounts required to be deposited in the Rebate Fund;

(v) Any other fees, costs or expenses incurred by the Trustee in connection with the execution, performance or enforcement of this Lease Agreement or any assignment hereof or of the Trust Agreement or any of the transactions contemplated hereby or thereby or related to the Leased Property; and

(vi) Amounts required to replace, maintain and repair the Leased Property pursuant to Section 4.1 hereof.

Amounts constituting Additional Rental payable hereunder shall be paid by the City directly to the person or persons to whom such amounts shall be payable. The City shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 30 days after notice in writing from the Trustee to the City stating the amount of Additional Rental then due and payable and the purpose thereof.

3.2 Consideration. The payments of Rental Payments under this Lease Agreement for each Fiscal Year or portion thereof during the Lease Agreement Term shall constitute the total rental for such Fiscal Year or portion thereof and shall be paid by the City for and in

consideration for the right to the use and occupancy, and the continued quiet use and enjoyment, of the Leased Property by the City for and during such Fiscal Year or portion thereof. The parties hereto have agreed and determined that such total rental in any Fiscal Year is not and will not be in excess of the total fair rental value of the Leased Property for such Fiscal Year. In making such determination, consideration has been given to the uses and purposes served by the Leased Property and the benefits therefrom that will accrue to the parties by reason of this Lease Agreement and to the general public by reason of the City's use of the Leased Property. Further, the parties hereto agree and acknowledge that supplements to this Lease Agreement which provide for new schedules of Base Rental may be entered into in connection with Additional Certificates and that the right to enter into such supplements is part of the consideration hereunder.

3.3 Budget. The City hereby covenants to take such action as may be necessary to include all Rental Payments due hereunder in its annual budget and to make the necessary annual appropriations for all such Rental Payments, subject to Section 3.5 hereof. The requirement to include the Rental Payments in the annual budget and to make the necessary appropriations therefor are deemed to be, and shall be construed as, ministerial duties imposed by law. Notwithstanding the foregoing, the obligation of the City to make Base Rental or Additional Rental payments does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the City to make Base Rental or Additional Rental payments constitutes an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

3.4 Payment; Credit. Amounts necessary to pay Base Rental shall be deposited by the City on the dates set forth in Section 3.1(a) hereof in lawful money of the United States of America, at the Principal Office of the Trustee, or at such other place or places as may be established in accordance with the Trust Agreement. Except as provided in Section 3.5 hereof, any amount necessary to pay any Base Rental or portion thereof that is not so deposited shall remain due and payable until received by the Trustee. Notwithstanding any dispute between the City and the Trustee hereunder, the City shall make all Rental Payments when due and shall not withhold any Rental Payments pending the final resolution of such dispute or for any reason whatsoever. The City's obligation to make Rental Payments in the amount and on the terms and conditions specified hereunder shall be absolute and unconditional without any right of set-off or counterclaim, and without abatement, subject only to the provisions of Sections 3.1(a) and 3.5 hereof. Amounts required to be deposited with the Trustee pursuant to this Section 3.4 on any date set forth in Section 3.1(a) shall be reduced as permitted in the last paragraph of Section 3.1(a).

3.5 Rental Abatement. Except to the extent of (i) available amounts held by the Trustee in the Base Rental Fund or in the Reserve Fund, (ii) amounts, if any, received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the City for payments in respect of this Lease Agreement or to the Trustee for payments in respect of the Certificates, Rental Payments due hereunder shall be subject to abatement in accordance with this Section 3.5 during any period in which, by reason of material damage, destruction or condemnation of the Leased Property or any portion thereof, noncompletion of the construction

of the Facilities, or due to defects in title to the Leased Property, or any portion thereof, there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City. The amount of annual rental abatement shall be such that the resulting Rental Payments in any Lease Agreement Year during which such interference continues, excluding any amounts described in clauses (i), (ii), (iii) above, do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of a City Representative. Such abatement shall continue for the period commencing with the date of such damage, destruction, condemnation or discovery of such title defect and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of the title defect. In the event of any such damage, destruction, condemnation or title defect, this Lease Agreement shall continue in full force and effect, except as set forth in Sections 5 and 6 hereof. Notwithstanding the foregoing, the City in its sole discretion may in lieu of abatement elect, but is not obligated, to substitute property for the damaged, condemned or destroyed Leased Property, or portion thereof, pursuant to Section 16 hereof.

3.6 Triple Net Lease. This Lease Agreement is intended to be a triple net lease. The City agrees that the Rental Payments provided for herein shall be an absolute net return to the Trustee free and clear of any expenses, charges or set-offs whatsoever.

Section 4. Affirmative Covenants of the Trustee and the City. The Trustee and the City are entering into this Lease Agreement in consideration of, among other things, the following covenants:

4.1 Replacement, Maintenance and Repairs. The City shall, at its own expense and as determined and specified by the Director of Property, during the Lease Agreement Term maintain the Leased Property, or cause the same to be maintained, in good order, condition and repair. The City shall replace any portion of the Leased Property that is destroyed or damaged to such an extent that there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City that would result in an abatement of Rental Payments or any portion thereof pursuant to Section 3.5 hereof; provided, however, that the City shall not be required to repair or replace any such portion of the Leased Property pursuant to this Section 4.1 if there shall be applied to the prepayment of Outstanding Certificates insurance or condemnation proceeds or other legally available funds sufficient to prepay (i) all of the Certificates Outstanding and to pay all other amounts due hereunder and under the Trust Agreement, or (ii) any portion thereof such that the resulting Rental Payments payable pursuant to Section 3.1 hereof in any Lease Agreement Year following such partial prepayment are sufficient to pay in the then current and any future Lease Agreement Year the principal and interest with respect to all Certificates to remain Outstanding and all other amounts due hereunder and under the Trust Agreement, to the extent it is due and payable in such Lease Agreement Year.

The City shall provide or cause to be provided all security service, custodial service, janitorial service and other services necessary for the proper upkeep and maintenance of the Leased Property. It is understood and agreed that in consideration of the payment by the City of the Rental Payments herein provided for, the City is entitled to use and occupy the Leased Property and the Trustee shall have no obligation to incur any expense of any kind or character

in connection with the management, operation or maintenance of the Leased Property during the Lease Agreement Term. The Trustee shall not be required at any time to make any improvements, alterations, changes, additions, repairs or replacements of any nature whatsoever in or to the Leased Property. The City hereby expressly waives the right to make repairs or to perform maintenance of the Leased Property at the expense of the Trustee and (to the extent permitted by law) waives the benefit of Sections 1932, 1941 and 1942 of the California Civil Code relating thereto.

The City shall keep the Leased Property free and clear of all liens, charges, security interests and encumbrances that materially reduce the fair rental value of the Leased Property other than (i) those existing on or prior to the Closing Date, including the exceptions listed on Schedule B to the applicable Pro Forma Policy (ii) those existing on or prior to the date any property is substituted for the Leased Property or any portion thereof pursuant to Section 16 hereof or any property is added to the Leased Property in connection with Additional Certificates pursuant to Section 7.04 of the Trust Agreement, including the exceptions listed on Schedule B to the applicable Pro Forma Policy, (iii) any supplements or amendments to the Lease Agreement or Property Lease which are entered into pursuant to the terms hereof and thereof, including but not limited to supplements or amendments in connection with Additional Certificates delivered pursuant to Section 7.04 of the Trust agreement, (iv) any liens of mechanics, materialmen, suppliers, vendors or other persons or entities for work or services performed or materials furnished in connection with the Leased Property that are not due and payable or the amount, validity or application of which is being contested in accordance with Section 4.4 and (v) any encumbrances that do not materially reduce the fair rental value of the Leased Property hereof (collectively, the "Permitted Encumbrances").

4.2 Taxes, Other Governmental Charges and Utility Charges. The City contemplates that the Leased Property will be used for a governmental purpose of the City and, therefore, that the Leased Property will be exempt from all taxes presently assessed and levied with respect to the Leased Property. Nevertheless, the City hereby agrees to pay during the Lease Agreement Term, as the same respectively become due, all taxes (except for income or franchise taxes of the Trustee), utility charges and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property; provided, however, that with respect to any governmental charges that may lawfully be paid in installments over a period of years, the City shall be obligated to pay only such installments as are accrued during such time as this Lease Agreement is in effect; and provided further, that the City may contest in good faith the validity or application of any tax, utility charge or governmental charge in any reasonable manner that, in the opinion of Independent Counsel does not adversely affect the right, title and interest of the Trustee in and to any portion of the Leased Property or its rights or interests under this Lease Agreement or subject any portion of the Leased Property to loss or forfeiture. Any such taxes or charges shall constitute Additional Rental under Section 3.1(b) hereof and shall be payable directly to the entity assessing such taxes or charges.

4.3 Insurance.

(a) The City shall maintain or cause to be maintained, throughout the Lease Agreement Term (but during the period of construction of the Facilities only the insurance

described in paragraphs (i) and (vi) below shall be required and may be provided by the contractor under the construction contract for the Facilities):

(i) [General liability insurance against damages occasioned by reason of the construction of improvements to, or operation of, the Leased Property. Said policy or policies shall provide coverage in the following minimum amount: \$5,000,000 combined single limit for bodily and personal injury and property damage per occurrence. Such liability insurance may be maintained as part of or in conjunction with excess coverage or any other liability insurance coverage carried by the City.]

(ii) All risk property insurance on all structures constituting any part of the Leased Property in an amount equal to the Outstanding principal amount of Certificates (to the extent commercially available). Said insurance shall, as nearly as practicable, cover loss or damage by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance.

(iii) To the extent commercially available, earthquake insurance in an amount equal to the lesser of the Outstanding principal amount of the Certificates; provided that no such earthquake insurance shall be required if the Risk Manager files a written recommendation annually with the Trustee that such insurance is not obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies.

(iv) Commencing on the date of Final Completion of the Facilities, rental interruption insurance with the Trustee as a named insured, as its interests may appear, in an amount not less than the aggregate Base Rental payable by the City pursuant to this Lease Agreement for a period of at least 24 months (such amount to be adjusted annually on or prior to [] of each year, to reflect the actual scheduled Base Rental payments due under this Lease Agreement for the next succeeding 24 months), to insure against loss of rental income from the Leased Property caused by perils covered by the insurance required by clauses (ii) and (iii) above. Such insurance shall not be subject to any deductible.

(v) Boiler and machinery insurance, comprehensive form, insuring against accidents to pressure vessels and mechanical and electrical equipment, with a property damage limit not less than \$5,000,000 per accident.

(vi) Builders' risk insurance in an amount equal to the lesser of the Outstanding principal amount of the Certificates, or the replacement cost of the Facilities, which insurance shall be outstanding until Final Completion of the Facilities.

All policies of insurance required under clauses (ii), (iii), (iv), (v) and (vi) above shall name the City and the Trustee as the insured parties and shall provide that all proceeds thereunder shall be payable to the Trustee pursuant to a lender's loss payable endorsement substantially in accordance with the form approved by the Risk Manager, and all amounts so paid to the Trustee shall be applied as provided in the Trust Agreement. All policies of insurance

may provide for a deductible amount that is commercially reasonable (as determined by the Risk Manager).

(b) All policies of insurance required by this Lease Agreement shall be in a form or forms certified by the Risk Manager (as provided below) to be in compliance with the requirements of this Lease Agreement. The City shall pay when due the premiums for all insurance policies required by this Lease Agreement. All insurance under this Lease Agreement shall be primary to any other insurance available to the City, and shall apply separately to each insured against whom claim is made or suit is brought and shall provide that the Trustee shall be given 30 days' notice of cancellation (10 days if for nonpayment of premium) or intended non-renewal. All insurance required to be maintained pursuant to this Lease Agreement may be maintained either separately or as a part of any insurance carried by the City, but if maintained as part of other insurance carried by the City, shall specifically identify the Leased Property as being covered by such insurance, the amount of coverage applicable to the Leased Property, and the amount of the deductible applicable to the Leased Property. All insurance must be provided by a commercial insurer rated "A-, VIII" or higher by A.M. Best Company.

The City shall certify in writing to the Trustee by no later than [] of each year, commencing [], that there is in effect the insurance or self-insurance required by this Section 4.3. The Risk Manager will also, at that time, file the written recommendation required by Section 4.3(a)(3) if no earthquake insurance has been obtained by the City, and shall also certify that the insurance the City has obtained pursuant to this Lease Agreement is in a form or forms which are in compliance with the requirements of this Lease Agreement.

Notwithstanding anything herein to the contrary, the City shall have the right to adopt alternative risk management programs to insure against any of the risks required to be insured against under this Lease Agreement, including a program of self-insurance (other than rental interruption insurance and title insurance), in whole or in part; provided that (i) any such alternative risk management program has been approved as reasonable and appropriate risk management by the Risk Manager, and (ii) any reserves set aside for such program shall be certified at least annually on each [], commencing [], as to their adequacy by the Risk Manager in a certificate delivered to the Trustee. In addition, any of the Mayor, Controller, Director of Property or Director of Public Finance of the City may, if in the best interests of the City, approve such other types of insurance, including any increases in the insurance coverage required by this Lease Agreement, upon the recommendation of the Risk Manager, or in connection with obtaining or maintaining any rating on the Certificates. The Trustee shall not be responsible for the adequacy, sufficiency or coverage of the insurance or self-insurance required or allowed by this Section 4.3.

(c) The City shall deliver to the Trustee, on the date of execution and delivery of the Certificates, evidence of the commitment of a title insurance company to issue a CLTA or ALTA policy of title insurance (with no survey required), in an amount at least equal to the initial aggregate principal amount of the Certificates, showing fee title of the Site in the name of the City and a leasehold interest in the Leased Property in the name of the Trustee, and naming the insured parties as the City and the Trustee, for the benefit of the Owners of the Certificates.

4.4 Liens. The City promptly shall pay or cause to be paid all sums of money that may become due for any labor, services, materials, supplies or equipment alleged to have been furnished or to be furnished to or for, in, upon or about the Leased Property and that may be secured by any mechanic's, materialman's or other lien against the Leased Property, or the interest of the Trustee therein, and shall cause each such lien to be fully discharged and released; provided, however, that the City or the Trustee (i) may contest in good faith any such claim or lien without payment thereof so long as such non-payment and contest stays execution or enforcement of the lien, but if such lien is reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not stayed, or if stayed and the stay thereafter expires, then and in any such event the City shall forthwith pay and discharge such judgment or lien, or (ii) delay payment without contest so long as and to the extent that such delay will not result in the imposition of any penalty or forfeiture.

4.5 Laws and Ordinances. The City agrees to observe and comply with all rules, regulations and laws applicable to the City with respect to the Leased Property and the operation thereof. The cost, if any, of such observance and compliance shall be borne by the City, and the Trustee shall not be liable therefor. The City agrees further to place, keep, use, maintain and operate the Leased Property in such a manner and condition as will provide for the safety of its agents, employees, invitees, subtenants, licensees and the public.

4.6 Performance. The City shall faithfully observe all covenants and other provisions contained in the Financing Documents (as defined in the Trust Agreement) to which it is a party.

4.7 Tax Matters.

(a) Special Definitions. When used in this Section, the following terms have the following meanings:

"Code" means the Internal Revenue Code of 1986, as amended.

"Computation Date" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Gross Proceeds" means any proceeds as defined in Section 1.148-1(b) of the Regulations, and any replacement proceeds as defined in Section 1.148-1(c) of the Regulations, of the Bonds. The City and the Trustee intend to syndicate the beneficial ownership of this Lease Agreement through the issuance of certificates of participation, and agree that should such syndication occur in connection with the execution and delivery of this Lease Agreement, the City will treat all proceeds of such syndication as sale proceeds of this Lease Agreement. (within the meaning of said section 1.148-1(b)).

"Investment" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Nonpurpose Investment" means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of this Lease Agreement are invested and which is not acquired to carry out the governmental purposes of this Lease Agreement.

"Rebate Amount" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Regulations" means any proposed, temporary, or final Income Tax Regulations issued pursuant to Sections 103 and 141 through 150 of the Code, and 103 of the Internal Revenue Code of 1954, which are applicable to this Lease Agreement. Any reference to any specific Regulation shall also mean, as appropriate, any proposed, temporary or final Income Tax Regulation designed to supplement, amend or replace the specific Regulation referenced.

"Yield" of

(1) any Investment has the meaning set forth in Section 1.148-5 of the Regulations; and

(2) this Lease Agreement has the meaning set forth in Section 1.148-4 of the Regulations.

(b) Lease Agreement as Obligation of the City; Not to Cause Interest to Become Taxable. The City represents and warrants that it intends that for federal income tax purposes and for California personal income tax purposes this Lease Agreement is to be treated as an obligation of the City, that the interest components and principal components of each Base Rental is intended to be treated as the corresponding payment of interest on and principal of such obligation, respectively, and that the interest on such obligation is intended to be excluded pursuant to section 103(a) of the Code from the gross income of the Trustee or its assigns. The City shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which if made or omitted, respectively, would cause the interest component on any Base Rental to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the City receives a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest component of any Base Rental, the City shall comply with each of the specific covenants in this Section. The covenants set forth in this Section shall survive the defeasance under Section 11.01 of the Trust Agreement.

(c) No Private Use or Private Payments. Except as permitted by section 141 of the Code and the Regulations and rulings thereunder, the City shall at all times prior to the Stated Termination Date:

(1) exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds (including property financed with Gross Proceeds of any obligations refunded by this Lease Agreement), and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds (including property financed with Gross Proceeds of any obligations refunded by this Lease Agreement), other than taxes of general application within the City or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(d) No Private Loan. Except to the extent permitted by section 141 of the Code and the Regulations and rulings thereunder, the City shall not use Gross Proceeds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be "loaned" to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership; of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction which is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the City shall not at any time prior to the Stated Termination Date directly or indirectly invest Gross Proceeds in any Investment, if as a result of such investment the Yield of any Investment acquired with Gross Proceeds, whether then held or previously disposed of, exceeds the Yield of this Lease Agreement.

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Regulations and rulings thereunder, the City shall not take or omit to take any action which would cause this Lease Agreement to be federally guaranteed within the meaning of section 149(b) of the Code and the Regulations and rulings thereunder.

(g) Information Report. The City shall timely file the information required by section 149(e) of the Code with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(h) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Regulations and rulings thereunder:

(1) The City shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the Stated Termination Date. However, to the extent permitted by law, the City may commingle Gross Proceeds with other money of the City, provided that the City separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than each Computation Date, the City shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Regulations and rulings thereunder. The City shall maintain such calculations with its official transcript of proceedings relating to the execution and delivery of this Lease Agreement until six years after the final Computation Date.

(3) In order to assure the excludability of the interest components of the Base Rental from the gross income for federal income tax purposes, the City shall pay to the Trustee for deposit into the Rebate Fund established pursuant to the Trust Agreement an amount sufficient to permit the City timely to pay to the United States the amount that when added to the future value of previous rebate payments made hereunder equals (i) in the case of a Final Computation Date as defined in Section 1.148-3(e)(2) of the Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (ii) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, the rebate payments shall be made at the times, in the installments, to the place and in the manner as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by Section 148(f) of the Code and the Regulations and rulings thereunder.

(4) The City shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3), and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under Section 1.148-3(h) of the Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the City shall not, at any time prior to the Stated Termination Date, enter into any transaction that reduces the amount required to be paid to the United States pursuant to Section 4.7(h) because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of this Lease Agreement not been relevant to either party.

(j) Elections. The City hereby directs and authorizes the _____ and _____, either or any combination of them, to make elections permitted or required pursuant to the provisions of the Code or the Regulations, as they deem necessary or appropriate in connection with the Bonds, in the Tax Certificate or similar or other appropriate certificate, form or document.

4.8 Continuing Disclosure. The City hereby covenants and agrees that it will comply with the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Trust Agreement, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an event of default hereunder; however, the Trustee may (and, at the request of the Participating Underwriter (as defined in the Continuing Disclosure Certificate) or the Owners of at least twenty-five percent (25%) of the aggregate principal amount of the Outstanding Certificates, shall) or any holder or Beneficial Owner (as defined in

the Continuing Disclosure Certificate), may take such actions as may be necessary and appropriate to cause the City to comply with the provisions of the Continuing Disclosure Certificate.

4.9 Acquisition, Construction and Renovation of the Facilities. The City shall use its commercially reasonable best efforts to cause the construction, renovation and installation to be performed diligently to the end that the Facilities will be substantially completed in accordance with the aforesaid plans and specifications. The City shall cause the acquisition, construction, renovation, installation or improvement to the Facilities to be completed in accordance with any applicable requirements of governmental authorities and law.

Section 5. Application of Insurance Proceeds.

(a) General. Proceeds of insurance, if any, received in respect of destruction of or damage to any portion of the Leased Property by fire or other casualty or event, or proceeds of, earthquake insurance, if such earthquake insurance is obtained, shall be paid to the Trustee for application in accordance with the provisions of Section 4.09(a) of the Trust Agreement. If there is an abatement of Rental Payments pursuant to Section 3.5 hereof as a result of such casualty or event, and the City elects pursuant to Section 4.09(a) of the Trust Agreement to apply such insurance proceeds and such other sums as are deposited pursuant to such section to the prepayment of Certificates rather than to the replacement or repair of the destroyed or damaged portion of the Leased Property, then this Lease Agreement shall terminate with respect to the destroyed or damaged portion of the Leased Property as of the later of the date of such election by the Trustee or the date the amount required by Section 4.09(a) of the Trust Agreement is received by the Trustee and in either case, after payment of any Additional Rental owed hereunder. If the City elects, pursuant to Section 4.09(a) of the Trust Agreement, to apply such proceeds to the repair or replacement of the portion of the Leased Property that has been damaged or destroyed and there has been an abatement of Rental Payments pursuant to Section 3.5 hereof, then Rental Payments shall again begin to accrue with respect thereto upon repair or replacement of such portion of the Leased Property.

(b) Title Insurance. Proceeds of title insurance received with respect to the Leased Property shall be paid to the Trustee for application in accordance with the provisions of Section 4.10 of the Trust Agreement.

Section 6. Eminent Domain.

6.1 Total Condemnation. If the Leased Property, or so much thereof as to render the remainder of the Leased Property unusable for the City's purposes under this Lease Agreement, shall be taken under the power of eminent domain, then this Lease Agreement shall terminate as of the later of the day possession shall be so taken and the date of entry of the interlocutory judgment and in either case, after payment of any Additional Rental owed hereunder. Notwithstanding the foregoing, the City may, at its option, but is not obligated to apply the proceeds relating to the condemnation to the replacement of the condemned Leased Property, and in the event there has been an abatement of Rental Payments pursuant to Section 3.5 hereof, then Rental Payments shall again begin to accrue with respect thereto upon replacement of the Leased Property.

6.2 Partial Condemnation. If less than a substantial portion of the Leased Property shall be taken under the power of eminent domain, and the remainder is useable for the City's purposes, then this Lease Agreement shall continue in full force and effect as to the remaining portions of the Leased Property, subject only to such rental abatement as is required by Section 3.5 hereof. The City and the Trustee hereby waive the benefit of any law to the contrary. Any award made in eminent domain proceedings for the taking shall be paid to the Trustee for application in accordance with the provisions of Section 4.09 of the Trust Agreement. If the City elects, pursuant to Section 4.09(b) of the Trust Agreement, to apply such proceeds to the repair or replacement of the condemned portion of the Leased Property, and in the event there has been an abatement of Rental Payments pursuant to Section 3.5 hereof, then Rental Payments shall again begin to accrue with respect thereto upon the completion of repair or replacement of such portion of the Leased Property.

Section 7. Prepayment of Rental Payments.

(a) The City may prepay, or may cause to be prepaid, from eminent domain proceeds or net insurance proceeds received by it, all or any portion of the principal component of Base Rental payments then unpaid, in whole on any date, or in part on any date in amounts which result in Certificates being prepaid in integral multiples of \$5,000 so that the aggregate annual amount of Certificates maturing in each year after such prepayment date shall each be in an integral multiple of \$5,000, at a prepayment price equal to the sum of the principal components prepaid plus accrued interest thereon to the date of prepayment, without premium. Such prepayment shall be apportioned among Base Rental payments as directed by the City in a certificate of a City Representative, provided that at the time of such apportionment, the City shall deliver to the Trustee a certificate of a City Representative to the effect that the resulting Base Rental payments and Additional Rental payable during the remaining Lease Agreement Term shall not exceed the fair rental value of the Leased Property during each subsequent Lease Agreement Year and that the resulting Base Rental payments are sufficient to pay the scheduled principal and interest components evidenced by the Certificates.

(b) The City may prepay, from any source of available funds, all or any portion of the Base Rental payments due on or after the Base Rental payment date immediately preceding the first date on which the Certificates are subject to optional prepayment pursuant to Section 5.01(a) of the Trust Agreement. Such optional prepayment may be made (i) in whole in an amount not exceeding the amount of the Certificates then Outstanding (including accrued and unpaid interest and any premium on the Certificates) on any date on or after the Base Rental payment date immediately preceding the first date on which the Certificates are subject to optional prepayment pursuant to Section 5.01(a) of the Trust Agreement, or (ii) in part in amounts that result in the Certificates being prepaid in integral multiples of \$5,000 on any date on or after the Base Rental payment date immediately preceding the first date on which the Certificates are subject to optional prepayment pursuant to Section 5.01(a) of the Trust Agreement, from such Base Rental payments as are selected by the City as set forth in a request of the City in each case at a prepayment price equal to the sum of the Certificates to be prepaid plus accrued interest thereon to the date of prepayment plus any premium on the Certificates as set forth in the Trust Agreement. As a condition to prepaying Base Rental payments under this paragraph (b), the City shall first deliver to the Trustee a certificate of a City Representative to the effect that the resulting Base Rental payments are sufficient to pay the remaining scheduled principal and

interest components evidenced by the Certificates. Base Rental Payments due hereunder may also be defeased in whole or in part pursuant to Section 11.01 of the Trust Agreement.

(c) The City may prepay, from any source of available funds, the Base Rental payments due on or after the Base Rental payment date immediately preceding the date on which the Certificates are subject to mandatory prepayment pursuant to Section 5.01(c) of the Trust Agreement.

(d) Before making any prepayment pursuant to this Lease Agreement, the City shall give written notice to the Trustee describing such event and specifying the amount of the prepayment and the date on which the prepayment will be made.

Section 8. Assignment. The City shall not sell, mortgage, pledge, assign or transfer any interest of the City in this Lease Agreement or in the Leased Property by voluntary act or by operation of law, or otherwise; provided, however, that the City may grant concessions (including by sublease) to others involving the use of any portion of the Leased Property whether or not such concessions purport to convey a leasehold interest or a license to use a portion of the Leased Property. Any such concession shall be, and shall specifically state that it is, subject and subordinate in all respects to this Lease Agreement. Subject to the limitations set forth herein, the City shall at all times remain liable for the performance of the covenants and conditions on its part to be performed under this Lease Agreement, notwithstanding any granting of concessions which may be made. Nothing herein contained shall be construed to relieve the City of its primary obligation to pay Rental Payments as provided in this Lease Agreement or to relieve the City of any other obligations contained herein. In no event shall the City sublease to or permit the use of all or any part of the Leased Property by any person so as to cause the interest component with respect to the Certificates to be includable in gross income for federal income tax purposes or to be subject to State personal income tax.

The City hereby expressly approves and consents to the Trust Agreement and to the execution and delivery of the Certificates evidencing proportionate interests in all of the rights of the Trustee under the Lease Agreement, including the right to receive Base Rental Payments thereunder.

Section 9. Additions and Improvements; Removal. The City shall have the right during the Lease Agreement Term to make any additions or improvements to the Leased Property, to attach fixtures, structures or signs, and to affix any personal property to the Leased Property, so long as the fair rental value of the Leased Property is not thereby materially reduced. Title to all fixtures, equipment or personal property placed by the City on the Leased Property shall remain in the City to the extent that such items may be removed from the Site without damage. Title to any personal property, improvements or fixtures placed on any portion of the Leased Property by any sublessee or licensee of the City shall be controlled by the sublease or license agreement between such sublessee or licensee and the City, which sublease or license agreement shall not be inconsistent with this Lease Agreement.

Section 10. Right of Entry. Representatives of the Trustee shall, subject to reasonable security precautions, have the right (but not the duty) to enter upon the Leased Property during reasonable business hours (and in emergencies at all times) (i) to inspect the same, (ii) for any

purpose connected with the rights or obligations of the Trustee under this Lease Agreement, or (iii) for all other lawful purposes.

Section 11. Quiet Enjoyment. The Trustee covenants and agrees that the City, upon keeping and performing the covenants and agreements herein contained, shall, at all times during the Lease Agreement Term, peaceably and quietly have, hold, and enjoy the Leased Property.

Section 12. Indemnification and Hold Harmless Agreement. To the extent permitted by law, the City hereby agrees to indemnify and hold the Trustee and its officers, directors and employees harmless against any costs, expenses, claims and all other liabilities (other than the negligence or willful misconduct of the Trustee and its officers, directors and employees) that might arise out of or are related to the Leased Property or any portion thereof (including, without limitation, arising out of any use, storage, release, presence or disposal of any Hazardous Substances on or about the Leased Property and the acquisition, transfer, delivery and use of the Leased Property) and the Certificates. The provisions of this Section 12 shall survive the termination of this Lease Agreement.

Section 13. Default by City.

(a) Events of Default. The following shall be events of default hereunder: (i) the City shall fail to deposit with the Trustee any Base Rental payment required to be so deposited pursuant to Section 3.1(a) hereof by the related Interest Payment Date; (ii) the City shall fail to pay any item of Additional Rental as and when the same shall become due and payable pursuant to Section 3.1(b) hereof; or (iii) the City shall breach any other terms, covenants or conditions contained herein, in the Property Lease or in the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 60 days after written notice thereof from the Trustee, or its assignee to the City, or, if such breach cannot be remedied within such 60-day period, shall fail to institute corrective action within such 60-day period and diligently pursue the same to completion; provided, however, that failure to comply with the Continuing Disclosure Certificate shall not constitute an event of default hereunder.

(b) Remedies on Default. The Trustee shall have the right, at its option, without any further demand or notice, so long as the Trustee does not terminate this Lease Agreement or the City's possession of the Leased Property, to enforce all of its rights and remedies under this Lease Agreement, including the right to recover Base Rental payments as they become due under this Lease Agreement pursuant to Section 1951.4 of the California Civil Code by pursuing any remedy available in law or in equity, except as expressly provided herein. The Trustee or any assignee of the rights of the Trustee hereunder shall not exercise its remedies hereunder so as to cause the interest with respect to the Certificates to be includable in gross income for federal income tax purposes or the interest with respect to the Certificates to be subject to State personal income tax. Notwithstanding any other provision of this Lease Agreement or the Trust Agreement, in no event shall the Trustee have the right to accelerate the payment of any Base Rental hereunder.

Each and every remedy of the Trustee or any assignee of the rights of the Trustee hereunder is cumulative and the exercise of one remedy shall not impair the right of the Trustee or its assignee to any or all other remedies. If any statute or rule validly shall limit the remedies

given to the Trustee or any assignee of the rights of the Trustee, the Trustee or its assignee nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

[The Trustee hereby waives any right of the Trustee to re-let the Leased Property, or, alternatively, depending on market requirements for remedy on Default, include right to re-let.]

All damages and other payments received by the Trustee pursuant to this Section 13 shall be applied in the manner set forth in Section 9.07 of the Trust Agreement.

Section 14. Waiver. The waiver by the Trustee of any breach by the City, and the waiver by the City of any breach by the Trustee of any term, covenant or condition hereof shall not operate as a waiver of any subsequent breach of the same or any other term, covenant or condition hereof.

Section 15. Disclaimer of Warranties. NEITHER THE TRUSTEE NOR ANY PERSON ACTING ON ITS BEHALF HAS MADE OR MAKES ANY WARRANTY OR REPRESENTATION AS TO THE PAST, PRESENT OR FUTURE CONDITION OF THE LEASED PROPERTY NOT HEREIN EXPRESSED, AND THE CITY HAS ENTERED INTO THIS LEASE AGREEMENT WITHOUT REPRESENTATIONS OR WARRANTIES WITH RESPECT THERETO ON THE PART OF THE TRUSTEE, ITS AGENTS, REPRESENTATIVES OR EMPLOYEES.

Section 16. Addition, Release and Substitution. If no Lease Agreement Event of Default has occurred and is continuing hereunder, this Lease Agreement may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, if such amendment is to modify or amend the description of the Leased Property or to release from this Lease Agreement any portion of the Leased Property, or to add other property and improvements to the Leased Property or substitute other property and improvements for the Leased Property, provided that the City shall have delivered to the Trustee, and to the Rating Agencies all of the following:

(i) Executed copy of this Lease Agreement and, if applicable, the Property Lease or amendments hereto or thereto containing the amended legal description of the Leased Property;

(ii) Evidence that a copy of this Lease Agreement and, if applicable, the Property Lease or amendments hereto or thereto containing the amended legal description of the Leased Property have been duly recorded in the official records of the County Recorder of the County of San Francisco;

(iii) A certificate of a City Representative stating that the annual fair rental value of the Leased Property and/or improvements that will constitute the Leased Property after such addition, release or substitution will be at least equal to 100% of the maximum amount of Base Rental payments becoming due in the then current Lease Agreement Year or in any subsequent Lease Agreement Year;

(iv) In the case of the addition or substitution of property for the then existing Leased Property, a title policy or policies meeting the requirements of Section 4.3(b)

hereof, or a commitment or commitments for such policies or amendments or endorsements to existing policies resulting in the issuance of a title insurance policy with respect to the Leased Property after such addition or substitution in an amount at least equal to the amount of such insurance provided with respect to the Leased Property prior to such addition or substitution. Each such insurance instrument, when issued, shall insure such added or substituted project subject only to such exceptions as do not substantially interfere with the City's right to use and occupy such added or substituted project and as will not result in an abatement of Base Rental payments payable by the City under this Lease Agreement;

(v) A certificate of a City Representative stating that such addition, release or substitution does not materially adversely affect the ability of the City to perform its obligations under this Lease Agreement or the Property Lease;

(vi) (A) An opinion of counsel stating that such amendment or modification (1) is authorized or permitted by the Constitution and laws of the State and by this Lease Agreement, the Property Lease and the Trust Agreement; (2) complies with the terms of the Constitution and laws of the State and of this Lease Agreement, the Property Lease and the Trust Agreement; and (3) will, upon the execution and delivery thereof, be valid and binding upon the Trustee and the City in accordance with its terms; and (B) an opinion of Independent Counsel stating that such amendment or modification will not cause the interest component of the Base Rental payments relating to the Certificates to be included in gross income for federal income tax purposes or the interest component of the Base Rental payments relating to the Certificates to be subject to State personal income tax;

(vii) A certificate of a City Representative stating that the useful life of the project that will constitute the Leased Property after such addition, release or substitution meets or exceeds the remaining term of the Certificates; and

(viii) A certificate of the Director of Property stating the useful life of the project that will constitute the Leased Property after such addition, release or substitution and that such project is not encumbered by any prior liens (other than Permitted Encumbrances and liens which do not, in the aggregate, prohibit the use of such project in the manner intended by the City).

Section 17. Notices. All notices, requests, demands and other communications under this Lease Agreement shall be in writing (unless otherwise specified herein) and shall be sufficiently given on the date of service if served personally upon the person to whom notice is to be given or if mailed by first class registered or certified mail, return receipt requested, postage prepaid, and properly addressed as follows:

if to the City: City and County of San Francisco
 City Hall, 1 Dr. Carlton B. Goodlett Place, Room 316
 San Francisco, California 94102
 Attention: City Controller

with copies to:

City and County of San Francisco
City Hall, 1 Dr. Carlton B. Goodlett Place, Room 336
San Francisco, California 94102
Attention: Director of Public Finance

Office of the City Attorney
City Hall, 1 Dr. Carlton B. Goodlett Place, Room 234
San Francisco, California 94102
Attention: Special Projects/Finance Team

if to the Trustee:

[Trustee]

or to such other address or addresses as any such person shall have designated to the others by notice given in accordance with the provisions of this Section 17.

Section 18. Validity. If any one or more of the terms, provisions, promises, covenants or conditions of this Lease Agreement shall to any extent be adjudged invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, then each and all of the remaining terms, provisions, promises, covenants and conditions of this Lease Agreement shall not be affected thereby and shall be valid and enforceable to the fullest extent permitted by law.

If for any reason this Lease Agreement shall be held by a court of competent jurisdiction to be void, voidable or unenforceable by the Trustee or by the City, or if for any reason it is held by such a court that any of the covenants and agreements of the City hereunder, including the covenant to pay Rental Payments hereunder, is unenforceable for the full term hereof, then and in such event for and in consideration of the right of the City to possess, occupy and use the Leased Property, which right in such event is hereby granted, this Lease Agreement shall thereupon become and shall be deemed to be a lease from year to year under which the annual Base Rental payments and Additional Rental payments herein specified will be paid by the City.

Section 19. Law Governing. This Lease Agreement shall be governed and construed in accordance with the laws of the State.

Section 20. Amendment. This Lease Agreement may be amended only in accordance with and as permitted by the terms of Section 7.02 of the Trust Agreement. Any amendment in connection with the execution and delivery of Additional Certificates shall be substantially in the form of Exhibit C.

Section 21. Excess Payments. Notwithstanding anything contained herein or in the Trust Agreement to the contrary, if for any reason, including but not limited to damage, destruction, condemnation, transfer, sale or disposition, the City or the Trustee receives payments, proceeds or awards with respect to the Leased Property in excess of the amount necessary to pay or prepay or provide in accordance with the Trust Agreement for the payment

or prepayment of all of the Outstanding Certificates and all other amounts due hereunder and under the Trust Agreement, such excess shall represent the City's equity interest in the Leased Property and shall all be paid to the City.

Section 22. No Merger. If both the Trustee's and the City's estate under this or any other lease relating to the Leased Property or any portion thereof shall at any time for any reason become vested in one owner, this Lease Agreement and the estate created hereby shall not be destroyed or terminated by the doctrine of merger unless the City so elects as evidenced by recording a written declaration so stating, and, unless and until the City so elects, the City shall continue to have and enjoy all of its rights and privileges as to the separate estates. The City hereby covenants not to permit or consent to any such merger as long as any Certificates are Outstanding.

Section 23. Further Assurances and Corrective Instruments. The City and the Trustee agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Leased Property leased hereby or intended to be so leased or for carrying out the express intention of this Lease Agreement.

Section 24. Assignment. The services to be performed by the Trustee are personal in character and neither this Lease Agreement nor any duties or obligations hereunder may be assigned or delegated by the Trustee unless first approved by the City by written instrument executed and approved in the same manner as this Lease Agreement.

Section 25. City Contracting Provisions. The Trustee covenants and agrees to comply with the provisions set forth in Exhibit D to this Lease Agreement, which is incorporated in and made a part of this Lease Agreement by this reference.

Section 26. Concerning the Trustee. The Trustee is executing this Lease Agreement solely in its capacity as trustee under the Trust (as defined in the Trust Agreement), subject to the protections, indemnities and limitations from liability afforded to the Trustee thereunder, (ii) nothing contained herein shall be construed as creating any liability on the Trustee, individually or personally, to perform any covenant, duty or obligation of any kind contained in this Lease Agreement, and (iii) under no circumstances shall the Trustee be liable for the payment of any fees, costs, indebtedness or expenses related to or arising from this Lease Agreement or any documents related hereto except from amounts held under the Trust Agreement.

26.1 Execution in Counterparts. This Lease Agreement may be executed in several counterparts, each of which shall be deemed to be an original, and all of which together shall constitute but one and the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Lease Agreement as of the date first above written.

[TRUSTEE], as Trustee

By: _____
Authorized Signatory

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Mayor

[SEAL]

ATTEST:

By: _____
Clerk of the Board of Supervisors

APPROVED AS TO FORM:

DENNIS J. HERRERA
City Attorney

By: _____
Deputy City Attorney

A NOTARY PUBLIC OR OTHER OFFICER COMPLETING THIS CERTIFICATE
VERIFIES ONLY THE IDENTITY OF THE INDIVIDUAL WHO SIGNED THE
DOCUMENT TO WHICH THIS CERTIFICATE IS ATTACHED, AND NOT THE
TRUTHFULNESS, ACCURACY, OR VALIDITY OF THAT DOCUMENT.

STATE OF CALIFORNIA)
) ss:
COUNTY OF SAN FRANCISCO)

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

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

WITNESS my hand and official seal.

[Seal]

CERTIFICATE OF ACCEPTANCE BY CITY AND COUNTY OF SAN FRANCISCO

This is to certify that the interest in real property conveyed by the Lease Agreement, dated [Dated Date], from [Trustee] to the City and County of San Francisco, a charter city and county and municipal corporation, is hereby accepted by the undersigned on behalf of the Board of Supervisors pursuant to authority conferred by resolution of the Board of Supervisors adopted on [_____], and the grantee consents to recordation thereof.

Dated: [Dated Date]

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Mayor

ATTEST:

By: _____
Clerk of the Board of Supervisors

APPROVED AS TO FORM:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

EXHIBIT A
DESCRIPTION OF THE SITE

[To Come]

EXHIBIT B

BASE RENTAL PAYMENT SCHEDULE

<u>Payment Date*</u>	<u>Principal</u>	<u>Interest</u>	<u>Semi-Annual Base Rental</u>	<u>Annual Base Rental</u>
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* Base Rental is payable on each _____ and _____ prior to the Payment Date as provided under the Lease Agreement.

EXHIBIT C

**FORM OF SUPPLEMENT TO THE LEASE AGREEMENT
RELATING TO
ADDITIONAL CERTIFICATES**

RECORDING REQUESTED BY:

CITY AND COUNTY OF SAN FRANCISCO

When Recorded Mail To:

CITY AND COUNTY OF SAN FRANCISCO

Office of the City Attorney

City Hall

1 Dr. Carlton B. Goodlett Place, Room 234

San Francisco, California 94102

Attention: _____

SUPPLEMENT TO LEASE AGREEMENT

By and Between

[Trustee], as Trustee,
as Lessor

and

CITY AND COUNTY OF SAN FRANCISCO,
as Lessee

Dated as of _____ 1, 20__

NO DOCUMENTARY TRANSFER TAX DUE

This Lease Agreement is exempt pursuant to Section 27383 of the California Government Code.

THIS SUPPLEMENT TO LEASE AGREEMENT, dated as of _____ 1, _____ (this "Supplement to Lease Agreement"), by and between the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation organized and existing under its charter and the Constitution and laws of the State of California (the "City"), as lessee, and [Trustee], a _____, solely in its capacity as Trustee under the hereinafter defined Trust Agreement, as lessor (the "Trustee");

WITNESSETH:

WHEREAS, the City desires to provide for _____ (as further defined herein, the "Project"), to be used primarily for governmental purposes, and the City is authorized pursuant to its charter and the laws of the State to enter into a lease for such purpose; and

WHEREAS, the City and the Trustee have entered into a Property Lease, dated as of [Dated Date] (the "Property Lease"), recorded concurrently with the Lease Agreement, pursuant to which the City has leased certain real property (the "Site") and all works, property, improvements, structures and fixtures thereon (collectively, the "Leased Property") to the Trustee; and

WHEREAS, pursuant to the Lease Agreement, dated as of [Dated Date], by and between the City and the Trustee (the "Original Lease Agreement"), the Trustee shall lease the Leased Property back to the City;

WHEREAS, the City and Trustee are entering into this Supplement to Lease Agreement to provide for additional Base Rental in connection with the financing of the 20__ Project and certain related matters; and

WHEREAS, the Trustee is simultaneously executing and delivering an additional series of certificates of participation (the "Additional Certificates") pursuant to the Trust Agreement, dated [Dated Date], between the City and the Trustee (the "Trust Agreement"), to provide funds for the Project;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree to supplement the Original Lease Agreement as follows:

Base Rental. The City agrees to pay, from any legally available funds, aggregate Base Rental in the amounts set forth under the caption "Base Rental Schedule" in Exhibit A to this Supplement to Lease Agreement, which constitutes the principal and interest represented by the Additional Certificates. The Base Rental consists of annual rental payments with principal and interest components, the interest components being paid semiannually as interest on the principal components computed on the basis of a 360-day year composed of twelve 30-day months. The Base Rental payable by the City shall be paid in arrears and shall be due on [Payment Date 1] and [Payment Date 2] in each year and payable on each ____ 1 and ____ 1 during the Lease Agreement Term, commencing _____. Base Rental payable on _____ and the following _____ shall be for the period from [Payment Date 2] of the prior year to _____ of the current year; provided, however, that the aggregate Base Rental payable on _____ and _____ shall be for the period from the Closing Date to _____. Such Base Rental provided in

Exhibit A is supplemented to the amounts due as provided in Section 3.1(a) and Exhibit A of the Original Lease Agreement.

The City shall deposit the Base Rental with the Trustee for application by the Trustee in accordance with the terms of the Trust Agreement. In the event any such date of deposit is not a Business Day, such deposit shall be made on the next succeeding Business Day. In no event shall the amount of Base Rental payable exceed the aggregate amount of principal and interest required to be paid or prepaid on the corresponding Interest Payment Date as represented by the Outstanding Certificates, according to their tenor.

The parties hereto have agreed and determined that such total rental in any Fiscal Year is not and will not be in excess of the total fair rental value of the Leased Property for such Fiscal Year. In making such determination, consideration has been given to the uses and purposes served by the Leased Property and the benefits therefrom that will accrue to the parties by reason of this Lease Agreement and to the general public by reason of the City's use of the Leased Property.

26.2 Amendments. The City and the Trustee hereby agree to amend the Lease Agreement as follows: [other amendments necessary or desirable in connection with Additional Certificates].

26.3 201 Certificates Subject to the Lease Agreement. Except as in this Supplement to Lease Agreement expressly provided, every term and condition contained in the Lease Agreement shall apply to this Supplement to Lease Agreement and to the 201 Certificates with the same force and effect as if the same were herein set forth at length, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to this Supplement to Lease Agreement.

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

26.4 Governing Law. This Supplement to Lease Agreement shall be governed by and construed in accordance with the laws of the State of California.

26.5 Counterparts. This Supplement to Lease Agreement may be signed in several counterparts, each of which will constitute an original, but all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Supplement to Lease Agreement as of the date first above written.

[TRUSTEE], as Trustee

By: _____
Authorized Signatory

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Mayor

[SEAL]

ATTEST:

By: _____
Clerk of the Board of Supervisors

APPROVED AS TO FORM:

DENNIS J. HERRERA
City Attorney

By: _____
Deputy City Attorney

EXHIBIT A
BASE RENTAL SCHEDULE

ACKNOWLEDGMENT

A NOTARY PUBLIC OR OTHER OFFICER COMPLETING THIS CERTIFICATE VERIFIES ONLY THE IDENTITY OF THE INDIVIDUAL WHO SIGNED THE DOCUMENT TO WHICH THIS CERTIFICATE IS ATTACHED, AND NOT THE TRUTHFULNESS, ACCURACY, OR VALIDITY OF THAT DOCUMENT.

STATE OF CALIFORNIA)
) ss:
COUNTY OF SAN FRANCISCO)

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

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

WITNESS my hand and official seal.

_____ [Seal]

EXHIBIT D

CITY AND COUNTY OF SAN FRANCISCO MANDATORY CONTRACTING PROVISIONS

The following provisions shall apply to this Lease Agreement as if set forth in the body thereof. Capitalized terms used but not defined in this Exhibit D shall have the meanings given in this Lease Agreement.

Section 1. Nondiscrimination; Penalties.

(i) *Nondiscrimination.* In the performance of this Lease Agreement, the Trustee agrees not to discriminate against any employee, City employee working with the Trustee, applicant for employment with the Trustee, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

(ii) *Subcontracts.* The Trustee shall incorporate by reference in all subcontracts the provisions of §§12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code (copies of which are available from the City) and shall require all subcontractors to comply with such provisions. The Trustee's failure to comply with the obligations in this subsection shall constitute a material breach of this Lease Agreement.

(iii) *Nondiscrimination in Benefits.* The Trustee does not as of the date of this Lease Agreement and will not during the term of this Lease Agreement, in any of its operations in San Francisco, on real property owned by the City, or where work is being performed for the City elsewhere in the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the conditions set forth in §12B.2(b) of the San Francisco Administrative Code.

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

(v) *Incorporation of Administrative Code Provisions by Reference.* The provisions of Chapters 12B and 12C of the San Francisco Administrative Code are incorporated in this Section by reference and made a part of this Lease Agreement as though fully set forth herein. The Trustee shall comply fully with and be bound by all of the provisions

that apply to this Lease Agreement under such Chapters, including but not limited to the remedies provided in such Chapters. Without limiting the foregoing, the Trustee understands that pursuant to §§12B.2(h) and 12C.3(g) of the San Francisco Administrative Code, a penalty of \$50 for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Lease Agreement may be assessed against the Trustee and/or deducted from any payments due the Trustee.

Section 2. MacBride Principles—Northern Ireland. Pursuant to San Francisco Administrative Code §12F.5, the City urges companies doing business in Northern Ireland to move towards resolving employment inequities, and encourages such companies to abide by the MacBride Principles. The City urges San Francisco companies to do business with corporations that abide by the MacBride Principles. By signing this Lease Agreement, the person executing this Lease Agreement on behalf of the Trustee acknowledges and agrees that he or she has read and understood this Section.

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

Section 4. Drug-Free Workplace Policy. The Trustee acknowledges that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited on City premises. The Trustee agrees that any violation of this prohibition by the Trustee, its employees, agents or assigns will be deemed a material breach of this Lease Agreement.

Section 5. Compliance with Americans with Disabilities Act. The Trustee acknowledges that, pursuant to the Americans with Disabilities Act (ADA), programs, services and other activities provided by a public entity to the public, whether directly or through a contractor, must be accessible to the disabled public. The Trustee shall provide the services specified in this Lease Agreement in a manner that complies with the ADA and any and all other applicable federal, state and local disability rights legislation. The Trustee agrees not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Lease Agreement and further agrees that any violation of this prohibition on the part of the Trustee, its employees, agents or assigns will constitute a material breach of this Lease Agreement.

Section 6. Sunshine Ordinance. In accordance with San Francisco Administrative Code §67.24(e), contracts, contractors' bids, responses to solicitations and all other records of communications between the City and persons or firms seeking contracts, shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person or organization's net worth or other proprietary financial data submitted for qualification for a contract or other benefit until and unless that person or organization is awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

Section 7. Limitations on Contributions. Through execution of this Lease Agreement, the Trustee acknowledges that it is familiar with Section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or the board of a state agency on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. The Trustee acknowledges that the foregoing restriction applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of \$50,000 or more. The Trustee further acknowledges that the prohibition on contributions applies to each prospective party to the contract; each member of the Trustee's board of directors; the Trustee's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in the Trustee; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by the Trustee. Additionally, the Trustee acknowledges that the Trustee must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126. The Trustee further agrees to provide to the City the names of each person, entity or committee described above.

Section 8. Requiring Minimum Compensation for Covered Employees. The Trustee agrees to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance (MCO), as set forth in San Francisco Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Sections 12P.5 and 12P.5.1 of Chapter 12P are incorporated herein by reference and made a part of this Lease Agreement as though fully set forth. The text of the MCO is available on the web at www.sfgov.org/olse/mco. A partial listing of some of the Trustee's obligations under the MCO is set forth in this Section. The Trustee is required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Section.

(i) The MCO requires the Trustee to pay the Trustee's employees a minimum hourly gross compensation wage rate and to provide minimum compensated and uncompensated time off. The minimum wage rate may change from year to year and the Trustee is obligated to keep informed of the then-current requirements. Any subcontract entered into by the Trustee shall require the subcontractor to comply with the requirements of the MCO and shall contain contractual obligations substantially the same as those set forth in this Section. It is the Trustee's obligation to ensure that any subcontractors of any tier under this Lease Agreement comply with the requirements of the MCO. If any subcontractor under this Lease Agreement fails to comply, the City may pursue any of the remedies set forth in this Section against the Trustee.

(ii) The Trustee shall not take adverse action or otherwise discriminate against an employee or other person for the exercise or attempted exercise of rights under the

MCO. Such actions, if taken within 90 days of the exercise or attempted exercise of such rights, will be rebuttably presumed to be retaliation prohibited by the MCO.

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

(iv) The City, upon reasonable notice to the Trustee, is authorized to inspect the Trustee's job sites during normal business hours, conduct interviews with employees and conduct audits of the Trustee.

(v) The Trustee's commitment to provide the Minimum Compensation is a material element of the City's consideration for this Lease Agreement. The City in its sole discretion shall determine whether such a breach has occurred. The City and the public will suffer actual damage that will be impractical or extremely difficult to determine if the Trustee fails to comply with these requirements. The Trustee agrees that the sums set forth in Section 12P.6.1 of the MCO as liquidated damages are not a penalty, but are reasonable estimates of the loss that the City and the public will incur for the Trustee's noncompliance. The procedures governing the assessment of liquidated damages shall be those set forth in Section 12P.6.2 of Chapter 12P.

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

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

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

Section 9. Requiring Health Benefits for Covered Employees. The Trustee agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance (HCAO), as set forth in San Francisco Administrative Code Chapter 12Q, including the remedies provided, and implementing regulations, as the same may be amended from time to

time. The provisions of Section 12Q.5.1 of Chapter 12Q are incorporated by reference and made a part of this Lease Agreement as though fully set forth herein. The text of the HCAO is available on the web at www.sfgov.org/olse. Capitalized terms used in this Section and not defined in this Lease Agreement shall have the meanings assigned to such terms in Chapter 12Q.

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

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

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

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

(v) The Trustee shall not discharge, reduce in compensation, or otherwise discriminate against any employee for notifying the City with regard to the Trustee's noncompliance or anticipated noncompliance with the requirements of the HCAO, for opposing any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

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

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

(viii) The Trustee shall keep itself informed of the current requirements of the HCAO.

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

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

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

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

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

Section 10. Prohibition on Political Activity with City Funds. In accordance with San Francisco Administrative Code Chapter 12.G, the Trustee may not participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure (collectively, "Political Activity") in the performance of the services provided under this Lease Agreement. The Trustee agrees to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. In the event the Trustee violates the provisions of this Section, the City may, in addition to any other rights or remedies available hereunder; (i) terminate this Lease Agreement, and (ii) prohibit the Trustee from bidding on or receiving any new City contract for a period of two (2) years. The Controller will not consider the Trustee's use of profit as a violation of this Section.

Section 11. Protection of Private Information. The Trustee has read and agrees to the terms set forth in San Francisco Administrative Code Sections 12M.2, "Nondisclosure of Private Information," and 12M.3, "Enforcement" of Administrative Code Chapter 12M, "Protection of Private Information," which are incorporated herein as if fully set forth. The Trustee agrees that any failure of the Trustee to comply with the requirements of Section 12M.2 of this Chapter shall

be a material breach of this Lease Agreement. In such an event, in addition to any other remedies available to it under equity or law, the City may terminate this Lease Agreement, bring a false claim action against the Trustee pursuant to Chapter 6 or Chapter 21 of the Administrative Code, or debar the Trustee.

Section 12. Graffiti Removal. Graffiti is detrimental to the health, safety and welfare of the community in that it promotes a perception in the community that the laws protecting public and private property can be disregarded with impunity. This perception fosters a sense of disrespect of the law that results in an increase in crime; degrades the community and leads to urban blight; is detrimental to property values, business opportunities and the enjoyment of life; is inconsistent with the City's property maintenance goals and aesthetic standards; and results in additional graffiti and in other properties becoming the target of graffiti unless it is quickly removed from public and private property. Graffiti results in visual pollution and is a public nuisance. Graffiti must be abated as quickly as possible to avoid detrimental impacts on the City and its residents, and to prevent the further spread of graffiti.

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

Any failure by the Trustee to comply with this section of this Lease Agreement shall constitute a material breach of this Lease Agreement.

Section 13. Reserved.

Section 14. Submitting False Claims; Monetary Penalties. Pursuant to San Francisco Administrative Code §21.35, any contractor, subcontractor or consultant who submits a false claim shall be liable to the City for penalties set forth in that Section. The text of Section 21.35, along with the entire San Francisco Administrative Code is available on the web at <http://www.municode.com/Library/clientCodePage.aspx?clientID=4201>. A contractor, subcontractor or consultant will be deemed to have submitted a false claim to the City if the contractor, subcontractor or consultant: (a) knowingly presents or causes to be presented to an officer or employee of the City a false claim or request for payment or approval; (b) knowingly makes, uses, or causes to be made or used a false record or statement to get a false claim paid or

approved by the City; (c) conspires to defraud the City by getting a false claim allowed or paid by the City; (d) knowingly makes, uses, or causes to be made or used a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the City; or (e) is a beneficiary of an inadvertent submission of a false claim to the City, subsequently discovers the falsity of the claim, and fails to disclose the false claim to the City within a reasonable time after discovery of the false claim.

Section 15. Conflict of Interest. Through its execution of this Lease Agreement, the Trustee acknowledges that it is familiar with the provision of Section 15.103 of the City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 *et seq.* and Section 1090 *et seq.* of the Government Code of the State of California, and certifies that it does not know of any facts which constitutes a violation of said provisions and agrees that it will immediately notify the City if it becomes aware of any such fact during the term of this Lease Agreement.

Section 16. Food Service Waste Reduction Requirements. The Trustee agrees to comply fully with and be bound by all of the provisions of the Food Service Waste Reduction Ordinance, as set forth in San Francisco Environment Code Chapter 16, including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Lease Agreement as though fully set forth. This provision is a material term of this Lease Agreement. By entering into this Lease Agreement, the Trustee agrees that if it breaches this provision, the City will suffer actual damages that will be impractical or extremely difficult to determine; further, the Trustee agrees that the sum of one hundred dollars (\$100) liquidated damages for the first breach, two hundred dollars (\$200) liquidated damages for the second breach in the same year, and five hundred dollars (\$500) liquidated damages for subsequent breaches in the same year is reasonable estimate of the damage that the City will incur based on the violation, established in light of the circumstances existing at the time this Lease Agreement was made. Such amount shall not be considered a penalty, but rather agreed monetary damages sustained by the City because of the Trustee's failure to comply with this provision.

Section 17. Proprietary or Confidential Information of City. The Trustee understands and agrees that, in the performance of the work or services under this Lease Agreement or in contemplation thereof, the Trustee may have access to private or confidential information which may be owned or controlled by City and that such information may contain proprietary or confidential details, the disclosure of which to third parties may be damaging to the City. The Trustee agrees that all information disclosed by City to the Trustee shall be held in confidence and used only in the performance of this Lease Agreement. The Trustee shall exercise the same standard of care to protect such information as a reasonably prudent contractor would use to protect its own proprietary data.

Section 18. Earned Income Credit (EIC) Forms. Administrative Code Section 120 requires that employers provide their employees with IRS Form W-5 (The Earned Income Credit Advance Payment Certificate) and the IRS EIC Schedule, as set forth below. Employers can locate these forms at the IRS Office, on the Internet, or anywhere that Federal Tax Forms can be found. The Trustee shall provide EIC Forms to each Eligible Employee at each of the following times: (i) within thirty days following the date on which this Lease Agreement becomes

effective (unless the Trustee has already provided such EIC Forms at least once during the calendar year in which such effective date falls); (ii) promptly after any Eligible Employee is hired by the Trustee; and (iii) annually between January 1 and January 31 of each calendar year during the term of this Lease Agreement. Failure to comply with any requirement contained in subparagraph (a) of this Section shall constitute a material breach by the Trustee of the terms of this Lease Agreement. If, within thirty days after the Trustee receives written notice of such a breach, the Trustee fails to cure such breach or, if such breach cannot reasonably be cured within such period of thirty days, the Trustee fails to commence efforts to cure within such period or thereafter fails to diligently pursue such cure to completion, the City may pursue any rights or remedies available under this Lease Agreement or under applicable law. Any Subcontract entered into by the Trustee shall require the subcontractor to comply, as to the subcontractor's Eligible Employees, with each of the terms of this Section. Capitalized terms used in this Section and not defined in this Lease Agreement shall have the meanings assigned to such terms in Section 12O of the San Francisco Administrative Code.

RECORDING REQUESTED BY:

CITY AND COUNTY OF SAN FRANCISCO

When Recorded Mail To:

CITY AND COUNTY OF SAN FRANCISCO

Office of the City Attorney

City Hall

1 Dr. Carlton B. Goodlett Place, Room 234

San Francisco, California 94102

Attention: Mark Blake

PROPERTY LEASE

By and Between the

THE CITY AND COUNTY OF SAN FRANCISCO,

as Lessor

and

[TRUSTEE],

as Lessee

Dated as of [Dated Date]

NO DOCUMENTARY TRANSFER TAX IS DUE PURSUANT
TO REVENUE AND TAXATION CODE SECTION 11922
AND THIS DOCUMENT IS EXEMPT FROM RECORDING FEES
PURSUANT TO GOVERNMENT CODE SECTION 27383

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PROPERTY LEASE

This PROPERTY LEASE (this "Property Lease") is made and entered into as of [Dated Date], by and between the CITY AND COUNTY OF SAN FRANCISCO, a municipal corporation organized and existing under and by virtue of its charter and the Constitution and laws of the State of California (the "City"), as lessor, and [TRUSTEE], a _____, duly organized and existing under and by virtue of the laws of the _____, solely in its capacity as trustee under the Trust (as defined in the hereinafter defined Trust Agreement), as lessee (the "Trustee").

WITNESSETH:

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

Section 1. Definitions. All capitalized terms used herein and not otherwise defined shall have the meanings given to such terms in that certain Lease Agreement, dated as of [Dated Date] (the "Lease Agreement"), by and between the Trustee and the City, and that certain Trust Agreement, dated as of [Dated Date] (the "Trust Agreement"), by and between the City and the Trustee.

Section 2. Lease of Leased Property. The City hereby leases to the Trustee the real property located at [1500 Mission Street] in San Francisco, California and described in Exhibit A attached hereto (the "Site"), together with all buildings and improvements now situated or hereafter constructed thereon (collectively, the "Leased Property"), subject (i) to the terms hereof and (ii) to Permitted Encumbrances. The City also grants to the Trustee such rights of ingress and egress to the Site (as defined in the Lease Agreement) and infrastructure and utilities as the Trustee may require in order to fulfill its obligations hereunder and under the Lease Agreement.

Section 3. Ownership. The City represents that it is the sole owner of and holds (or with respect to uncompleted improvements or portions thereof, will hold, when completed) fee title to the Leased Property, subject to Permitted Encumbrances.

Section 4. Term.

(a) This Property Lease shall commence on the earlier of the Closing Date or the date of recordation hereof in the official records of the City and County of San Francisco and end on the date of the termination of the Lease Agreement.

(b) Upon termination of this Property Lease, all of the Trustee's interest in the Leased Property shall vest with the City.

Section 5. Rent. The Trustee shall pay to the City an advance rent in the amount of the net proceeds of the 201_ Certificates as prepaid rental and rent of \$1.00 per year as consideration for this Property Lease over its term.

Section 6. Purpose. The Trustee shall use the Leased Property only for the purposes described in the Lease Agreement and for such other purposes as may be incidental thereto.

Section 7. Assignment and Lease Agreement. As long as the Lease Agreement is in effect and there has been no event of default under the Lease Agreement, the Trustee shall not assign, mortgage, hypothecate or otherwise encumber this Property Lease or any rights hereunder or the leasehold created hereby pursuant to any trust agreement, indenture or deed of trust or otherwise, or sublet the Leased Property, in all cases, without the written consent of the City.

The City hereby expressly approves and consents to the Lease Agreement and the Trust Agreement and to the execution and delivery of the Certificates evidencing proportionate interests in all of the rights of the Trustee under the Lease Agreement, including the right to receive Base Rental Payments payable thereunder.

Section 8. Right of Entry. The City reserves the right for any of its duly authorized representatives to enter upon the Leased Property at any reasonable time.

Section 9. Expiration. The Trustee agrees, upon the expiration of this Property Lease, to quit and surrender the Leased Property together with all improvements thereon; it being the understanding of the parties hereto that upon termination of this Property Lease title to the Leased Property shall vest in the City free and clear of any interest of the Trustee or any assignee of the Trustee.

Section 10. Quiet Enjoyment. The Trustee at all times during the term of this Property Lease shall peaceably and quietly have, hold and enjoy all of the Leased Property.

Section 11. Taxes. The City covenants and agrees to pay any and all taxes and assessments, if any, levied or assessed upon the Leased Property and all buildings and improvements thereon.

Section 12. Eminent Domain. If the whole or any part of the Leased Property shall be taken under the power of eminent domain, the interest of the Trustee shall be recognized and is hereby determined to be the aggregate amount of unpaid Base Rental payments under the Lease Agreement through the remainder of its term (excluding any contingent or potential liabilities), and any eminent domain proceeds shall be paid to the Trustee, as assignee of the interest of the Trustee hereunder, in accordance with the terms of the Lease Agreement and the Trust Agreement.

Section 13. Default. In the event that the Trustee or its assignee shall be in default in the performance of any obligation on its part to be performed under the terms of this Property Lease, the City may exercise any and all remedies granted by law, except that no merger of this Property Lease and of the Lease Agreement shall be deemed to occur as a result thereof; provided, however, that the City shall have no power to terminate this Property Lease by reason of any default on the part of the Trustee or its assignee so long as any Certificate is Outstanding. So long as any such assignee of the Trustee or any successor in interest to the Trustee shall duly perform the terms and conditions of this Property Lease, such assignee shall be deemed to be and shall become the tenant of the City hereunder and shall be entitled to all of the rights and privileges granted under any such assignment.

Section 14. Notices. All notices, statements, demands, requests, consents, approvals, authorizations, offers, agreements, appointments or designations hereunder by either party to the other shall be in writing and shall be sufficiently given and served upon the other party, if delivered by hand directly to the offices named below or sent by first-class mail, postage prepaid, overnight courier or telecopier, addressed as follows:

If to the City:

City and County of San Francisco
City Hall
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102
Attn: City Controller

with a copy to:

City and County of San Francisco
City Hall
1 Dr. Carlton B. Goodlett Place, Room 336
San Francisco, CA 94102
Attn: Director of Public Finance

And

Office of the City Attorney
City Hall
1 Dr. Carlton B. Goodlett Place, Room 234
San Francisco, California 94102
Attn: Special Projects/Finance Team

If to the Trustee:

[Trustee]

Attn: _____

or to such other address or addresses as such party may designate to the other by notice given in accordance with the provisions of this Section 14.

Section 15. Non-Liability of City Officials, Employees and Agents. No elective or appointive board, commission, member, officer or other agent of the City shall be personally liable to the Trustee, its successors and assigns, in the event of any default or breach by the City or for any amount which may become due to the Trustee, its successors and assigns, or for any obligation of the City hereunder.

Section 16. Partial Invalidity. If any one or more of the terms, provisions, promises, covenants or conditions of this Property Lease shall to any extent be adjudged invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, each and all of the remaining terms, provisions, promises, covenants and conditions of this

Property Lease shall not be affected thereby, and shall be valid and enforceable to the fullest extent permitted by law.

Section 17. Governing Law. This Property Lease shall be governed and construed in accordance with the laws of the State of California.

Section 18. Amendment. This Property Lease may be amended only in accordance with and as permitted by the terms of Section 7.02 of the Trust Agreement and Section 20 of the Lease Agreement.

Section 19. Execution in Counterparts. This Property Lease may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same agreement.

Section 20. Assignment. The services to be performed by the Trustee are personal in character and neither this Property Lease nor any duties or obligations hereunder may be assigned or delegated by the Trustee unless first approved by the City by written instrument executed and approved in the same manner as this Property Lease.

Section 21. City Contracting Provisions. The Trustee covenants and agrees to comply with the provisions set forth in Exhibit B to this Property Lease, which is incorporated in and made a part of this Property Lease by this reference.

Section 22. Concerning the Trustee. The Trustee is executing this Property Lease solely in its capacity as trustee under the Trust (as defined in the Trust Agreement), subject to the protections, indemnities and limitations from liability afforded to the Trustee thereunder, nothing contained herein shall be construed as creating any liability on the Trustee, individually or personally, to perform any covenant, duty or obligation of any kind contained in this Property Lease, and under no circumstances shall the Trustee be liable for the payment of any fees, costs, indebtedness or expenses related to or arising from this Property Lease or any documents related hereto except from amounts held under the Trust Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Property Lease to be executed and attested by their proper officers thereunto duly authorized, as of the day and year first above written.

[TRUSTEE], as Trustee

By: _____
Authorized Signatory

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Mayor

[SEAL]

Attest:

By: _____
Clerk of the Board of Supervisors

APPROVED AS TO FORM:

DENNIS J. HERRERA
City Attorney

By: _____
Deputy City Attorney

ACKNOWLEDGMENT

A NOTARY PUBLIC OR OTHER OFFICER COMPLETING THIS CERTIFICATE VERIFIES ONLY THE IDENTITY OF THE INDIVIDUAL WHO SIGNED THE DOCUMENT TO WHICH THIS CERTIFICATE IS ATTACHED, AND NOT THE TRUTHFULNESS, ACCURACY, OR VALIDITY OF THAT DOCUMENT.

STATE OF CALIFORNIA)
) ss:
COUNTY OF SAN FRANCISCO)

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

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

WITNESS my hand and official seal.

[Seal]

EXHIBIT A

DESCRIPTION OF THE SITE

[To Come]

EXHIBIT B

CITY AND COUNTY OF SAN FRANCISCO MANDATORY CONTRACTING PROVISIONS

The following provisions shall apply to this Property Lease as if set forth in the body thereof. Capitalized terms used but not defined in this Exhibit B shall have the meanings given in this Property Lease.

Section 1. Nondiscrimination; Penalties.

(i) *Nondiscrimination.* In the performance of this Property Lease, the Trustee agrees not to discriminate against any employee, City employee working with the Trustee, applicant for employment with the Trustee, or against any person seeking accommodations, advantages, facilities, privileges, services, or membership in all business, social, or other establishments or organizations, on the basis of the fact or perception of a person's race, color, creed, religion, national origin, ancestry, age, height, weight, sex, sexual orientation, gender identity, domestic partner status, marital status, disability or Acquired Immune Deficiency Syndrome or HIV status (AIDS/HIV status), or association with members of such protected classes, or in retaliation for opposition to discrimination against such classes.

(ii) *Subcontracts.* The Trustee shall incorporate by reference in all subcontracts the provisions of §§12B.2(a), 12B.2(c)-(k), and 12C.3 of the San Francisco Administrative Code (copies of which are available from the City) and shall require all subcontractors to comply with such provisions. The Trustee's failure to comply with the obligations in this subsection shall constitute a material breach of this Property Lease.

(iii) *Nondiscrimination in Benefits.* The Trustee does not as of the date of this Property Lease and will not during the term of this Property Lease, in any of its operations in San Francisco, on real property owned by the City, or where work is being performed for the City elsewhere in the United States, discriminate in the provision of bereavement leave, family medical leave, health benefits, membership or membership discounts, moving expenses, pension and retirement benefits or travel benefits, as well as any benefits other than the benefits specified above, between employees with domestic partners and employees with spouses, and/or between the domestic partners and spouses of such employees, where the domestic partnership has been registered with a governmental entity pursuant to state or local law authorizing such registration, subject to the conditions set forth in §12B.2(b) of the San Francisco Administrative Code.

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

(v) *Incorporation of Administrative Code Provisions by Reference.* The provisions of Chapters 12B and 12C of the San Francisco Administrative Code are incorporated in this Section by reference and made a part of this Property Lease as though fully set forth herein. The Trustee shall comply fully with and be bound by all of the provisions that apply to this Property Lease under such Chapters, including but not limited to the remedies

provided in such Chapters. Without limiting the foregoing, the Trustee understands that pursuant to §§12B.2(h) and 12C.3(g) of the San Francisco Administrative Code, a penalty of \$50 for each person for each calendar day during which such person was discriminated against in violation of the provisions of this Property Lease may be assessed against the Trustee and/or deducted from any payments due the Trustee.

Section 2. MacBride Principles—Northern Ireland. Pursuant to San Francisco Administrative Code §12F.5, the City urges companies doing business in Northern Ireland to move towards resolving employment inequities, and encourages such companies to abide by the MacBride Principles. The City urges San Francisco companies to do business with corporations that abide by the MacBride Principles. By signing this Property Lease, the person executing this Property Lease on behalf of the Trustee acknowledges and agrees that he or she has read and understood this Section.

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

Section 4. Drug-Free Workplace Policy. The Trustee acknowledges that pursuant to the Federal Drug-Free Workplace Act of 1989, the unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited on City premises. The Trustee agrees that any violation of this prohibition by the Trustee, its employees, agents or assigns will be deemed a material breach of this Property Lease.

Section 5. Compliance with Americans with Disabilities Act. The Trustee acknowledges that, pursuant to the Americans with Disabilities Act (ADA), programs, services and other activities provided by a public entity to the public, whether directly or through a contractor, must be accessible to the disabled public. The Trustee shall provide the services specified in this Property Lease in a manner that complies with the ADA and any and all other applicable federal, state and local disability rights legislation. The Trustee agrees not to discriminate against disabled persons in the provision of services, benefits or activities provided under this Property Lease and further agrees that any violation of this prohibition on the part of the Trustee, its employees, agents or assigns will constitute a material breach of this Property Lease.

Section 6. Sunshine Ordinance. In accordance with San Francisco Administrative Code §67.24(e), contracts, contractors' bids, responses to solicitations and all other records of communications between the City and persons or firms seeking contracts, shall be open to inspection immediately after a contract has been awarded. Nothing in this provision requires the disclosure of a private person or organization's net worth or other proprietary financial data submitted for qualification for a contract or other benefit until and unless that person or organization is awarded the contract or benefit. Information provided which is covered by this paragraph will be made available to the public upon request.

Section 7. Limitations on Contributions. Through execution of this Property Lease, the Trustee acknowledges that it is familiar with Section 1.126 of the City's Campaign and Governmental Conduct Code, which prohibits any person who contracts with the City for the rendition of personal services, for the furnishing of any material, supplies or equipment, for the

sale or lease of any land or building, or for a grant, loan or loan guarantee, from making any campaign contribution to (1) an individual holding a City elective office if the contract must be approved by the individual, a board on which that individual serves, or the board of a state agency on which an appointee of that individual serves, (2) a candidate for the office held by such individual, or (3) a committee controlled by such individual, at any time from the commencement of negotiations for the contract until the later of either the termination of negotiations for such contract or six months after the date the contract is approved. The Trustee acknowledges that the foregoing restriction applies only if the contract or a combination or series of contracts approved by the same individual or board in a fiscal year have a total anticipated or actual value of \$50,000 or more. The Trustee further acknowledges that the prohibition on contributions applies to each prospective party to the contract; each member of the Trustee's board of directors; the Trustee's chairperson, chief executive officer, chief financial officer and chief operating officer; any person with an ownership interest of more than 20 percent in the Trustee; any subcontractor listed in the bid or contract; and any committee that is sponsored or controlled by the Trustee. Additionally, the Trustee acknowledges that the Trustee must inform each of the persons described in the preceding sentence of the prohibitions contained in Section 1.126. The Trustee further agrees to provide to the City the names of each person, entity or committee described above.

Section 8. Requiring Minimum Compensation for Covered Employees. The Trustee agrees to comply fully with and be bound by all of the provisions of the Minimum Compensation Ordinance (MCO), as set forth in San Francisco Administrative Code Chapter 12P (Chapter 12P), including the remedies provided, and implementing guidelines and rules. The provisions of Sections 12P.5 and 12P.5.1 of Chapter 12P are incorporated herein by reference and made a part of this Property Lease as though fully set forth. The text of the MCO is available on the web at www.sfgov.org/olse/mco. A partial listing of some of the Trustee's obligations under the MCO is set forth in this Section. The Trustee is required to comply with all the provisions of the MCO, irrespective of the listing of obligations in this Section.

(i) The MCO requires the Trustee to pay the Trustee's employees a minimum hourly gross compensation wage rate and to provide minimum compensated and uncompensated time off. The minimum wage rate may change from year to year and the Trustee is obligated to keep informed of the then-current requirements. Any subcontract entered into by the Trustee shall require the subcontractor to comply with the requirements of the MCO and shall contain contractual obligations substantially the same as those set forth in this Section. It is the Trustee's obligation to ensure that any subcontractors of any tier under this Property Lease comply with the requirements of the MCO. If any subcontractor under this Property Lease fails to comply, the City may pursue any of the remedies set forth in this Section against the Trustee.

(ii) The Trustee shall not take adverse action or otherwise discriminate against an employee or other person for the exercise or attempted exercise of rights under the MCO. Such actions, if taken within 90 days of the exercise or attempted exercise of such rights, will be rebuttably presumed to be retaliation prohibited by the MCO.

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

(iv) The City, upon reasonable notice to the Trustee, is authorized to inspect the Trustee's job sites during normal business hours, conduct interviews with employees and conduct audits of the Trustee.

(v) The Trustee's commitment to provide the Minimum Compensation is a material element of the City's consideration for this Property Lease. The City in its sole discretion shall determine whether such a breach has occurred. The City and the public will suffer actual damage that will be impractical or extremely difficult to determine if the Trustee fails to comply with these requirements. The Trustee agrees that the sums set forth in Section 12P.6.1 of the MCO as liquidated damages are not a penalty, but are reasonable estimates of the loss that the City and the public will incur for the Trustee's noncompliance. The procedures governing the assessment of liquidated damages shall be those set forth in Section 12P.6.2 of Chapter 12P.

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

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

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

Section 9. Requiring Health Benefits for Covered Employees. The Trustee agrees to comply fully with and be bound by all of the provisions of the Health Care Accountability Ordinance (HCAO), as set forth in San Francisco Administrative Code Chapter 12Q, including the remedies provided, and implementing regulations, as the same may be amended from time to time. The provisions of Section 12Q.5.1 of Chapter 12Q are incorporated by reference and made a part of this Property Lease as though fully set forth herein. The text of the HCAO is available on the web at www.sfgov.org/olse. Capitalized terms used in this Section and not defined in this Property Lease shall have the meanings assigned to such terms in Chapter 12Q.

(i) For each Covered Employee, the Trustee shall provide the appropriate health benefit set forth in Section 12Q.3 of the HCAO. If the Trustee chooses to

offer the health plan option, such health plan shall meet the minimum standards set forth by the San Francisco Health Commission.

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

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

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

(v) The Trustee shall not discharge, reduce in compensation, or otherwise discriminate against any employee for notifying the City with regard to the Trustee's noncompliance or anticipated noncompliance with the requirements of the HCAO, for opposing any practice proscribed by the HCAO, for participating in proceedings related to the HCAO, or for seeking to assert or enforce any rights under the HCAO by any lawful means.

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

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

(viii) The Trustee shall keep itself informed of the current requirements of the HCAO.

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

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

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

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

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

Section 10. Prohibition on Political Activity with City Funds. In accordance with San Francisco Administrative Code Chapter 12.G, the Trustee may not participate in, support, or attempt to influence any political campaign for a candidate or for a ballot measure (collectively, "Political Activity") in the performance of the services provided under this Property Lease. The Trustee agrees to comply with San Francisco Administrative Code Chapter 12.G and any implementing rules and regulations promulgated by the City's Controller. The terms and provisions of Chapter 12.G are incorporated herein by this reference. In the event the Trustee violates the provisions of this Section, the City may, in addition to any other rights or remedies available hereunder, (i) terminate this Property Lease, and (ii) prohibit the Trustee from bidding on or receiving any new City contract for a period of two (2) years. The Controller will not consider the Trustee's use of profit as a violation of this Section.

Section 11. Protection of Private Information. The Trustee has read and agrees to the terms set forth in San Francisco Administrative Code Sections 12M.2, "Nondisclosure of Private Information," and 12M.3, "Enforcement" of Administrative Code Chapter 12M, "Protection of Private Information," which are incorporated herein as if fully set forth. The Trustee agrees that any failure of the Trustee to comply with the requirements of Section 12M.2 of this Chapter shall be a material breach of this Property Lease. In such an event, in addition to any other remedies available to it under equity or law, the City may terminate this Property Lease, bring a false claim action against the Trustee pursuant to Chapter 6 or Chapter 21 of the Administrative Code, or debar the Trustee.

Section 12. Graffiti Removal. Graffiti is detrimental to the health, safety and welfare of the community in that it promotes a perception in the community that the laws protecting public and private property can be disregarded with impunity. This perception fosters a sense of disrespect of the law that results in an increase in crime; degrades the community and leads to urban blight; is detrimental to property values, business opportunities and the enjoyment of life; is inconsistent with the City's property maintenance goals and aesthetic standards; and results in

additional graffiti and in other properties becoming the target of graffiti unless it is quickly removed from public and private property. Graffiti results in visual pollution and is a public nuisance. Graffiti must be abated as quickly as possible to avoid detrimental impacts on the City and its residents, and to prevent the further spread of graffiti.

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

Any failure by the Trustee to comply with this section of this Property Lease shall constitute a material breach of this Property Lease.

Section 13. Submitting False Claims; Monetary Penalties. Pursuant to San Francisco Administrative Code §21.35, any contractor, subcontractor or consultant who submits a false claim shall be liable to the City for penalties set forth in that Section. The text of Section 21.35, along with the entire San Francisco Administrative Code is available on the web at <http://www.municode.com/Library/clientCodePage.aspx?clientID=4201>. A contractor, subcontractor or consultant will be deemed to have submitted a false claim to the City if the contractor, subcontractor or consultant: (a) knowingly presents or causes to be presented to an officer or employee of the City a false claim or request for payment or approval; (b) knowingly makes, uses, or causes to be made or used a false record or statement to get a false claim paid or approved by the City; (c) conspires to defraud the City by getting a false claim allowed or paid by the City; (d) knowingly makes, uses, or causes to be made or used a false record or statement to conceal, avoid, or decrease an obligation to pay or transmit money or property to the City; or (e) is a beneficiary of an inadvertent submission of a false claim to the City, subsequently discovers the falsity of the claim, and fails to disclose the false claim to the City within a reasonable time after discovery of the false claim.

Section 14. Conflict of Interest. Through its execution of this Property Lease, the Trustee acknowledges that it is familiar with the provision of Section 15.103 of the City's Charter, Article III, Chapter 2 of City's Campaign and Governmental Conduct Code, and Section 87100 *et seq.* and Section 1090 *et seq.* of the Government Code of the State of California, and certifies that it does not know of any facts which constitutes a violation of said provisions and agrees that it will immediately notify the City if it becomes aware of any such fact during the term of this Property Lease.

Section 15. Food Service Waste Reduction Requirements. The Trustee agrees to comply fully with and be bound by all of the provisions of the Food Service Waste Reduction Ordinance, as set forth in San Francisco Environment Code Chapter 16, including the remedies provided, and implementing guidelines and rules. The provisions of Chapter 16 are incorporated herein by reference and made a part of this Property Lease as though fully set forth. This provision is a material term of this Property Lease. By entering into this Property Lease, the Trustee agrees that if it breaches this provision, the City will suffer actual damages that will be impractical or extremely difficult to determine; further, the Trustee agrees that the sum of one hundred dollars (\$100) liquidated damages for the first breach, two hundred dollars (\$200) liquidated damages for the second breach in the same year, and five hundred dollars (\$500) liquidated damages for subsequent breaches in the same year is reasonable estimate of the damage that the City will incur based on the violation, established in light of the circumstances existing at the time this Property Lease was made. Such amount shall not be considered a penalty, but rather agreed monetary damages sustained by the City because of the Trustee's failure to comply with this provision.

Section 16. Proprietary or Confidential Information of City. The Trustee understands and agrees that, in the performance of the work or services under this Property Lease or in contemplation thereof, the Trustee may have access to private or confidential information which may be owned or controlled by City and that such information may contain proprietary or confidential details, the disclosure of which to third parties may be damaging to the City. The Trustee agrees that all information disclosed by City to the Trustee shall be held in confidence and used only in the performance of this Property Lease. The Trustee shall exercise the same standard of care to protect such information as a reasonably prudent contractor would use to protect its own proprietary data.

Section 17. Earned Income Credit (EIC) Forms. Administrative Code Section 120 requires that employers provide their employees with IRS Form W-5 (The Earned Income Credit Advance Payment Certificate) and the IRS EIC Schedule, as set forth below. Employers can locate these forms at the IRS Office, on the Internet, or anywhere that Federal Tax Forms can be found. The Trustee shall provide EIC Forms to each Eligible Employee at each of the following times: (i) within thirty days following the date on which this Property Lease becomes effective (unless the Trustee has already provided such EIC Forms at least once during the calendar year in which such effective date falls); (ii) promptly after any Eligible Employee is hired by the Trustee; and (iii) annually between January 1 and January 31 of each calendar year during the term of this Property Lease. Failure to comply with any requirement contained in subparagraph (a) of this Section shall constitute a material breach by the Trustee of the terms of this Property Lease. If, within thirty days after the Trustee receives written notice of such a breach, the Trustee fails to cure such breach or, if such breach cannot reasonably be cured within such period of thirty days, the Trustee fails to commence efforts to cure within such period or thereafter fails to diligently pursue such cure to completion, the City may pursue any rights or remedies available under this Property Lease or under applicable law. Any Subcontract entered into by the Trustee shall require the subcontractor to comply, as to the subcontractor's Eligible Employees, with each of the terms of this Section. Capitalized terms used in this Section and not defined in this Property Lease shall have the meanings assigned to such terms in Section 120 of the San Francisco Administrative Code.

OFFICIAL NOTICE OF SALE

and

OFFICIAL BID FORM

\$ _____*

CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION
(1500 MISSION PROJECT)
SERIES 201_

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

SALE DATE: _____, 201_
(Subject to postponement, cancellation, modification or amendment in accordance with this Official Notice of Sale)

TIME: [_____] a.m., California time

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

DELIVERY DATE: _____, 201_*

* Preliminary, subject to change.

OFFICIAL NOTICE OF SALE

§ _____*
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION
(1500 MISSION PROJECT)
SERIES 201_

NOTICE IS HEREBY GIVEN that electronic bids and sealed bids will be received in the manner described below, in the case of electronic bids, through Ipreo LLC's BiDCOMP™/PARITY® System ("Parity"), and in the case of sealed bids, at the Controller's Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102, by the City and County of San Francisco (the "City") for the purchase of \$_____ aggregate principal amount of City and County of San Francisco Certificates of Participation (1500 Mission Project), Series 201_ (the "Certificates"). The Certificates evidence direct, fractional undivided interests of the Owners thereof in Base Rental Payments to be made by the City for the use of certain real property pursuant to a Lease Agreement, dated as of ____ 1, 201_, by and between the City, as lessee, and _____, as trustee and lessor. Bidding procedures and sale terms are as follows:

- Issue:** The Certificates are described in the City's Preliminary Official Statement for the Certificates dated _____, 201_ (the "Preliminary Official Statement").
- Time:** Bids for the Certificates must be received by the City by [____] a.m., California time, on _____, 201_.
- Place:** Sealed, hand-delivered bids for the Certificates must be delivered to Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102. Instead of sealed, hand-delivered bids, bidders may submit electronic bids in the manner and subject to the terms and conditions described under "TERMS OF SALE – Form of Bids; Delivery of Bids" below, but no bid will be received after the time for receiving bids specified above.

THE RECEIPT OF BIDS ON _____, 201_ MAY BE POSTPONED OR CANCELLED AT OR PRIOR TO THE TIME BIDS ARE TO BE RECEIVED. NOTICE OF SUCH POSTPONEMENT OR CANCELLATION WILL BE COMMUNICATED BY THE CITY THROUGH THOMSON REUTERS AND/OR BLOOMBERG BUSINESS NEWS (COLLECTIVELY, THE "NEWS SERVICES") AND/OR PARITY (AS DESCRIBED IN "TERMS OF SALE – FORM OF BIDS; DELIVERY OF BIDS" BELOW) AS SOON AS PRACTICABLE FOLLOWING SUCH POSTPONEMENT OR CANCELLATION. Notice of the new date and time for receipt of bids shall be given through

* Preliminary, subject to change.

Parity and/or the News Services as soon as practicable following a postponement and no later than [1]:00 p.m., California time, on the business day preceding the new date for receiving bids.

As an accommodation to bidders, notice of such postponement and of the new sale date and time will be given to any bidder requesting such notice from either of the City's Co-Financial Advisors: KNN Public Finance, a division of Zions Public Finance Inc., 1300 Clay Street, Suite 1000, Oakland, California 94612, telephone (510) 208-8205, Attention: David Brodsky (e-mail: dbrodsky@knninc.com); and Ross Financial, 1736 Stockton Street, Suite One, San Francisco, California 94133, telephone (415) 914-5612, Attention: Peter Ross (e-mail: rossfinancial@smkc.com) (the "Co-Financial Advisors"), provided, however, that failure of any bidder to receive such supplemental notice shall not affect the sufficiency of any such notice or the legality of the sale. See "TERMS OF SALE – Postponement or Cancellation of Sale."

The City reserves the right to modify or amend this Official Notice of Sale in any respect, including, without limitation, increasing or decreasing the principal amount of any serial maturity or sinking account installment prepayment for the Certificates and adding or deleting serial or term maturity and sinking account installment prepayment dates, along with corresponding principal amounts with respect thereto; provided, that any such modification or amendment will be communicated to potential bidders through the News Services and Parity not later than [1]:00 p.m., California time, on the business day preceding the date for receiving bids. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice or the legality of the sale. Bidders are required to bid upon the Certificates as so modified or amended. See "TERMS OF SALE – Right to Modify or Amend."

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

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

TERMS RELATING TO THE CERTIFICATES

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

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

Issue. The Certificates will be executed and delivered in book-entry form in denominations of \$5,000 or any integral multiple of that amount, as designated by the successful bidder (the "Purchaser"), all dated the date of delivery, which is expected to be _____, 201_*. If the sale is postponed, notice of the new date of the sale will also set forth the new expected date of delivery of the Certificates.

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

Interest Rates. Interest on the Certificates will be payable on _____, 20__, and semiannually thereafter on _____ and _____ of each year (each an "Interest Payment Date"). Interest shall be calculated on the basis of a 360-day year comprised of twelve 30-day months from the dated date of the Certificates. Bidders may specify any number of separate rates, and the same rate or rates may be repeated as often as desired, provided:

- (i) each interest rate specified in any bid for the Certificates must be a multiple of one-eighth or one-twentieth of one percent (1/8 or 1/20 of 1%) per annum;
- (ii) the maximum interest rate bid for any maturity shall not exceed [twelve percent (12%)] per annum;
- (iii) no Certificate shall bear a zero rate of interest;
- (iv) each Certificate shall bear interest from its dated date to its stated maturity date at the single rate of interest specified in the bid; and
- (v) all Certificates maturing at any one time shall bear the same rate of interest.

See the Preliminary Official Statement – "THE CERTIFICATES – Payment of Interest and Principal."

Principal Payments. The Certificates shall be serial and/or term Certificates, as specified by each bidder, and principal shall be payable on _____ of each year, commencing on _____, 201_ as shown below. Subject to the City's right to modify or amend this Notice of Sale (see "TERMS OF SALE – Right to Modify or Amend"), the final maturity of the Certificates shall be _____. The principal amount of the Certificates maturing or subject to mandatory sinking account installment prepayment in any year shall be in integral multiples of \$5,000. [For any term

* Preliminary, subject to change.

Certificate specified, the principal amount for a given year may be allocated only to a single term Certificate and must be part of an uninterrupted annual sequence from the first mandatory sinking account installment payment to the term Certificate maturity. The aggregate amount of the principal amount of the serial maturity or mandatory sinking account installment payment for the Certificates is shown below for information purposes only.] **Bidders for the Certificates will provide bids for all of the Certificates Principal Amounts.** Subject to the City's right to modify or amend this Notice of Sale (see "TERMS OF SALE – Right to Modify or Amend"), and to adjustment as provided in this Notice of Sale (see " – Adjustment of Principal Payments"), the aggregate principal amount of the serial maturity or sinking account installment prepayment for the Certificates in each year is as follows:

Principal Payment Date ()	Series 201_ Certificates <u>Principal Amount*</u>
----------------------------------	---

TOTAL

Adjustment of Principal Payments. The principal amounts set forth in this Official Notice of Sale reflect certain estimates of the City with respect to the likely interest rates of the winning bid and the premium contained in the winning bid. **The City reserves the right to change the principal payment schedule set forth above after the determination of the successful bidder, by adjusting one or more of the principal payments of the Certificates, in increments of \$5,000, as determined in the sole discretion of the City. Any such adjustment of principal payments with respect to the Certificates shall be based on the schedule of principal payments provided by the City to be used as the basis of bids for the Certificates. Any such adjustment will not change the average per Certificate dollar amount of the underwriter's discount. Any such adjustment will be communicated to the successful bidder within 24 hours after receipt of such bid by the City. In the event of any such adjustment, no rebidding or recalculation of the bids submitted will be required or permitted and no successful bid may be withdrawn.**

See also "TERMS OF SALE – Right to Modify or Amend," regarding the City's right to modify or amend this Official Notice of Sale in any respect including, without limitation,

* Preliminary, subject to change.

increasing or decreasing the principal amount of any serial maturity or mandatory sinking account installment prepayments for the Certificates and adding or deleting serial or term maturity and sinking account installment prepayment dates, along with corresponding principal amounts with respect thereto.

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

Prepayment.

(i) Optional Prepayment of the Certificates. The 201_ Certificates with a Certificate Payment Date on or after _____, are subject to optional prepayment prior to their respective Certificate Payment Dates in whole or in part on any date on or after [____], at the option of the City, in the event the City exercises its option under the Lease Agreement to prepay the principal component of the Base Rental Payments at a prepayment price equal to 100% of the principal component to be prepaid, plus accrued interest to the date fixed for prepayment, without premium. See the Preliminary Official Statement – “THE CERTIFICATES – Prepayment of the Certificates – *Optional Prepayment.*”

(ii) Special Mandatory Prepayment. The Certificates are subject to mandatory prepayment prior to their respective Certificate Payment Dates in whole or in part on any date, at the Prepayment Price (plus accrued but unpaid interest to the prepayment date), without premium, from amounts deposited in the Base Rental Fund pursuant to the Trust Agreement hereof following an event of damage, destruction or condemnation of the Leased Property or any portion thereof or loss of the use or possession of the Leased Property or any portion thereof due to a title defect. See the Preliminary Official Statement – “THE CERTIFICATES – Prepayment of the Certificates – *Special Mandatory Prepayment.*”

Legal Opinions and Tax Matters. Upon delivery of the Certificates, Norton Rose Fulbright US LLP and Curls Bartling P.C., Co-Certificate Counsel to the City (“Co-Certificate Counsel”), will deliver their separate legal opinions as to the validity and enforceability of the Certificates.

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

See the Preliminary Official Statement – “TAX MATTERS.”

(iii) Sinking Account Installment Prepayment. The 201_ Certificates with a Certificate Payment Date of [____], are subject to sinking account installment prepayment prior to their Certificate Payment Date in part, by lot, on each [Payment Date 1], beginning [____], in the amounts set forth below, from scheduled payments of the principal component of Base Rental payments, at the principal amount of Certificates to be prepaid, plus accrued interest to the prepayment date, without premium:

Prepayment Date
(Payment Date 1)

Sinking Account
Installment Amount

TERMS OF SALE

Form of Bids; Delivery of Bids. Each bid for the Certificates must be: (1) for not less than all of the Certificates offered for sale, (2) unconditional, and (3) either submitted (i) on the Official Bid Form attached hereto as Exhibit A and signed by the bidder, or (ii) via Parity, along with a facsimile transmission by the winning bidder, after the verbal award, of the completed and signed applicable Official Bid Form conforming to the Parity bid, with any adjustments made by the City pursuant hereto, by not later than [11]:00 a.m., California time, on the sale date. Electronic bids must conform to the procedures established by Parity. Sealed bids must be enclosed in a sealed envelope, delivered to the City at the address set forth on the cover and clearly marked "Bid for the City and County of San Francisco Certificates of Participation (1500 Mission Project), Series 201_" or words of similar import, as hereinafter described and received by [____] a.m., California time, on _____, 201_, at the offices of the Office of Public Finance, c/o Nadia Sesay, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102; telephone: (415) 554-5956. No bid submitted to the City shall be subject to withdrawal or modification by the bidder.

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

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

Warnings Regarding Electronic Bids. Bids for the Certificates may be submitted electronically via Parity. The City will attempt to accommodate bids submitted electronically via Parity. However, the City does not endorse or encourage the use of such electronic bidding service. None of the City, the City Attorney, the Co-Financial Advisors or Co-Certificate Counsel assumes

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

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

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

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

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

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

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

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

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

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

Certificate”), which will state the initial offering prices at which it has offered all of the Certificates of each maturity to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers), in a bona fide public offering. In addition, on the day prior to delivery of the Certificates, the Purchaser shall provide an Issue Price Certificate, which shall be dated the date of the closing and in the form attached hereto as Exhibit C, with such modifications acceptable to or as may be requested by Co-Certificate Counsel, to the following:

- the City
- Norton Rose Fulbright US LLP
555 South Flower Street, Forty-First Floor
Los Angeles, California 90071
Fax: 213-892-9494
Attention: Russ Trice
Email: russ.trice@nortonrosefulbright.com
- Curls Bartling P.C.
1999 Harrison Street, Suite 610
Oakland, California 94612
Fax: 510-984-6163
Email: ericka@curlsbartling.com

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

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

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

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

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

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

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

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

CLOSING PROCEDURES AND DOCUMENTS

Delivery and Payment. Delivery of the Certificates will be made through the book-entry facilities of DTC in New York, New York, and is presently expected to take place on or about _____, 201_*. Payment for the Certificates (including any premium) must be made at the time of delivery in immediately available funds to the City Treasurer. Any expense for making payment in immediately available funds shall be borne by the Purchaser. The City will deliver to the Purchaser, dated as of the delivery date, the legal opinions with respect to the Certificates described in APPENDIX F - "PROPOSED FORM OF OPINIONS OF CO-CERTIFICATE COUNSEL" to the Preliminary Official Statement.

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

* Preliminary, subject to change.

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

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

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

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

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

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

copies of the final Official Statement to comply with applicable regulations. The cost for such additional copies will be paid by the Purchaser requesting such copies.

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

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

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

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

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

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

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

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

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

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

Dated: _____, 201__

EXHIBIT A

BID TIME: [] a.m. (California time)

_____, 201_

OFFICIAL BID FORM FOR THE PURCHASE OF

\$ _____ *
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION
(1500 MISSION PROJECT)
SERIES 201_

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

BIDDING FIRM'S NAME:

Subject to the provisions and in accordance with the terms of the Official Notice of Sale, dated _____, 201_, which is incorporated herein and made a part of this proposal, we have reviewed the Preliminary Official Statement relating to, among other things, the above-referenced certificates of participation (the "Certificates") and hereby offer to purchase all of the Certificates dated the date of their delivery on the following terms, including the submission of the required Good Faith Deposit in the amount of \$ _____ by wire transfer; and to pay therefor the price of \$ _____ (such amount being the "Purchase Price"), which is equal to the aggregate principal amount of the Certificates, plus a net original issue premium of \$ _____. The Certificates shall mature and be subject to mandatory sinking account installment prepayment (if term certificates are specified below) in the amounts and years and bear interest at the rates per annum (in multiples of 1/8 or 1/20 of 1%), as set forth in the schedules below. Sinking account installment prepayments (if term Certificates are specified below) may not commence earlier than _____.

Maturity Schedule

(1500 Mission Project), Series 201

(Check one)⁽¹⁾

Principal Payment Date ()	Annual Principal Payment*	Serial Maturity	Sinking Account Installment Prepayment ⁽²⁾	Interest Rate
-------------------------------------	---------------------------------	--------------------	--	------------------

TOTAL

* Subject to adjustment in accordance with the Official Notice of Sale.

(1) Circle the final maturity of each term certificate specified.

(2) There may not be serial maturities for dates after the first sinking account installment prepayment. Sinking account installment prepayments may not commence earlier than _____.

Authorized Signatory
Title: _____
Phone Number: _____

TIC (optional and not
binding):

Fax Number: _____

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

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

EXHIBIT B

FORM OF REOFFERING PRICE CERTIFICATE

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

**CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION
(1500 MISSION PROJECT)
SERIES 201_**

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

A. Issue Price.

1. All the Certificates of all maturities were actually offered by the Purchaser to the public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide offering at prices not higher than, or, in the case of obligations sold on a yield basis, at yields not lower than, those set forth in Schedule I attached hereto, which the Purchaser believes is not more than the fair market value of each maturity as of _____, 201_, the date of sale of the Certificates.

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

B. Compensation.

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

The signer is an authorized representative of the Purchaser and is duly authorized by the Purchaser to execute and deliver this Certificate on behalf of the Purchaser. The Purchaser understands that the representations contained in this Certificate will be relied on by the City and County of San Francisco in making certain of its representations in its Tax Certificate for the Certificates and in completing and filing the Information Return for the Certificates with the Internal Revenue Service, and by Norton Rose Fulbright US LLP and Curls Bartling P.C., Co-Certificate Counsel to the City and County of San Francisco, in rendering certain legal opinions in connection with the issuance of the Certificates.

Dated: [Sale Date]

(Name of Purchaser)

Executed by: _____

Type Name: _____

Title: _____

SCHEDULE I

CERTIFICATE OF PURCHASER

\$ _____*
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION
(1500 MISSION PROJECT)
SERIES 201_

Maturity Dates ()*	Principal Amount*	Interest Rate†	Offering Price or Yield†
	\$	%	

* Subject to adjustment in accordance with the Official Notice of Sale.

† To be completed by Purchaser.

EXHIBIT C

FORM OF CERTIFICATE OF PURCHASER

**CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION
(1500 MISSION PROJECT)
SERIES 201_**

FORM OF ISSUE PRICE CERTIFICATE OF THE PURCHASER

The undersigned, on behalf of [PURCHASER], as the initial purchaser (the "Purchaser") of the above-captioned certificates of participation (together, the "Certificates") hereby represents that:

(a) As of _____, 201_ (the "Sale Date"), the Purchaser reasonably expected to offer and sell all of the Certificates to the general public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the yields set forth on the inside front cover of the final Official Statement, dated _____, 201_, with respect to the Certificates (the "Official Statement").

(b) Such offering yields represent a fair market value for each respective maturity of the Certificates as of the Sale Date.

(c) As of the Sale Date, all of the Certificates were actually offered to the general public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at such yields in a bona fide public offering.

(d) As of the Sale Date, at least 10% of each maturity of the Certificates was first sold at such yields to the general public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) prior to the sale; allocation or allotment of any of the Certificates to any purchasers at yields other than those set forth on the inside front cover of the Official Statement, except for the Certificates maturing in the years _____ (the "Unsold Maturities"). The Purchaser reasonably expected, as of the Sale Date, to sell at least ten percent (10%) of each of the Unsold Maturities to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the yields set forth on the inside front cover of the Official Statement.

(e) I understand that this Certificate shall form a part of the basis for the opinions, dated the date hereof, of Norton Rose Fulbright US LLP and Curls Bartling P.C., Co-Certificate Counsel, to the effect that interest evidenced on the Certificates is excluded from gross income of the recipients thereof for purposes of federal income taxation under

existing laws, regulations, rulings and judicial decisions; provided however, the Purchaser expresses no view regarding the legal sufficiency or the correctness of any legal interpretation made by Co-Certificate Counsel, nothing herein represents the Purchaser's interpretation of any laws, and in particular, regulations under the Code, and the Purchaser expresses no view regarding the legal sufficiency of any representations made herein.

Terms not otherwise defined herein shall have the meanings ascribed thereto in the Certificate as to Tax Exemption, dated _____, 201_, executed by the City and County of San Francisco in connection with the issuance of the Certificates.

IN WITNESS WHEREOF, the undersigned has set their hand as of the date set forth below.

Dated: _____, 201_

[PURCHASER], as Purchaser

By: _____
Name: _____
Title: _____

\$ _____
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION
(1500 MISSION PROJECT)
SERIES 201__

CERTIFICATE PURCHASE CONTRACT

_____, 201__

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

Ladies and Gentlemen:

_____ (the "*Representative*"), as representative of itself, _____ and _____ (collectively, the "*Underwriters*"), offers to enter into this Certificate Purchase Contract (this "*Purchase Contract*") with the City and County of San Francisco (the "*City*"), which will be binding upon the City and the Underwriters upon acceptance hereof by the City. This offer is made subject to the acceptance by the City by its execution of this Purchase Contract and its delivery to the Representative on or before 11:59 p.m., California time, on the date hereof and, if not so accepted, will be subject to withdrawal by the Representative upon written notice delivered to the City at any time prior to the acceptance of this Purchase Contract by the City. If the Representative withdraws this offer, or the Underwriters' obligation to purchase the Certificates (as hereinafter defined) is otherwise terminated pursuant to Section 8(d) hereof, then and in such case, the City shall be without any further obligation to the Underwriters, including the payment of any costs set forth under Section 10(a) hereof, and the City shall be free to sell the Certificates to any other party. The Representative represents that it has been duly authorized by the other Underwriters to act hereunder on its behalf and has full authority to take such action as it may deem advisable in respect of all matters pertaining to this Purchase Contract and that the Representative has been duly authorized to execute this Purchase Contract. Any action taken under this Purchase Contract by the Representative will be binding upon all the Underwriters.

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Trust Agreement dated as of _____, 201__ (the "*Trust Agreement*"), between the City and [Trustee], as trustee (the "*Trustee*").

Section 1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations set forth herein, the Underwriters jointly and severally agree to purchase from the City, and the City hereby agrees to sell and deliver to, or for the account of, the Underwriters, all (but not less than all) of the \$_____ aggregate principal amount of City and County of San Francisco Certificates of Participation (1500 Mission Project), Series 201_ (the "Certificates").

The purchase price for the Certificates shall be \$_____ (comprised of the principal amount of the Certificates, plus a [net] original issue premium on the Certificates of _____, [less an original issue discount and] less an Underwriters' discount in the amount of _____).

The Certificates shall be dated their date of delivery and shall have the maturities and bear interest at the rates per annum and have the yields all as set forth on Schedule I attached hereto. The Certificates shall be subject to optional and mandatory prepayment and sinking account prepayments prior to maturity as described in the Trust Agreement. The Certificates shall be substantially in the form described in, and shall be executed, delivered and secured under and pursuant to, the Trust Agreement. The Certificates shall be as otherwise described in the Official Statement (as hereinafter defined).

Section 2. Authorization and Purpose for the Certificates. The City has the authority to execute and deliver the Certificates pursuant to Ordinance No. _____, adopted by the Board of Supervisors of the City on _____, 201_ and signed by the Mayor of the City on _____, 201_ (the "Ordinance").

The Certificates are being executed and delivered pursuant to the Trust Agreement. The Certificates will represent direct, undivided fractional interests in certain rental payments (the "Base Rental Payments") to be made by the City pursuant to a Lease Agreement, dated as of _____ 1, 201_ (the "Lease Agreement"), between the City and Trustee. Pursuant to the Lease Agreement, the City will pay the Base Rental Payments in consideration for use and occupancy of certain real property owned by the City (the "Leased Property"), which the City will initially lease to the Trustee pursuant to a Property Lease, dated as of ___ 1, 201_ (the "Property Lease") and sublease back from the Trustee pursuant to the Lease Agreement.

The Certificates are being executed and delivered for the purpose of providing funds: (i) to fund a portion of the development costs and related FF&E (furniture, fixture, or other equipment), technology, and moving costs for the 1500 Mission office building (as further described in the Trust Agreement), including repayment of commercial paper and interest thereon issued for such purpose; (ii) to fund a debt service or other similar reserve, as appropriate; (iii) to fund capitalized interest, if any; and (iv) to pay the costs of executing and delivering the Certificates.

The Certificates are payable solely from, and secured solely by, a pledge of and charge and lien upon the Base Rental Payments to be made by the City pursuant to the Lease Agreement and are payable to the Trustee by the City for the right by the City to use and occupy the Leased Property for so long as the City has such use and occupancy of the Leased Property. The City has covenanted under the Lease Agreement that it will take such action as may be necessary to include

the Base Rental Payments in its annual budget and to make the necessary annual appropriations therefor.

Section 3. Public Offering. It shall be a condition to the obligations of the Underwriters to purchase, accept delivery of and pay for the Certificates that the entire principal amount of the Certificates be sold and delivered by the City to the Underwriters. On or prior to the Closing Date (as hereinafter defined), the Underwriters will provide the City with information regarding the reoffering prices and yields on the Certificates, in substantially the form attached hereto as Attachment B, for purposes of determining the yield on the Certificates under Section 148 of the Internal Revenue Code of 1986, as amended. The Underwriters agree to make a bona fide public offering of all the Certificates, at prices not in excess of the prices or yields not lower than the yields as set forth in Schedule I hereto. The Underwriters will provide, consistent with the requirements of the Municipal Securities Rulemaking Board (the "MSRB") Rule G-32, for the delivery of a copy of the Official Statement to each customer who purchases a Bond during the Underwriting Period (as hereinafter defined). Each Underwriter further agrees that it will comply with applicable laws and regulations, including without limitation Rule 15c2-12 and MSRB Rule G-17, in connection with the offering and sale of the Certificates. Subsequent to the initial public offering, the public offering prices of the Certificates may change as determined by the Underwriters to be necessary in connection with the marketing of the Certificates.

Section 4. Delivery of Official Statement. Prior to the date hereof, the City has provided to the Underwriters for review a form of the preliminary official statement relating to the Certificates dated _____, 201__ (including the cover page and appendices thereto (the "Preliminary Official Statement"), which, as of its date, a representative of the City on behalf of the City deemed final for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 ("Rule 15c2-12"), except for certain information permitted to be omitted therefrom by Rule 15c2-12. By its acceptance of this offer, the City hereby ratifies and consents to the use and distribution by the Underwriters of the Preliminary Official Statement in connection with the public offering and sale of the Certificates and the City has authorized the delivery of a final official statement relating to the Certificates dated the date hereof (both in print or electronic form) which will consist of the Preliminary Official Statement and all information previously permitted to have been omitted by Rule 15c2-12.

The City hereby acknowledges that the Preliminary Official Statement has been made available to investors on the Internet at printer's _____ website. The City hereby agrees to deliver or cause to be delivered to the Underwriters within seven (7) Business Days of the date hereof and in sufficient time to accompany any orders or confirmations from the Underwriters that request payment from any customers, not more than one hundred (100) copies of the final official statement (including all information permitted to be omitted by Rule 15c2-12 and any amendments or supplements to such official statement as have been approved by the City and the Representative) (the "Official Statement") to enable the Underwriters to comply with the rules of the Securities and Exchange Commission (the "SEC") and the MSRB. The City hereby approves of the use and distribution by the Underwriters of the Official Statement in connection with the offer and sale of the Certificates. At the time of or prior to the Closing Date (as hereinafter defined), the Representative shall file a copy of the Official Statement with the MSRB or its designee (including the MSRB's Electronic Municipal Market Access system ("EMMA") or with

any other repository approved from time to time by the SEC (either in addition to or in lieu of the filings referred to above).

The City will deliver the Continuing Disclosure Certificate substantially in the form set forth in the Preliminary Official Statement (the "*Continuing Disclosure Certificate*") on the Closing Date. The form of the Continuing Disclosure Certificate will also be set forth in the Official Statement.

Section 5. The Closing. At 8:00 a.m., California time, on _____, 201__, or at such other time or on such other date as the City and the Representative may agree (the "*Closing Date*"), the City shall deliver, or cause to be delivered to the Representative, through the Fast Automated Securities Transfer ("*FAST*") delivery system of The Depository Trust Company ("*DTC*"), the Certificates in book-entry eligible form, duly executed and authenticated, and registered in the name of Cede & Co., as nominee of DTC. Concurrently with the delivery of the Certificates to the Representative, the City will deliver the documents hereinafter mentioned at the offices of Norton Rose Fulbright US LLP (together with Curis Bartling P.C., "*Co-Certificate Counsel*"), in San Francisco, California, or another place to be mutually agreed upon by the City and the Representative. The Underwriters shall accept such delivery and pay the purchase price for the Certificates set forth in Section 1 by federal funds wire transfer in immediately available funds to the order of the Trustee for the account of the City. This payment for and delivery of the Certificates, together with the delivery of the aforementioned documents, is herein called the "*Closing*." The Underwriters shall order CUSIP identification numbers and the City, with the assistance of the Representative, shall cause such CUSIP identification numbers to be printed on the Certificates; *provided* that neither the failure to print such number on any Certificate nor any error with respect thereto shall constitute cause for a failure or refusal by the Underwriters to accept the Certificates. The Underwriters represent that the CUSIP numbers set forth on Schedule I hereof are the correct CUSIP numbers for the Certificates. The Certificates shall be made available to the Trustee at least two (2) business days prior to the Closing.

Section 6. Representations, Warranties and Agreements of the City. The City represents, warrants and agrees with the Underwriters as follows:

(a) *Due Organization, Existence and Authority.* The City is a duly constituted charter city and county duly organized and validly existing pursuant to its Charter and the Constitution and laws of the State, with full authority to: (i) adopt the Ordinance; (ii) execute and deliver the Trust Agreement, the Property Lease, the Lease Agreement, the Continuing Disclosure Certificate (collectively, the "*Certificate Documents*") and this Purchase Contract; (iii) approve the Official Statement and authorize its distribution by the Underwriters; and (iv) sell and deliver the Certificates to the Underwriters as provided herein.

(b) *Accuracy and Completeness of the Preliminary Official Statement and Official Statement.* The information with respect to the City and its activities as described in the Preliminary Official Statement, as supplemented and amended through the date hereof was, and such information in the Official Statement is, as of its date and at all times subsequent thereto up and including the date of the Closing will be, true and correct in all

material respects, contains and will contain no misstatement of any material fact and did not and will not omit any statement and information that is necessary to make the statements and information with respect to the City and its activities contained therein, in the light of the circumstances under which such statements were made, not misleading in any material respect, excluding in each case any information contained in the Preliminary Official Statement and the Official Statement relating to (i) the offering prices, interest rates, selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, or other terms of the Certificates depending on such matters, (ii) DTC and the book-entry only system, and (iii) information provided by the Underwriters for inclusion in the Official Statement, including without limitation regarding the prices and yields of the Certificates under the caption "UNDERWRITING."

(c) *Amendment of Official Statement.* If, at any time prior to the "End of the Underwriting Period" (as defined below), an event occurs or facts or conditions become known of which the City has knowledge, which in the reasonable opinion of Co-Certificate Counsel, or the City Attorney might or would cause the information in the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, the City will notify the Representative, and if in the reasonable opinion of the Representative and the City, such event, fact or condition requires the preparation and publication of a supplement or amendment to the Official Statement, the City will amend or supplement the Official Statement in a form and in a manner reasonably approved by the Representative and the City, provided all expenses incurred in connection with preparing an amendment or supplement to the Official Statement will be paid by the City. As used herein and for the purposes of the foregoing, the term "End of the Underwriting Period" for the Certificates shall refer to the Closing, unless the City shall have been notified in writing to the contrary by the Representative on or prior to the Closing, but in any event not later than twenty-five (25) days following the Closing. For the purposes of this subsection, the City will furnish such information as the Underwriters may from time to time reasonably request in writing prior to the End of the Underwriting Period.

(d) *No Breach or Default.* As of the time of acceptance hereof and as of the Closing Date and except as otherwise disclosed in the Official Statement, neither the execution nor the delivery by the City of the Certificate Documents or this Purchase Contract, the adoption of the Ordinance, or the compliance by the City with such documents or authorizations, conflicts with or constitutes a material breach of, or default under, any applicable law or administrative regulation of the State or the United States, or any other statute or administrative rule or regulation, judgment, decree, order, license, permit, agreement or other instrument to which the City is subject, which breach, default or conflict would have a material adverse effect on the ability of the City to make Base Rental Payments or perform its obligations under the Certificate Documents or this Purchase Contract.

(e) *No Other Issuances of Certificates or Debt.* Between the time of acceptance hereof and the Closing Date, the City will not, without prior written notice to the

Representative, issue any Certificates or securities or incur any other indebtedness secured by the Base Rental Payments.

(f) *No Litigation.* As of the date hereof and as of the Closing Date, and except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the City, threatened against the City: (i) affecting the existence of the City or the titles of its officers to their respective offices; (ii) seeking to restrain or to enjoin the sale or delivery of the Certificates or the application of the proceeds therefrom in accordance with the Trust Agreement; (iii) in any way contesting or affecting the validity or enforceability of the Certificates, any of the Certificate Documents or any action of the City authorizing the execution and delivery thereof; (iv) in any way contesting the completeness or accuracy of the Official Statement or any amendment or supplement thereto; or (v) contesting the powers of the City with respect to the Certificates or any action of the City authorizing the execution and delivery thereof, nor to the knowledge of the members of the City, as evidenced by the representative of the City signing this Purchase Contract, is there any basis therefor. As of the date hereof and as of the Closing Date, and except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the best knowledge of the City, threatened against the City in which a final adverse decision would materially and adversely affect its ability to pay the Base Rental Payments or the consummation of the transactions contemplated by this Purchase Contract or contesting in any way the completeness, accuracy or fairness of the Official Statement.

(g) *Further Cooperation; Blue Sky.* The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Representative may reasonably request in order to qualify the Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Representative may designate; *provided, however,* that the City will not be required to execute a special or general consent to service of process or qualify as a foreign corporation in connection with any such qualification in any jurisdiction.

(h) *Continuing Disclosure.* [Based on a review of its previous undertakings and except as described in the Preliminary Official Statement and the Official Statement], during the past five years, the City has complied in all material respects with its prior continuing disclosure undertakings under Rule 15c2-12.

Section 7. Representations, Warranties and Agreements of the Underwriters. The Underwriters represent, warrant and agree with the City that:

(a) The Underwriters have been duly authorized to enter into this Purchase Contract, and have duly authorized the Representative to act on behalf of the Underwriters with respect to this Purchase Contract.

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

(c) The Underwriters shall comply with the City's Contracting Requirements referenced in Section 11 below.

(d) The Underwriters shall comply with all SEC and MSRB rules applicable to the offering, sale and delivery of the Certificates to ultimate purchasers.

(e) The Underwriters shall comply with the City's policy and practice that the City shall not pay, and the Underwriters shall not pass through to the City, any fees that are assessed on the Underwriters as part of the Governmental Accounting Standards Board fee, as well as the MSRB Underwriting and Transaction Assessment, the SIFMA Municipal Assessment or any other industry related fees that are required to be paid solely by the Underwriters.

Section 8. Closing Conditions. The Underwriters have entered into this Purchase Contract in reliance upon the representations, warranties and agreements herein and the performance by the City of its obligations hereunder, both as of the date hereof and as of the Closing Date. The obligations of the Underwriters under this Purchase Contract are and shall be subject to the following conditions:

(a) *Bring-Down Representation.* The representations and warranties of the City contained herein shall be true, accurate and correct in all material respects at the date hereof, and on the Closing Date, as if made on the Closing Date.

(b) *Executed Documents and Performance Thereunder.* At the time of the Closing: (i) the Certificate Documents, this Purchase Contract and the Official Statement shall be in full force and effect, and shall not have been amended, modified or supplemented except with the consent of the Representative (which consent will not be unreasonably withheld); and (ii) the City shall perform or have performed all of its obligations required under or specified in this Purchase Contract, the Official Statement and the Certificate Documents to be performed prior to the Closing.

(c) *No Default.* At the time of the Closing, no default shall have occurred or be existing under the Trust Agreement or this Purchase Contract.

(d) *Termination Events.* The Representative may terminate this Purchase Contract by notification in writing to the City, but only after consultation with the City, if, at any time on or prior to the Closing, any of the following occurs and, as a result of the occurrence of such an event, the marketability of the Certificates or the market price thereof, in the reasonable opinion of the Representative, after consultation with the City, would be materially adversely affected *provided, however,* that, in the event the City and the Representative disagree as to the effect of the occurrence of such event on the ability of the Representative to market the Certificates, this Purchase Contract may only be

terminated by the Representative after the Representative and the City shall have negotiated in good faith to determine if there is an alternate time, place and manner which would permit the Underwriters to successfully market the Certificates:

(i) any event shall occur which makes untrue any statement or results in an omission to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading and the City fails to amend or supplement the Official Statement pursuant to Section 6(c) hereof; or

(ii) an amendment to the Constitution of the United States or the Constitution of the State or legislation in or by the Congress of the United States or the legislature of the State, or the amendment of legislation pending as of the date of this Purchase Contract in the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority or the occurrence of any other comparable legislative or regulatory event affecting the federal or State tax status of the interest evidenced by the Certificates or certificates, bonds or obligations of the general character of the Certificates, provided that the occurrence of any such event shall not constitute a termination event hereunder if the prospect of such constitutional, legislative, regulatory or judicial action or enactment shall have been publicly known on the date hereof; or

(iii) any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State shall be rendered which, in the reasonable opinion of the Representative and upon consultation with the City, materially adversely affects the market price of the Certificates; or

(iv) a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange City or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Certificates, or the issuance, offering or sale of the Certificates, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Trust Agreement need be qualified under the Trust Agreement Act of 1939, as amended and as then in effect; or

(v) legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, to the effect that

obligations of the general character of the Certificates, or the Certificates, are not exempt from registration under the Securities Act of 1933, as amended and as then in effect, or the Securities Exchange Act of 1934, as amended and as then in effect, or that the Trust Agreement is not exempt from qualification under the Trust Agreement Act of 1939, as amended and as then in effect; or

(vi) additional material restrictions not in force as of the date hereof shall have been imposed upon trading in the United States in securities generally by any governmental authority or by any national securities exchange; or

(vii) a general banking moratorium shall have been declared by federal, State or State of New York authorities or a disruption in securities settlement, payment or clearance services materially adversely affecting the Certificates has occurred; or

(viii) the ratings on the Certificates shall have been downgraded or withdrawn subsequent to the date of this Purchase Contract by one of the rating agencies rating the Certificates; or

(x) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national or international emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the reasonable judgment of the Underwriters, impracticable or inadvisable to proceed with the offering of the Certificates as contemplated in the Official Statement.

The termination of this Purchase Contract pursuant to this Section 8(d) by the Representative with respect to the Certificates shall not prohibit the City from selling such Certificates to any other underwriter.

(e) *Closing Documents.* At or prior to the Closing, the Representative shall receive with respect to the Certificates (unless the context otherwise indicates) the following documents, in each case satisfactory in form and substance to the Representative:

(1) *Approving Authorizations.* Certified copy of the Ordinance.

(2) *Certificate Documents.* Executed originals of the Trust Agreement, the Property Lease, the Lease Agreement and the Continuing Disclosure Certificate and this Purchase Contract.

(3) *Final Opinion.* An approving opinion or opinions of Co-Certificate Counsel, dated the Closing Date, and substantially in the form attached to the Official Statement, and a letter of such counsel addressed to the Representative to the effect that such opinion may be relied upon by the Representative to the same extent as if it had been addressed to them.

(4) *Supplemental Opinion.* A supplemental opinion or opinions of Co-Certificate Counsel addressed to the City and the Representative, dated the Closing Date, to the following effect:

(i) The statements contained in the Official Statement under the captions "THE CERTIFICATES," "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES," "TAX MATTERS," Appendix C - "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS," and Appendix F - "PROPOSED FORM OF CO-CERTIFICATE COUNSEL OPINIONS," insofar as such statements purport to summarize certain provisions of the Certificates, the Trust Agreement, and the opinion of Co-Certificate Counsel with respect to the exclusion from gross income of interest on the Certificates for federal income tax purposes are accurate in all material respects.

(ii) The Certificates are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification under the Trust Agreement Act of 1939, as amended.

(iii) This Purchase Contract and the Certificate Documents have each been duly authorized, executed and delivered by the City and constitute the valid and binding agreements of the City, each enforceable in accordance with its respective terms, except as enforcement thereof may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium or other similar laws affecting enforcement of creditors' rights, by the application of equitable principles if equitable remedies are sought and limitations on the enforcement of legal remedies against public agencies in the State.

(5) *Disclosure Counsel Opinion as to Official Statement.* An opinion of Hawkins Delafield and Wood LLP, as Disclosure Counsel to the City ("*Disclosure Counsel*"), addressed to the City and the Underwriters, dated the Closing Date, in form and substance satisfactory to the City and Underwriters.

(6) *Certificate of the City.* A certificate of the City dated the Closing Date, signed on behalf of the City by an authorized officer of the City, to the effect that:

(i) The representations and warranties of the City contained herein are true and correct in all material respects on and as of the Closing Date as if made on the Closing Date.

(ii) No event affecting the City has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the

Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(7) *Certificate of the Trustee.* A certificate of the Trustee, dated the Closing Date, to the effect that:

(i) The Trustee is a national banking association organized and existing under the laws of the United States of America and has full power and is qualified to accept and comply with the terms of the Trust Agreement, the Property Lease and the Lease Agreement (together, the "*Trustee Documents*") and to perform its obligations thereunder.

(ii) The Trustee has accepted the duties and obligations imposed on it by the Trustee Documents.

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the consummation by the Trustee of the transactions contemplated by the Trustee Documents to be undertaken by the Trustee.

(iv) Compliance with the terms of the Trustee Documents will not conflict with, result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or, to the best knowledge of the Trustee, after reasonable investigation, any law, rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no representation, warranty or agreement is made by the Trustee with respect to any federal or state securities or Blue Sky laws or regulations).

(v) To the knowledge of the Trustee after due inquiry, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental agency, public board or body served on or threatened against or affecting the existence of the Trustee, or in any way contesting or affecting the validity or enforceability of the Trust Documents or the Certificates, or contesting the powers of the Trustee or its authority to enter into and perform its obligations under the Trustee Documents or the Certificates, wherein an unfavorable decision, ruling or finding would adversely affect the validity of the Certificates or the Trust Agreement.

(8) *Trustee's Counsel Opinion.* An opinion of counsel to the Trustee addressed to the City and the Representative, dated the Closing Date, to the effect that:

(i) The Trustee is a national banking association with trust powers, duly organized and validly existing and in good standing under the laws of the United States of America, having the legal authority to exercise trust powers in the State.

(ii) The Trustee has full legal power and adequate corporate authority to accept the duties and obligations imposed on it by the Trustee Documents and to authenticate the Certificates and the full legal power and authority to own its properties and to carry on its business.

(iii) The Certificates have been duly authenticated by the Trustee.

(iv) No consent, approval, authorization or order of any court, regulatory authority or governmental body is required for the valid authorization, execution and delivery of the Trustee Documents and the authentication of the Certificates or the consummation by the Trustee of the transactions contemplated in the Trustee Documents except such as have been obtained and except such as may be required under the state securities or Blue Sky laws in connection with the purchase and distribution of the Certificates by the Underwriters.

(v) Trustee's acceptance of its duties under the Trustee Documents and the authentication of the Certificates by the Trustee and performance by the Trustee of its obligations thereunder will not conflict with or result in a breach of any of the terms, conditions or provisions of its Articles of Association or Bylaws or any other agreement or instrument to which the Trustee is a party or by which it is bound or any other existing law, regulation, court order or consent decree to which the Trustee is subject or constitute a default thereunder.

(vi) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or threatened against the Trustee affecting the existence of the Trustee or the titles of its officers to their respective offices or seeking to prohibit, restrain or enjoin the authentication of the Certificates by the Trustee, or contesting the powers of the Trustee or its authority to perform its obligations under the Trustee Documents or the Certificates.

(9) *Tax Certificate.* Tax Certificate of the City, dated the Closing Date, in form satisfactory to Co-Certificate Counsel.

(10) *California Debt and Investment Advisory City Filings.* Copies of the Report of Proposed Debt Issuance and Report of Final Sale required to be delivered to the California Debt and Investment Advisory City pursuant to Section 53583 of the Government Code and Section 8855(g) of the Government Code.

(11) *Continuing Disclosure Certificate.* An executed copy of the Continuing Disclosure Certificate in substantially the form attached to the Official Statement as Appendix D.

(12) *Rating Letters for the Certificates.* Rating letters of Moody's Investors Service, Inc., Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, Fitch Ratings and/or [any other rating agency], evidencing that such rating agencies have assigned their municipal bond ratings of "____" and "____," respectively.

(13) *Opinion of the City Attorney.* An opinion of the City Attorney addressed to the Representative, dated the Closing Date, in form satisfactory to the Representative.

(14) *Blue Sky Memorandum.* A copy of the Blue Sky Memorandum with respect to the Certificates, prepared by [Underwriters' Counsel], counsel to the Underwriters ("*Underwriters' Counsel*").

(15) *Opinion of the Underwriters' Counsel.* The opinion of Underwriters' Counsel, dated the Closing Date and addressed to the Representative, in form satisfactory to the Underwriters.

(16) *Additional Documents.* Such legal opinions, additional certificates, instruments and other documents as the Representative, Co-Certificate Counsel or the City Attorney may reasonably deem necessary to evidence the truth and accuracy as of the time of the Closing of the representations of the City and the due performance or satisfaction by the City at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the City.

If the City shall be unable to satisfy the conditions contained in this Purchase Contract, or if the obligations of the Underwriters shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and the Underwriters and the City shall not be under further obligation hereunder, except as further set forth in Section 10 hereof.

Section 9. Good Faith Deposit. To secure the City from any loss resulting from the failure of the Underwriters to accept delivery of and pay the purchase price for the Certificates pursuant to the terms of this Purchase Contract, the Underwriters agree to deliver to or to the order of the City, concurrently with the execution and delivery of this Purchase Contract, either an official bank check (which may be deposited by the City upon receipt) or a federal funds wire transfer in the amount of \$_____ (the "*Good Faith Deposit*"). At the Closing, the Good Faith

Deposit will be applied towards and deducted from the aggregate net purchase price for the Certificates as provided in Section 1 of this Purchase Contract. If the Underwriters fail to pay the purchase price in full upon tender of the Certificates (other than for a reason permitted under Section 8 hereof), the City may retain such Good Faith Deposit as and for liquidated damages for such failure by the Underwriters. In such circumstance, the Underwriters will have no right to recover the Good Faith Deposit or to any allowance or credit therefor. Retaining the Good Faith Deposit shall constitute the City's sole and exclusive remedy and full liquidated damages for the Underwriters' failure (other than for a reason expressly set forth herein) to purchase and accept delivery of the Certificates pursuant to the terms of this Purchase Contract and the Underwriters shall be released and discharged from any and all claims for damages by the City against the Underwriters related to such failure and any other defaults by Underwriters hereunder. The Underwriters and the City hereby acknowledge and agree that the amount fixed pursuant to this Section for liquidated damages does not constitute a penalty and is a reasonable estimate of the damages that the City would sustain in the event of the Underwriters' failure to purchase and to accept delivery of the Certificates on the Closing Date pursuant to the terms of this Purchase Contract. Said amount is agreed upon and fixed as liquidated damages because of the difficulty of ascertaining as of the date hereof the actual amount of damages that would be sustained in such event. If the City fails to deliver the Certificates on the Closing Date pursuant to this Purchase Contract, or if the conditions to the obligations of the Underwriters to purchase, accept delivery of and pay for the Certificates as set forth in this Purchase Contract shall not be satisfied (unless waived in writing by the Representative pursuant to this Purchase Contract), or if this Purchase Contract is terminated for a reason set forth in Section 8 hereof, the City shall promptly return or cause the return of the Good Faith Deposit to the Underwriters. Upon such return of the Good Faith Deposit to the Underwriters, this Purchase Contract shall terminate, and neither party shall have any further obligations hereunder.

Section 10. Expenses.

(a) *City.* The City shall pay or cause to be paid (but solely from the proceeds of the Certificates and not otherwise) the expenses incident to the performance of the obligations of the City hereunder, including but not limited to: (1) the cost of printing of the Preliminary Official Statement and the final Official Statement in reasonable quantities and all other documents prepared in connection with the transactions contemplated hereby; (2) the fees and disbursements of the Trustee and counsel to the Trustee in connection with the issuance of the Certificates; (3) the fees and disbursements of Co-Certificate Counsel, Disclosure Counsel and of KNN Public Finance, a division of Zions Public Finance Inc. and Ross Financial, as Co-Financial Advisors to the City, and any other experts or consultants retained by the City in connection with the transactions contemplated hereby; and (4) the costs related to obtaining ratings.

(b) *Underwriters.* The Underwriters shall pay: (1) the cost of preparation and printing of Blue Sky and Legal Investment Memoranda, if any, to be used by it; (2) all advertising expenses in connection with the public offering of the Certificates; (3) California Debt and Investment Advisory Commission fees; and (4) all other expenses incurred by the Underwriters in connection with its public offering and distribution of the Certificates, including, without limitation, any experts or other consultants hired or retained by the Underwriters, including Underwriters' counsel, the fees and charges of the CUSIP Bureau, the MSRB and the California

Debt and Investment Advisory Commission. Certain expenses of the Underwriters may be included in the expense component of the Underwriters' discount. In addition, the City agrees to reimburse the Underwriters for any expenses incurred by the Underwriters on behalf of the City employees and representatives which are in connection with this Purchase Contract, including, but not limited to, meals, transportation and lodging of those employees and representatives, which expenses, if any, will be included in the expense component of the Underwriter's discount. The Representative agrees to provide the City with a detailed itemization of any such expenses incurred on behalf of the City employees or representatives prior to the Closing Date.

Section 11. City Contracting Requirements. The City Contracting Requirements set forth in Attachment A attached hereto are incorporated herein by this reference.

Section 12. Notices. Any notice or other communication to be given under this Purchase Contract to the City or the Underwriters may be given by delivering the same in writing at the addresses set forth below:

If to the City:

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

If to the Underwriters:

Telephone: _____
Fax: _____

Section 13. Entire Agreement. This Purchase Contract, when accepted by the City, shall constitute the entire agreement between the City and the Underwriters and is made solely for the benefit of the City and the Underwriters (including the successors or assigns of any Underwriter with the consent of the City) and no other person shall acquire or have any right hereunder by virtue hereof. All of the City's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of (a) any investigation made by or on behalf of the Underwriters, (b) delivery of and payment for the Certificates hereunder, and (c) any termination of this Purchase Contract.

Section 14. Counterparts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument. This Purchase Contract may be signed in counterparts, and upon delivery to the other party of such signed

Purchase Contract, which delivery may be by facsimile transmission, shall constitute the binding agreement of each party to this Purchase Contract.

Section 15. *Mutual Reliance on Representations and Warranties.* The City hereby acknowledges that the Underwriters, in executing this Purchase Contract and in paying for the Certificates as provided herein, are relying upon the representations and warranties of the City set forth herein. The Underwriters hereby acknowledge that the City, in executing this Purchase Contract and executing and delivering the Certificates described herein, is relying upon the representations and warranties of the Underwriters set forth herein.

Section 16. *Severability.* In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof, but this Purchase Contract shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein.

Section 17. *State of California Law Governs.* The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State of California. This Purchase Contract shall be enforceable in the State of California, and any action arising out of this Purchase Contract shall be filed with and maintained in City and County of San Francisco Superior Court, San Francisco, California; provided, that the City may waive the requirement of venue.

Section 18. *Limited Liability.* The obligations and liabilities of the City hereunder are limited obligations of the City payable solely from Base Rental Payments, as defined and set forth in the Trust Agreement. None of the City, the Board, the officers or employees of the City, or any person executing this Purchase Contract shall be liable personally for the obligations of the City hereunder or be subject to any personal liability or accountability by reason of the execution hereof. Neither of the faith and credit nor the taxing power of the State or any political subdivision thereof, including the City, is pledged to the obligations of the City hereunder.

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

as a Municipal Advisor (as defined in Section 15B of the Exchange Act of 1934, as amended) in connection with the matters contemplated by this Purchase Contract.

[Remainder of Page Intentionally Left Blank.]

Very truly yours,

as Representative

By: _____
Authorized Officer

Accepted as of the date first stated above:

CITY AND COUNTY OF SAN FRANCISCO

By: _____

Approved as to Form:

DENNIS J. HERRERA
City Attorney

By: _____
Mark D. Blake, Deputy City Attorney

[SIGNATURE PAGE TO CERTIFICATE PURCHASE CONTRACT
(1500 MISSION PROJECT) SERIES 201__]

**SCHEDULE I
TO THE PURCHASE CONTRACT**

MATURITY SCHEDULE

\$ _____
Certificates of Participation (1500 Mission Project) Series 201_

Maturity <u>(1)</u>	Principal <u>Amount</u>	Interest <u>Rate</u>	Yield	Price	CUSIP
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**ATTACHMENT A
TO THE PURCHASE CONTRACT
CITY CONTRACTING REQUIREMENTS**

ATTACHMENT B
TO THE PURCHASE CONTRACT
INITIAL ISSUE PRICE CERTIFICATE

NOTICE OF INTENTION TO SELL

§ _____*
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION
(1500 MISSION PROJECT),
SERIES 201_

NOTICE IS HEREBY GIVEN that the City and County of San Francisco (the "City") intends to offer for public sale on:

_____, 201_ at [_____] a.m. (California time)*

by sealed bids at the Controller's Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, City Hall, Room 336, San Francisco, California 94102, and by electronic bids through Ipreo LLC's BIDCOMP™/PARITY® System ("Parity"), \$_____ aggregate principal amount of City and County of San Francisco Certificates of Participation (1500 Mission Project), Series 201_ (the "Certificates").

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

The Certificates will be offered for public sale subject to the terms and conditions of the Official Notice of Sale dated on or around _____, 201_ relating to the Certificates. Further information regarding the proposed sale of the Certificates, including copies of the Preliminary Official Statement for the Certificates and the Official Notice of Sale, are expected to be available electronically at Ipreo Prospectus: www.i-dealprospectus.com on or around _____, 201_, and may also be obtained from either of the City's Co-Financial Advisors: (i) KNN Public Finance, LLC, a division of Zions Public Finance Inc., 1300 Clay Street, Suite 1000, Oakland, California 94612, telephone (510) 208-8205, Attention: David Brodsky (e-mail: dbrodsky@knninc.com); and (ii) Ross Financial, 1736 Stockton Street, Suite One, San Francisco, California 94133, telephone (415) 914-5612, Attention: Peter Ross (e-mail: rossfinancial@smkc.com). Failure of any bidder to receive either document shall not affect the legality of the sale.

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

Date: _____, 201_

* Preliminary, subject to change.

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

PRELIMINARY OFFICIAL STATEMENT DATED _____, 20__

NEW ISSUE – BOOK-ENTRY ONLY

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

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California and Curls Bartling P.C., Oakland, California, Co-Special Counsel, under existing statutes, regulations, rulings and court decisions, and subject to the matters described in "TAX MATTERS" herein, interest evidenced by the Certificates is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not included in the federal alternative minimum tax for individuals or, except as described herein, corporations. It is also the opinion of Co-Special Counsel that under existing law interest evidenced by the Certificates is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein, including a discussion of the federal alternative minimum tax consequences for corporations.



**§[Par Amount]*
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION, SERIES [2019]__
(1500 MISSION PROJECT)**

**evidencing proportionate interests of the Owners thereof in a Lease Agreement,
including the right to receive Base Rental payments to be made by the
CITY AND COUNTY OF SAN FRANCISCO**

Dated: Date of Delivery

Due: _____ 1, as shown on the inside cover

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

The Certificates captioned above (the "Certificates") will be sold to provide funds to: (i) finance or refinance the costs of the acquisition, construction and installation of improvements to an office building to be used by the City, located at 1500 Mission Street, San Francisco, California (as further described herein, the "Project"); (ii) fund the Reserve Fund established under the Trust Agreement for the Certificates; (iii) pay capitalized interest through _____; and (iv) pay costs of execution and delivery of the Certificates. See "ESTIMATED SOURCES AND USES OF FUNDS."

The Certificates are executed and delivered pursuant to a Trust Agreement, dated as of _____ 1, [2019] (the "Trust Agreement"), by and between the City and County of San Francisco (the "City") and [Trustee], as trustee (the "Trustee"), and in accordance with the Charter of the City (the "Charter"). See "THE CERTIFICATES – Authority for Execution and Delivery." The Certificates evidence the principal and interest components of the Base Rental payable by the City pursuant to a Lease Agreement dated as of _____ 1, [2019] (the "Lease Agreement"), by and between the Trustee, as lessor, and the City, as lessee. The City has covenanted in the Lease Agreement to take such action as may be necessary to include and maintain all Base Rental and Additional Rental payments in its annual budget, and to make necessary annual appropriations therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Covenant to Budget." The obligation of the City to pay Base Rental is in consideration for the use and occupancy of the site and facilities subject to the Lease Agreement (as further described herein, the "Leased Property"), and such obligation may be abated in whole or in part if there is substantial interference with the City's use and occupancy of the Leased Property. See "CERTAIN RISK FACTORS – Abatement." The Leased Property generally consists of the Project. See "THE PROJECT AND THE LEASED PROPERTY" herein.

The Certificates will be delivered in fully registered form and registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Individual purchases of the Certificates will be made in book entry form only, in the principal amount of \$5,000 and integral multiples thereof. Principal and interest with respect to the Certificates will be paid by the Trustee to DTC, which will in turn remit such payments to the participants in DTC for subsequent disbursement to the beneficial owners of the Certificates. See "THE CERTIFICATES – Form and Registration." Interest evidenced and represented by the Certificates is payable on _____ 1 and _____ 1 of each year, commencing _____ 1, 201___. Principal will be paid as shown on the inside cover hereof. See "THE CERTIFICATES – Payment of Principal and Interest."

The Certificates are subject to prepayment prior to maturity as described herein. See "THE CERTIFICATES – Prepayment of the Certificates."

THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL OR ADDITIONAL RENTAL PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL OR ADDITIONAL RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY SHALL BE OBLIGATED TO MAKE BASE RENTAL PAYMENTS SUBJECT TO THE TERMS OF THE LEASE AGREEMENT AND NEITHER THE CITY NOR ANY OF ITS OFFICERS SHALL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT TO THE EXECUTION AND DELIVERY OF THE CERTIFICATES. SEE "CERTAIN RISK FACTORS."

MATURITY SCHEDULE

(See inside cover)

BIDS FOR THE PURCHASE OF THE CERTIFICATES WILL BE RECEIVED BY THE CITY AT 8:30 A.M. PACIFIC TIME ON _____, AS PROVIDED IN THE OFFICIAL NOTICE OF SALE INVITING BIDS DATED _____, UNLESS POSTPONED AS SET FORTH IN SUCH OFFICIAL NOTICE OF SALE. See "SALE OF CERTIFICATES" herein.

The Certificates are offered when, as and if executed and received by the Purchaser, subject to the approval of the validity of the Lease Agreement by Norton Rose Fulbright US LLP, and Curls Bartling P.C., Oakland, California, Co-Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel. It is expected that the Certificates in book-entry form will be available for delivery through DTC on or about _____, [2019].

Dated: _____, [2019].

* Preliminary, subject to change.

MATURITY SCHEDULE

(Base CUSIP Number: _____¹)

Certificate Payment Date (_____ 1)	Principal Amount	Interest Rate	Price/Yield ²	CUSIP Suffix
---------------------------------------	------------------	---------------	--------------------------	--------------

[\$ _____ % Term Bonds due _____, _____ – Price/Yield² _____ % CUSIP¹: _____]

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

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

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

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

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

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

¹ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. CUSIP numbers are provided for convenience of reference only. Neither the City nor the Purchaser take any responsibility for the accuracy of such numbers.

² Reoffering prices/yields furnished by the Purchaser. The City takes no responsibility for the accuracy thereof.

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Edwin M. Lee

BOARD OF SUPERVISORS

London Breed, *Board President, District 5*

Sandra Lee Fewer, *District 1*

Mark Farrell, *District 2*

Aaron Peskin, *District 3*

Katy Tang, *District 4*

Jane Kim, *District 6*

Norman Yee, *District 7*

Jeff Sheehy, *District 8*

Hillary Ronen, *District 9*

Malia Cohen, *District 10*

Ahsha Safai, *District 11*

CITY ATTORNEY

Dennis J. Herrera

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

Naomi M. Kelly, *City Administrator*

Benjamin Rosenfield, *Controller*

Nadia Sesay, *Director of Public Finance*

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Co-Special Counsel

Norton Rose Fulbright US LLP
Los Angeles, California

Curls Bartling P.C.
Oakland, California

Co-Financial Advisors

KNN Public Finance
Oakland, California

Ross Financial
San Francisco, California

Disclosure Counsel

Hawkins Delafield & Wood LLP
San Francisco, California

Trustee

[Trustee]

_____, California

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OFFICIAL STATEMENT

\$[Par Amount]*
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION, SERIES 20__
(1500 MISSION PROJECT)

**evidencing proportionate interests of the Owners thereof in a Lease Agreement,
including the right to receive Base Rental payments to be made by the
CITY AND COUNTY OF SAN FRANCISCO**

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the offering by the City and County of San Francisco (the "City") of its City and County of San Francisco Certificates of Participation, Series [2019] (1500 Mission Project) (the "Certificates"). Any capitalized term not defined herein will have the meaning given to such term in APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Definitions." The references to any legal documents, instruments and the Certificates in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions.

This Introduction is designed to give an overview of the transactions and serve as a guide to the contents of this Official Statement.

Overview of the Transaction. The City, exercising its Charter powers to convey and lease property for City purposes, will convey certain real property to [Trustee], as trustee (the "Trustee") under the Facilities Lease dated as of _____ 1, [2019], by and between the City, as lessor, and the Trustee, as lessee (the "Facilities Lease"), at a nominal annual rent. The Trustee will lease the Leased Property (as defined hereafter) back to the City for the City's use under the Lease Agreement dated as of _____ 1, [2019], by and between the Trustee and the City (the "Lease Agreement"). The City will be obligated under the Lease Agreement to pay Base Rental payments and other payments to the Trustee each year during the term of the Lease Agreement (subject to certain conditions under which Base Rental may be "abated" as discussed herein). Each payment of Base Rental will consist of principal and interest components, and when received by the Trustee in each rental period, will be deposited in trust for payment of the Certificates. The Trustee will create the "certificates of participation" in the Lease Agreement, representing proportional interests in the principal and interest components of Base Rental it will receive from the City. The Trustee will apply Base Rental it receives to pay principal and interest with respect to each Certificate when due according to the Trust Agreement dated as of _____ 1, [2019], by and between the City and the Trustee (the "Trust Agreement"), which governs the security and terms of payment of the Certificates. The money received from the sale of the Certificates will be applied by the Trustee, at the City's direction, to finance or refinance the acquisition, construction and installation of improvements to an office building to be used by the City, located at 1500 Mission Street, San Francisco, California (as further described herein, the "Project"). The Leased Property generally consists of the Project. See "THE PROJECT AND THE LEASED PROPERTY."

Guide to this Official Statement. The Project and the Leased Property are described herein in the section "THE PROJECT AND THE LEASED PROPERTY." The application of the proceeds of sale of the Certificates is described in the sections "THE PROJECT AND THE LEASED PROPERTY" and

* Preliminary, subject to change.

"ESTIMATED SOURCES AND USES OF FUNDS." The terms of the Certificates and repayment thereof and security for the Certificates are described in the sections "THE CERTIFICATES," "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES," and other sections in the front portion of this Official Statement. Current information about the City, its finances and governance, are provided in APPENDIX A. The City's most recent comprehensive annual financial report appears in APPENDIX B. A summary of the Lease Agreement, the Facilities Lease, the Trust Agreement, and other basic legal documents are provided in APPENDIX C.

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

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

THE CITY AND COUNTY OF SAN FRANCISCO

[To be updated closer to posting date.] The City is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the "Bay"). The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay and the San Francisco-Oakland Bay Bridge to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour's drive to the north. The City's population in 2016 was approximately 877,000.

The San Francisco Bay Area consists of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the "Bay Area"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology and higher education.

The City is a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2016, approximately 25.2 million people visited the City and spent an estimated \$9.0 billion during their visit. The City is also a leading center for financial activity in the State and is the headquarters of the Twelfth Federal Reserve District, the Eleventh District Federal Home Loan Bank, and the San Francisco Regional Office of Thrift Supervision.

The City benefits from a highly skilled, educated and professional labor force. The per-capita personal income of the City for fiscal year 2015-16 was \$95,815. The San Francisco Unified School District operates 16 transitional kindergarten schools, 72 elementary and K-8 school sites, 12 middle schools, 18 senior high schools (including two continuation schools and an independent study school), and 46 State-funded preschool sites, and sponsors 13 independent charter schools. Higher education institutions located in the City include the University of San Francisco, California State University – San Francisco, University of California – San Francisco (a medical school and health science campus), the University of California Hastings College of the Law, the University of the Pacific's School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy, and the Academy of Art University.

San Francisco International Airport ("SFO"), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County and owned and operated by the City, is the principal commercial service airport for the Bay Area and one of the nation's principal gateways for Pacific traffic. In fiscal year 2015-16, SFO serviced approximately 51.4 million passengers and handled 451,501 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (electric rail commuter service linking the City with the East Bay and the San Francisco Peninsula, including SFO), Caltrain (a conventional commuter rail line linking the City with the San Francisco Peninsula), and bus and ferry services between the City and residential areas to the north, east and south of the City. San Francisco Municipal Railway, operated by the City, provides bus and streetcar service within the City. The Port of San Francisco (the "Port"), which administers 7.5 miles of Bay waterfront held in "public trust" by the Port on behalf of the people of the State, promotes a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities and natural resource protection.

The City is governed by a Board of Supervisors elected from eleven districts to serve four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a four-year term. Edwin M. Lee is the 43rd and current Mayor of the City, having been elected by the voters of the City to his current term on November 3, 2015. The City's adopted budget for fiscal years 2016-17 and 2017-18 totals \$9.59 billion and \$9.72 billion, respectively. The General Fund portion of each year's adopted budget is \$4.86 billion in fiscal year 2016-17 and \$5.09 billion in fiscal year 2017-18, with the balance being allocated to all other funds, including enterprise fund departments, such as SFO, the San Francisco Municipal Transportation Agency, the Port Commission and the San Francisco Public Utilities Commission. The City employed 31,342 full-time-equivalent employees at the end of fiscal year 2015-16. According to the Controller of the City (the "Controller"), the fiscal year 2016-17 total net assessed valuation of taxable property in the City is approximately \$211.5 billion.

More detailed information about the City's governance, organization and finances may be found in APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and in APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 20__."

THE CERTIFICATES

Authority for Execution and Delivery

The Certificates will be executed and delivered pursuant to the Trust Agreement. Each Certificate will represent a proportionate interest in the right of the Trustee to receive Base Rental payments (comprising principal and interest components) payable by the City pursuant to the Lease Agreement. The City will be obligated under the Lease Agreement to pay the Base Rental in

consideration for its use and occupancy of the Leased Property. The Leased Property will be leased by the City to the Trustee pursuant to the Facilities Lease.

The Trust Agreement, the Facilities Lease, and the Lease Agreement were approved by the Board of Supervisors of the City by its Resolution No. _____, adopted by the Board of Supervisors on _____ and approved by the Mayor on _____, and the sale of the Certificates was authorized by Resolution No. _____, adopted by the Board of Supervisors on _____ and approved by the Mayor on _____ (collectively, the "Resolution"). The Resolution authorized the execution and delivery of up to \$_____ aggregate principal amount of the Certificates under the Trust Agreement and the payment of a maximum annual Base Rental payment under the Lease Agreement. Under Section 9.108 of the Charter of the City, the City is authorized to enter into lease-financing agreements with a public agency or nonprofit corporation only with the assent of the majority of the voters voting upon a proposition for the purpose. The lease-financing arrangements with the Trustee for the Certificates do not fall under this provision, since the Trustee is neither a public agency nor a nonprofit corporation.

Payment of Principal and Interest

The principal evidenced and represented by the Certificates will be payable on _____ 1 of each year shown on the inside cover hereof, or upon prepayment prior thereto, and will evidence and represent the sum of the portions of the Base Rental Payments designated as principal components coming due on each _____ 1. Payment of the principal and premium, if any, of the Certificates upon prepayment or upon the Certificate Payment Date will be made upon presentation and surrender of such Certificates at the Principal Office of the Trustee. Principal and premium will be payable in lawful money of the United States of America.

Interest evidenced and represented by the Certificates will be payable on _____ 1 and _____ 1 of each year, commencing on _____ 1, 201__ (each, an "Interest Payment Date") and continuing to and including their Certificate Payment Dates or on prepayment prior thereto, and will evidence and represent the sum of the portions of the Base Rental designated as interest components coming due on such dates in each year. Interest with respect to the Certificates will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest evidenced and represented by each Certificate will accrue from the Interest Payment Date next preceding the date of execution and delivery thereof, unless (i) it is executed after a Regular Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest represented thereby will be payable from such Interest Payment Date; or (ii) it is executed prior to the close of business on the first Regular Record Date, in which event interest represented thereby will be payable from the date of delivery; provided, however, that if at the time of execution of any Certificate interest thereon is in default, such interest will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or, if no interest has been paid or made available for payment, from the date of delivery.

Interest evidenced and represented by the Certificates will be payable in lawful money of the United States of America. Payments of interest represented by the Certificates will be made on each Interest Payment Date by check of the Trustee sent by first-class mail, postage prepaid, or by wire transfer to any Owner of \$1,000,000 or more of Certificates to the account in the United States of America specified by such Owner in a written request delivered to the Trustee on or prior to the Regular Record Date for such Interest Payment Date, to the Owner thereof on the Regular Record Date.

Form and Registration

The Certificates will be executed and delivered in the aggregate principal amount shown on the cover hereof.

The Certificates will be delivered in fully registered form, without coupons, dated their date of delivery, and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), who will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only in the principal amount of \$5,000 or any integral multiple thereof. Principal and interest evidenced and represented by the Certificates will be paid by the Trustee to DTC which will in turn remit such principal and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Certificates. Beneficial owners of the Certificates will not receive physical certificates representing their interest in the Certificates. For further information concerning the Book-Entry Only System, see APPENDIX E: "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Prepayment of the Certificates

Optional Prepayment

The 201__ Certificates with a Certificate Payment Date on or after _____, are subject to optional prepayment prior to their respective Certificate Payment Dates in whole or in part on any date on or after _____, at the option of the City, in the event the City exercises its option under the Lease Agreement to prepay the principal component of the Base Rental payments at a prepayment price equal to 100% of the principal component to be prepaid, plus accrued interest to the date fixed for prepayment, without premium.

In the event the City gives notice to the Trustee of its intention to exercise such option, but fails to deposit with the Trustee on or prior to the prepayment date an amount equal to the prepayment price, the City will continue to pay the Base Rental payments as if no such notice were given.

Special Mandatory Prepayment

The Certificates will be subject to mandatory prepayment prior to their respective Certificate Payment Dates, as a whole or in part on any date, at a Prepayment Price equal to the principal amount thereof (plus accrued but unpaid interest to the prepayment date), without premium, from amounts deposited in the Prepayment Account of the Base Rental Fund following an event of damage, destruction or condemnation of the Leased Property or any portion thereof or upon loss of the use or possession of the Leased Property or any portion thereof due to a title defect.

*Mandatory Sinking Account Installment Prepayment**

The Certificates with a Certificate Payment Date of _____ 1, 20__ are subject to sinking account installment prepayment prior to their stated final Certificate Payment Date, in part, by lot, from scheduled payments of the principal component of Base Rental payments, at the principal amount thereof, plus accrued interest to the prepayment date, without premium, on _____ 1 in each of the years and in the amounts set forth below:

* Preliminary, subject to change.

Sinking Account
Payment Date
(_____ 1)

Sinking Account
Installment Amount

†

† Final Certificate Payment Date.

Selection of Certificates for Prepayment

Whenever provision is made in the Trust Agreement for the prepayment of Certificates (other than from Sinking Account Installments) and less than all Outstanding Certificates are to be prepaid, the City will direct the principal amount of each Certificate Payment Date to be prepaid. Within a maturity, the Trustee, with the consent of the City, will select Certificates for prepayment by lot in any manner that the Trustee in its sole discretion deems fair and appropriate. The Trustee will promptly notify the City in writing of the Certificates so selected for prepayment. Prepayment by lot will be in such manner as the Trustee determines; provided, however, that the portion of any Certificate to be prepaid will be in Authorized Denominations and all Certificates to remain Outstanding after any prepayment in part will be in Authorized Denominations.

Notice of Prepayment

Notice of prepayment will be given to the respective Owners of Certificates designated for prepayment by Electronic Notice or first-class mail, postage prepaid, at least 20 but not more than 45 days before any prepayment date, at their addresses appearing on the registration books maintained by the Trustee; provided, however, that so long as the DTC book-entry system is used for any Certificates, notice with respect thereto will be given to DTC, as nominee of the registered Owner, in accordance with its operational requirements. Notice will also be given as required by the Continuing Disclosure Certificate. See "CONTINUING DISCLOSURE" herein.

Each notice of prepayment will specify: (i) the Certificates or designated portions thereof (in the case of prepayment of the Certificates in part but not in whole) which are to be prepaid, (ii) the date of prepayment, (iii) the place or places where the prepayment will be made, including the name and address of the Trustee, (iv) the prepayment price, (v) the CUSIP numbers (if any) assigned to the Certificates to be prepaid, (vi) the Certificate numbers of the Certificates to be prepaid in whole or in part and, in the case of any Certificate to be prepaid in part only, the amount of such Certificate to be prepaid, and (vii) the original issue date and stated Certificate Payment Date of each Certificate to be prepaid in whole or in part. Such Prepayment Notice will further state that on the specified date there will become due and payable with respect to each Certificate or portion thereof being prepaid the prepayment price, together with interest represented thereby accrued but unpaid to the prepayment date, and that from and after such date, if sufficient funds are available for prepayment, interest with respect thereto will cease to accrue and be payable.

Neither failure to receive any prepayment notice nor any defect in such prepayment notice so given will affect the sufficiency of the proceedings for the prepayment of such Certificates. Each check or other transfer of funds issued by the Trustee for the purpose of prepaying Certificates will bear the

CUSIP number identifying, by issue, series and maturity, the Certificates being prepaid with the proceeds of such check or other transfer.

Conditional Notice of Prepayment; Cancellation of Optional Prepayment

The City may direct the Trustee to provide a conditional notice of prepayment and such notice will specify its conditional status. Any notice of prepayment may be rescinded by notice delivered in the same manner as the original notice of prepayment.

Notwithstanding any other provision of the Trust Agreement, a conditional prepayment notice may be provided and if the Certificates are subject to optional prepayment and the Trustee does not have on deposit moneys sufficient to prepay the principal, plus the applicable premium, if any, represented by the Certificates proposed to be prepaid on the date fixed for prepayment, and interest with respect thereto, on or prior to such date, the prepayment will be canceled and in each and every such case, the City, the Trustee and the Owners, as the case may be, will be restored to their former positions and rights hereunder. Such a cancellation of a prepayment will not constitute a default under the Trust Agreement nor an event that with the passage of time or giving of notice or both will constitute a default under the Trust Agreement and the Trustee and the City will have no liability from such cancellation. In the event of such cancellation, the Trustee will send notice of such cancellation to the Owners in the same manner as the related notice of prepayment. Neither the failure to receive such cancellation notice nor any defect therein shall affect the sufficiency of such cancellation.

Partial Prepayment

Upon the surrender of any Certificate prepaid in part only, the Trustee will execute and deliver to the Owner thereof, at the expense of the City, a new Certificate or Certificates of Authorized Denominations equal to the unprepaid portion of the Certificates surrendered and of the same Certificate Payment Date and interest rate. Such partial prepayment will be valid upon payment of the amount required to be paid to such Owner, and the City and the Trustee will be released and discharged thereupon from all liability to the extent of such payment.

Effect of Prepayment

If, on the designated prepayment date, money for the prepayment of all of the Certificates to be prepaid, together with accrued interest to such prepayment date, is held by the Trustee so as to be available for the prepayment on the scheduled prepayment date, and if a prepayment notice has been given as described above, then from and after such prepayment date, no additional interest will become due with respect to the Certificates to be prepaid, and such Certificate or portion thereof will no longer be deemed Outstanding under the provisions of the Trust Agreement; however, all money held by or on behalf of the Trustee for the prepayment of such Certificates will be held in trust for the account of the Owners thereof.

If the City acquires any Certificate by purchase or otherwise, such Certificate will no longer be deemed Outstanding and will be surrendered to the Trustee for cancellation.

Purchase of Certificates

Unless expressly provided in the Trust Agreement, money held in the Base Rental Fund may be used to reimburse the City for the purchase of Certificates that would otherwise be subject to prepayments from such moneys upon the delivery of such Certificates to the Trustee for cancellation at least 10 days prior to the date on which the Trustee is required to select Certificates for prepayment. The purchase

price of any Certificates purchased by the City will not exceed the applicable prepayment price of the Certificates that would be prepaid but for the operation of this paragraph. Any such purchase must be completed prior to the time notice would otherwise be required to be given to prepay the related Certificates. All Certificates so purchased will be surrendered to the Trustee for cancellation and applied as a credit against the obligation to prepay such Certificates from such moneys.

THE PROJECT AND THE LEASED PROPERTY

A portion of the proceeds of the Certificates will be used to finance or refinance the costs of the acquisition, construction and equipping of a proposed 16-story office building to be located at 1500 Mission Street, San Francisco, California (the "Project"). The Project will have 430,845 rentable square feet, and will be occupied by various departments of the City. The City's goal is to establish a "One-Stop Permit Center," bringing together 14 City permitting agencies to a single location. The Project will include administrative office workspace for multiple City departments, training and conference space, and a childcare facility. The Project was designed and developed through collaboration between the City's Real Estate Division and Related California, the Project developer.

The Project will also be the Leased Property that is the subject of the Lease Agreement.

[Additional description of Project to come – cost of construction, construction schedule.]

Related California is also developing adjacent to the Project a 39-story, mixed-income, mixed-use development consisting of a 540-unit residential tower (the "Tower"). The Tower will have 55,000 square feet of retail and residential space, with twenty percent of the residential units reserved for affordable and low-income households. The Tower will not be a part of the Leased Property.

See "ESTIMATED SOURCES AND USES OF FUNDS" herein for a further description of the expected application of proceeds of sale of the Certificates.

ESTIMATED SOURCES AND USES OF FUNDS

Following is a table of estimated sources and uses of funds with respect to the Certificates:

Sources of Funds:

Certificate Par Amount
Net Original Issue Premium
Less: Purchaser's Discount.....
<i>Total Sources</i>

Uses of Funds:

Project Fund.....
Base Rental Fund ⁽¹⁾
Reserve Fund
Costs of Delivery ⁽²⁾
<i>Total Uses</i>

(1) Represents capitalized interest through _____.

(2) Includes amounts for legal fees, Trustee's fees and expenses, financial advisory fees, rating agency fees, appraisals and property condition report fees, escrow and title insurance fees, rounding amounts, printing costs and any other delivery costs.

BASE RENTAL PAYMENT SCHEDULE

The Lease Agreement requires the City to make Base Rental payments in arrears on each _____ and _____, commencing _____, 20____, in payment for the use and occupancy of the Leased Property during the term of the Lease Agreement.

The Trust Agreement requires that Base Rental payments be deposited in the Base Rental Fund maintained by the Trustee. Pursuant to the Trust Agreement, on _____ 1 and _____ 1 of each year, commencing on _____ 1, 20____, the Trustee will apply such amounts in the Base Rental Fund as are necessary to make principal and interest payments with respect to the Certificates as the same become due and payable, as shown in the following table.

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Fiscal Year Debt Service</u>
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SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Source of Payment

The Certificates will evidence and represent proportionate interests in the Base Rental payments required to be made by the City to the Trustee under the Lease Agreement so long as the City has use and occupancy of the Leased Property. The Lease Agreement terminates on _____ 1, 20____, or upon early payment of all of the Certificates in accordance with the Trust Agreement, unless extended upon the event of abatement. See "– Abatement of Base Rental Payments" below.

Pursuant to the Trust Agreement, the City will grant to the Trustee, for the benefit of the Owners, a first and exclusive lien on, and security interest in, all amounts on hand from time to time in the funds and accounts established under the Trust Agreement (excluding the Rebate Fund), including: (i) all Base Rental payments received by the Trustee from the City; (ii) the proceeds of any insurance (including the proceeds of any self-insurance and any liquidated damages received in respect of the Leased Property), and eminent domain award not required to be used for repair or replacement of the Project or the Leased Property; (iii) proceeds of rental interruption insurance policies with respect to the Leased Property; (iv) all amounts on hand from time to time in the Reserve Fund and the Base Rental Fund established under the Trust Agreement, including amounts transferred to the Base Rental Fund from other funds and accounts, as provided in the Trust Agreement (including proceeds of the Certificates no longer needed to complete the Project or to pay costs of execution and delivery of the Certificates); and (v) any additional property subjected to the lien of the Trust Agreement by the City or anyone on its behalf. The City will pay to the Trustee the Base Rental payments to the extent required under the Lease Agreement, which

Base Rental payments are designed to be sufficient, in both time and amount, to pay, when due, the annual principal and interest represented by the Certificates.

Covenant to Budget

The City will covenant in the Lease Agreement to take such action as may be necessary to include all Rental Payments as a separate line item in its annual budget and to make the necessary annual appropriations for such Rental Payments. The Lease Agreement provides that such covenants on the part of the City are deemed and construed to be ministerial duties imposed by law and by the Charter, and it is the duty of each and every public official of the City to take such action and do such things as are required by law and by the Charter in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

If the City defaults on its covenant in the Lease Agreement to include all Rental Payments in the applicable annual budget and such default continues for 60 days or more, the Trustee may retain the Lease Agreement and hold the City liable for all Rental Payments on an annual basis.

The obligation of the City to make Rental Payments is an obligation payable from any legally available funds of the City. For a discussion of the budget and finances of the City, see APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – City Budget" and APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 20__." For a discussion of the City's investment policy regarding pooled cash, see APPENDIX G: "CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER INVESTMENT POLICY."

Limited Obligation

The obligation of the City to make Base Rental or Additional Rental payments under the Lease Agreement does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the City to make Base Rental or Additional Rental payments constitutes an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. See "CERTAIN RISK FACTORS – Rental Payments Not a Debt of the City."

Base Rental Payments; Additional Rental; Capitalized Interest

Base Rental Payments. The City has covenanted in the Lease Agreement that, so long as the City has the full use and occupancy of the Leased Property, it will make Base Rental payments to the Trustee from any legally available funds of the City. The Trustee is required by the Trust Agreement to deposit in the Base Rental Fund all Base Rental payments and certain other amounts received and required to be deposited therein, including investment earnings. The total Rental Payment due in any Fiscal Year will not be in excess of the total fair rental value of the Leased Property for such Fiscal Year.

Base Rental payments will be payable by the City on _____ and _____ of each year during the term of the Lease, commencing _____, 20__, provided that any such payment will be for that portion of the applicable period that the City has use and occupancy of all or a portion of the Leased Property. In the event that during any such period the City does not have use and occupancy of all or a portion of the Leased Property due to material damage to, destruction of or condemnation of or defects in the title to the Leased Property, Base Rental payments are subject to abatement. See "– Abatement of

Base Rental Payments" and "CERTAIN RISK FACTORS – Abatement." The obligation of the City to make Base Rental payments is payable solely from annual appropriations of the City from any legally available funds of the City and the City has covenanted in the Lease Agreement to take such action as may be necessary to include all Base Rental and Additional Rental due under the Lease Agreement as a separate line item in its annual budget and to make necessary annual appropriations for all such Base Rental and Additional Rental, subject to the abatement provisions under the Lease Agreement. See "– Covenant to Budget" above.

Additional Rental. Additional Rental payments due from the City to the Trustee include, among other things, amounts sufficient to pay any taxes and insurance premiums, and to pay all fees, costs and expenses of the Trustee in connection with the Trust Agreement, deposits required to be made to the Rebate Fund, if any, and all other fees, costs and expenses of the Trustee incurred from time to time in administering the Lease Agreement and the Trust Agreement. The City is also responsible for repair and maintenance of the Leased Property during the term of the Lease Agreement.

Capitalized Interest. Prior to completion of the Project, proceeds of the sale of the Certificates will be deposited into the Base Rental Fund in an amount sufficient to pay all interest evidenced and represented by the Certificates through _____, 20__.

Abatement of Base Rental Payments

The Trustee will collect and receive all of the Base Rental payments, and all payments of Base Rental received by the Trustee under the Lease Agreement will be deposited into the Base Rental Fund. The City's obligation to make Rental Payments in the amount and on the terms and conditions specified in the Lease Agreement is absolute and unconditional without any right of set-off or counterclaim, subject only to the provisions of the Lease Agreement regarding rental abatement. See "CERTAIN RISK FACTORS – Abatement."

Rental Payments will be abated during any period in which there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City, by reason of material damage, destruction or condemnation of the Leased Property or any portion thereof, or due to defects in title to the Leased Property, or any portion thereof, except to the extent of (i) available amounts held by the Trustee in the Base Rental Fund or in the Reserve Fund, (ii) amounts, if any, received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the City for Rental Payments or to the Trustee for payments in respect of the Certificates. The amount of annual rental abatement will be such that the resulting Rental Payments in any Lease Agreement Year during which such interference continues do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference. Abatement will commence with such damage, destruction or condemnation and end when use and occupancy or possession is restored. In the event of abatement, the term of the Lease Agreement may be extended until all amounts due under the Lease Agreement and the Trust Agreement are fully paid, but in no event later than _____ 1, 20__ . See "CERTAIN RISK FACTORS – Abatement."

In order to mitigate the risk that an abatement event will cause a disruption in payment of Base Rental, the Lease Agreement requires the City to maintain rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Facilities Lease for a period of at least 24 months. Pursuant to the Lease Agreement, rental interruption insurance is required to insure only against loss of rental income from the Leased Property caused by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by the City's all risk property insurance on the Leased Property. The City is not required to maintain earthquake or flood insurance (or rental interruption insurance relating to

such coverage) under the Lease Agreement [and the City does not currently have earthquake or flood insurance on the Leased Property.] See "- Insurance with Respect to the Leased Property" below. During any period of abatement with respect to all or any part of the Leased Property, the Trustee is required to use the proceeds of the rental interruption insurance to make payments of principal and interest represented by the Certificates. The City is also required by the Lease Agreement to use insurance proceeds to replace or repair Leased Property destroyed or damaged to the extent that there is substantial interference with the City's use and occupancy, or to prepay Certificates such that resulting Rental Payments are sufficient to pay all amounts due under the Lease Agreement and the Trust Agreement with respect to the Certificates remaining Outstanding. See "- Replacement, Maintenance and Repairs" below. In lieu of abatement of Rental Payments, the City in its sole discretion may elect, but is not obligated, to substitute property for the damaged, condemned or destroyed Leased Property, or portion thereof, pursuant to the substitution provisions of the Lease Agreement. See "- Substitution, Release and Addition of Leased Property" below. In addition, the Trust Agreement establishes a Reserve Fund and requires the Trustee to use any moneys on deposit in the Reserve Fund to make payments of principal and interest represented by the Certificates. See "- Reserve Fund" below.

Reserve Fund

The Trust Agreement establishes a Reserve Fund that will be held by the Trustee. Simultaneously with the delivery of the Certificates, the City will cause to be deposited into the Reserve Fund established under the Trust Agreement a portion of the proceeds of the Certificates, which amount will be at least equal to the Reserve Requirement. The Reserve Requirement with respect to the Certificates means, as of any date of calculation, the least of (i) the maximum annual principal and interest evidenced by the Certificates payable in the then current Fiscal Year or any future Fiscal Year, (ii) 125% of average annual principal and interest evidenced by the Certificates payable in each Fiscal Year between the date of calculation and the last Certificate Payment Date of the Certificates, or (iii) 10% of the stated principal amount evidenced by the Certificates (less original issue discount if in excess of two percent of the stated redemption price at maturity) originally executed and delivered. On the date of execution and delivery of the Certificates, the Reserve Requirement is \$_____.

The Reserve Fund is required to be maintained by the Trustee until the Base Rental is paid in full pursuant to the Lease Agreement or until there are no longer any Certificates Outstanding; provided, however, that the Reserve Fund may be used to pay a portion of the final Base Rental Payment.

A Credit Facility in the amount of the Reserve Requirement may be substituted by the City at any time for all or a portion of the funds held by the Trustee in the Reserve Fund, provided that (i) such substitution will not result in the reduction or withdrawal of any ratings by any Rating Agency with respect to the Certificates at the time of such substitution (and the City will notify each Rating Agency prior to making any such substitution), as confirmed by each applicable Rating Agency in writing, and (ii) the Trustee receives an opinion of Independent Counsel stating that such substitution will not, by itself, adversely affect the exclusion from gross income for federal income tax purposes of interest components of the Base Rental evidenced and represented by the Certificates. If the Credit Facility is a surety bond or insurance policy, such Credit Facility will be for the term of the Certificates. Amounts on deposit in the Reserve Fund for which a Credit Facility has been substituted will be transferred as directed in writing by a City Representative.

If on any Interest Payment Date the amounts on deposit in the Base Rental Fund are less than the principal and interest payments due with respect to the Certificates on such date, the Trustee will transfer from the Reserve Fund for credit to the Base Rental Fund an amount sufficient to make up such deficiency. In the event of any such transfer, the Trustee will immediately provide written notice to the City of the amount and the date of such transfer.

Replacement, Maintenance and Repairs

The Lease Agreement requires the City, at its own expense and as determined and specified by the Director of Real Estate of the City, to maintain or cause to be maintained the Leased Property in good order, condition and repair during the term of the Lease Agreement. The Trust Agreement requires that if the Leased Property or any portion thereof is damaged or destroyed or taken by eminent domain, the City must elect to either prepay the Certificates or replace or repair the affected portion of the Leased Property in accordance with the Lease Agreement, provided however that the City's obligation to repair or replace any portion of the Leased Property pursuant to the Lease Agreement will be subject to the availability of proceeds of insurance or condemnation for such purpose. Under the Lease Agreement, the City must replace any portion of the Leased Property that is destroyed or damaged or taken by eminent domain, to such an extent that there is substantial interference with its right to the use and occupancy of the Leased Property or any portion thereof that would result in an abatement of Rental Payments or any portion thereof pursuant to the Lease Agreement; provided, however, that the City is not required to repair or replace any such portion of the Leased Property if there is applied to the prepayment of Outstanding Certificates insurance or condemnation proceeds or other legally available funds are sufficient to prepay: (i) all of the Certificates Outstanding and to pay all other amounts due under the Lease Agreement and under the Trust Agreement or (ii) any portion of the Certificates such that the resulting Rental Payments payable in any Lease Agreement Year following such partial prepayment are sufficient to pay in the then current and any future Lease Agreement Year the principal and interest evidenced and represented by all Certificates to remain Outstanding and all other amounts due under the Lease Agreement and under the Trust Agreement to the extent they are due and payable in such Lease Agreement Year. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – LEASE AGREEMENT."

Insurance with Respect to the Leased Property

The Lease Agreement requires the City to maintain or cause to be maintained throughout the term of the Lease Agreement (but during the period of construction of the Project only the insurance described in paragraphs (i) and (v) below will be required and may be provided by the contractor under the construction contract of the Project): (i) general liability insurance against damages occasioned by construction of improvements to or operation of the Leased Property with minimum coverage limits of \$5,000,000 combined single limit for bodily and personal injury and property damage per occurrence, which general liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage maintained or caused by the City to be maintained; (ii) all risk property insurance on all structures constituting any part of the Leased Property in an amount equal to the Outstanding principal amount of Certificates, with such insurance covering, as nearly as practicable, loss or damage by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance (excluding earthquakes and flood), including a replacement cost endorsement; (iii) boiler and machinery insurance, comprehensive form, insuring against accidents to pressure vessels and mechanical and electrical equipment, with a property damage limit not less than \$5,000,000 per accident; (iv) commencing on the date of Final Completion of the Project, rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Lease Agreement for a period of 24 months (such amount may be adjusted to reflect the actual scheduled Base Rental payments due under the Lease Agreement for the next succeeding 24 months) to insure against loss of rental income from the Leased Property caused by perils covered by the insurance described in (ii) above; and (v) builders' risk insurance in an amount equal to the lesser of the Outstanding principal amount of the Certificates, or the replacement cost of the Leased Property, which insurance will be outstanding until Final Completion of the Project. All policies of insurance required under the Lease Agreement may provide for a deductible amount that is commercially reasonable as determined by the City Risk Manager.

The City is also required under the Lease Agreement to deliver to the Trustee, on the date of execution and delivery of the Certificates, evidence of the commitment of a title insurance company to issue a CLTA or ALTA policy of title insurance (with no survey required), in an amount at least equal to the initial aggregate principal amount of the Certificates, showing a leasehold interest in the Leased Property in the name of the Trustee and naming the insured parties as the City and the Trustee, for the benefit of the Owners of the Certificates, and to deliver such policy to the Trustee promptly after the execution and delivery of the Certificates.

The City is not required to maintain earthquake or flood insurance (or rental interruption insurance relating to such coverage) under the Lease Agreement and the City does not currently have earthquake or flood insurance on the Leased Property.

THE CITY MAY SELF-INSURE AGAINST ANY OF THE RISKS REQUIRED TO BE INSURED AGAINST IN THE LEASE, EXCEPT FOR SELF-INSURANCE FOR RENTAL INTERRUPTION INSURANCE AND TITLE INSURANCE. The City expects to self-insure for general liability insurance only.

Eminent Domain

If all of the Leased Property, or so much thereof as to render the remainder of the Leased Property unusable for the City's purposes under the Lease Agreement, is taken under the power of eminent domain: (i) the City may, at its option, replace the Leased Property, or (ii) the Lease Agreement will terminate and the proceeds of any condemnation award will be paid to the Trustee for application to the prepayment of Certificates. If less than a substantial portion of the Leased Property is taken under the power of eminent domain, and the remainder is useable for the City's purposes, the Lease Agreement will continue in full force and effect as to the remaining portions of the Leased Property, subject only to its rental abatement provisions. Any condemnation award will be paid to the Trustee for application to the replacement of the portion of the Leased Property taken or to the partial prepayment of Certificates. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – TRUST AGREEMENT – Eminent Domain" and "– LEASE AGREEMENT – Eminent Domain."

Substitution, Release, and Addition of Leased Property

If no Event of Default has occurred and is continuing under the Lease Agreement, the Lease Agreement may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, if such amendment is to modify or amend the description of the Leased Property or to release from the Lease Agreement any portion of the Leased Property, or to add other property and improvements to the Leased Property or substitute other property and improvements for the Leased Property, upon satisfaction of the conditions to such amendment and substitution in the Lease Agreement. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – LEASE AGREEMENT – Substitution of Leased Property," "– Release of Leased Property" and "– Addition of Leased Property."

CERTAIN RISK FACTORS

The following risk factors should be considered, along with all other information in this Official Statement, by potential investors in evaluating the risks inherent in the purchase of the Certificates. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the Certificates. The order in which this information is presented does not necessarily reflect the relative importance of the various issues. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the liquidity of the Certificates.

There can be no assurance that other risk factors not discussed herein will not become material in the future.

City Long Term Challenges

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

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

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

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

There is no assurance that other challenges not discussed in this Official Statement may become material to investors in the future. For more information, see APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and in APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 20__."

Rental Payments Not a Debt of the City

The obligation of the City to make Base Rental or Additional Rental payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The obligation of the City to make Base Rental or Additional Rental payments does not constitute an indebtedness of the City, the State or any of its

political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

The Certificates represent and are payable solely from Base Rental payments made by the City pursuant to the Lease Agreement and amounts held in the Reserve Fund and the Base Rental Fund established pursuant to the Trust Agreement, subject to the provisions of the Trust Agreement permitting the application of such amounts for the purposes and on the terms and conditions set forth therein. The City will be obligated to make Rental Payments subject to the terms of the Lease Agreement, and neither the City nor any of its officers will incur any liability or any other obligation with respect to the delivery of the Certificates.

Additional Obligations

Subject to certain City Charter restrictions, the City may incur other obligations, which may constitute additional charges against its revenues, without the consent of the Owners of the Certificates. To the extent that the City incurs additional obligations, the funds available to make payments of Base Rental may be decreased. The City is currently liable on other obligations payable from its general revenues. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – General Obligation Bonds Authorized but Unissued," "– Overlapping Debt," and "– Lease Payments and Other Long-Term Obligations." See also APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 20__."

Construction-Period Risk

Except to the extent of certain amounts available to the Trustee for payment of Base Rental, including capitalized interest deposited in the Base Rental Fund and amounts on deposit in the Reserve Fund, the obligation of the City under the Lease Agreement to make Base Rental payments will be dependent upon the City's use and right of occupancy of the Leased Property. Rental interruption insurance proceeds are not available for payment of Base Rental prior to the Final Completion of the Project.

During the construction period, the Project will be subject to all of the ordinary construction risks and delays applicable to projects of its kind. Such risks include but are not limited to (i) inclement weather, affecting contractor performance and timeliness of completion, which could affect the costs and availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors; (ii) natural disaster (including earthquake, for which losses are uninsured), operating risks or hazards or other unexpected conditions or events adversely affecting the progress of work; (iii) contractor claims or nonperformance; (iv) increased materials costs, labor costs, or failure of contractors to execute within contract price, resulting in insufficient funding for the Project; (v) work stoppages or slowdowns; (vi) failure of contractors to meet schedule terms; (vii) the discovery of hazardous materials on the site or other issues regarding compliance with applicable environmental standards, which can arise at any time during the construction of the Project, or (viii) other factors.

There can be no assurance that Final Completion of the Project will not be delayed, preventing the City's use and occupancy of the Leased Property on the currently projected date. See "THE PROJECT AND THE LEASED PROPERTY."

Abatement

The obligation of the City under the Lease Agreement to make Base Rental payments is in consideration for the use and right of occupancy of the Leased Property. Under certain circumstances, the City's obligation to make Base Rental payments will be abated during any period in which there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City, by reason of material damage, destruction or condemnation of the Leased Property or any portion thereof, or due to defects in title to the Leased Property, or any portion thereof. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Abatement of Base Rental Payments."

In the case of abatement relating to the Leased Property, the amount of annual rental abatement would be such that the resulting Rental Payments in any Lease Agreement Year during which such interference continues do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of a City Representative. Such abatement would continue for the period commencing with the date of such damage, destruction, condemnation or discovery of such title defect and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of the title defect; and the term of the Lease Agreement will be extended by the period during which the rental is abated under the Lease Agreement, except that such extension will in no event extend beyond _____ 1, 20__ . Reserve Fund moneys and the proceeds of rental interruption insurance may be used by the Trustee to make payments with respect to the Certificates in the event Base Rental payments received by the Trustee are insufficient to pay principal or interest represented by the Certificates as such amounts become due. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Insurance with Respect to the Leased Property." and "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Replacement, Maintenance and Repairs" for additional provisions governing damage to the Leased Property.

In addition, even if such amounts are sufficient to make such payments, moneys remaining in the Reserve Fund after such payments may be less than the Reserve Fund Requirement. The City is not required by the Lease Agreement or the Trust Agreement, and cannot be compelled, to replenish the Reserve Fund to the Reserve Fund Requirement.

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

If damage, destruction, condemnation or title defect with respect to the Leased Property or any portion thereof results in abatement of Base Rental payments and the resulting Base Rental payments, together with moneys in the Reserve Fund and any available insurance proceeds, are insufficient to make all payments with respect to the Certificates during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners, under the Lease Agreement or Trust Agreement for nonpayment under such circumstances. Failure to pay principal of, premium, if any, or interest with respect to the Certificates as a result of abatement of the City's obligation to make Rental Payments under the Lease Agreement is not an event of default under the Trust Agreement or the Lease Agreement.

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

Reserve Fund

At the time of delivery of the Certificates, proceeds of the Certificates in the amount of the Reserve Requirement will be deposited in the Reserve Fund. In the event of abatement or default, the amounts on deposit in the Reserve Fund may be significantly less than the amount of Base Rental due at the time of abatement or default. The City has no obligation to restore the Reserve Fund if it is used to pay Base Rental.

Limited Recourse on Default; No Re-letting

The Lease Agreement and the Trust Agreement provide that, if there is a default by the City, the Trustee has the right, at its option, without any further demand or notice, so long as the Trustee does not terminate the Lease Agreement or the City's possession of the Leased Property, to enforce all of its rights and remedies under the Lease Agreement, including the right to recover Base Rental Payments as they become due. The Trustee or any assignee of the rights of the Trustee under the Lease Agreement will not exercise its remedies under the Lease Agreement so as to cause the interest with respect to the Certificates to be includable in gross income for federal income tax purposes or the interest with respect to the Certificates to be subject to State personal income tax.

Each and every remedy of the Trustee or any assignee of the rights of the Trustee under the Lease Agreement is cumulative and the exercise of one remedy will not impair the right of the Trustee or its assignee to any or all other remedies. If any statute or rule validly limits the remedies given to the Trustee or any assignee of the rights of the Trustee, the Trustee or its assignee nevertheless will be entitled to whatever remedies are allowable under any statute or rule of law.

[Under the Lease Agreement, The Trustee waives any right of the Trustee to re-let the Leased Property.]

Enforcement of Remedies

The enforcement of any remedies provided in the Lease Agreement and the Trust Agreement could prove both expensive and time consuming. The rights and remedies provided in the Lease Agreement and the Trust Agreement may be limited by and are subject to the limitations on legal remedies against cities and counties in the State, including State constitutional limits on expenditures and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against municipal corporations in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Certificates to judicial discretion and interpretation of their

rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

The legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified, as to the enforceability of the Certificates, the Trust Agreement, the Lease Agreement and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against charter cities and counties and non-profit public benefit corporations in the State. See "CERTAIN RISK FACTORS – Bankruptcy" herein.

No Acceleration on Default

In the event of a default, there is no remedy of acceleration of the total Base Rental payments for the term of the Lease Agreement. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Release and Substitution of the Leased Property

The Lease Agreement permits the release of portions of the Leased Property or the substitution of other real property for all or a portion of the Leased Property. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – LEASE AGREEMENT – Substitution of Leased Property" and "– Release of Leased Property." Although the Lease Agreement requires that the substitute property have an annual fair rental value upon becoming part of the Leased Property equal to the maximum annual amount of the Base Rental payments remaining due with respect to the Leased Property being replaced, it does not require that such substitute property have an annual fair rental value equal to the total annual fair rental value at the time of replacement of the Leased Property or portion thereof being replaced. In addition, such replacement property could be located anywhere within the City's boundaries. Therefore, release or substitution of all or a portion of the Leased Property could have an adverse effect on the security for the Certificates.

Bankruptcy

In addition to the limitations on remedies contained in the Trust Agreement and the Lease Agreement, the rights and remedies in the Trust Agreement and the Lease Agreement may be limited and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights. The legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified, as to the enforceability of the Certificates, the Trust Agreement, the Lease Agreement and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against charter cities and counties and non-profit public benefit corporations in the State. See "CERTAIN RISK FACTORS – Enforcement of Remedies" herein.

The City is authorized under California law to file for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs the bankruptcy proceedings for public agencies such as the City. Third parties, however, cannot bring involuntary bankruptcy proceedings against the City. If the City were to file a petition under Chapter 9 of the Bankruptcy Code, the rights of the Owners of the Certificates may be materially and

adversely affected as follows: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the City or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the City and could prevent the Trustee from making payments from funds in its possession; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have a priority of payment superior to that of Owners of the Certificates; and (iv) the possibility of the adoption of a plan (an "Adjustment Plan") for the adjustment of the City's various obligations over the objections of the Trustee or all of the Owners of the Certificates and without their consent, which Adjustment Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners of the Certificates if the Bankruptcy Court finds that such Adjustment Plan is "fair and equitable" and in the best interests of creditors. The adjustment of similar obligations is currently being litigated in federal court in connection with bankruptcy applications by the cities of San Bernardino and Stockton. The Adjustment Plans in these cities propose significant reductions in the amounts payable by the cities under lease revenue obligations substantially similar to the Certificates. The City can provide no assurances about the outcome of the bankruptcy cases of other California municipalities or the nature of any Adjustment Plan if it were to file for bankruptcy. The City is not currently considering filing for protection under the Bankruptcy Code.

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

Risk of Sea Level Changes and Flooding

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

The City is unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur, and if any such events occur, whether they will

have a material adverse effect on the business operations or financial condition of the City and the local economy.

Seismic Risks

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

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

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

The Leased Property is located in the City and therefore also within a seismically active region. The obligation of the City to make payments of Base Rental may be abated if the Leased Property or any improvements thereon are damaged or destroyed by natural hazard such as earthquake or flood. The City is not obligated under the Project Lease to maintain earthquake insurance on the Leased Property so long as the City's Risk Manager determines that such insurance is not obtainable in reasonable amounts at reasonable costs on the open market from reputable insurance companies, and the City does not expect to obtain earthquake insurance.

The obligation of the City to make payments of Base Rental may be abated if the Leased Property or any improvements thereon are damaged or destroyed by natural hazard such as earthquake or flood. The City is not obligated under the Project Lease to maintain earthquake insurance on the Leased Property because the City does not expect to be able to procure earthquake insurance in reasonable

amounts at reasonable costs on the open market from reputable insurance companies. The City currently does not carry earthquake insurance on the Leased Property. Rental interruption insurance required to be maintained under the Project Lease is not required to cover earthquake hazards.

Climate Change Regulations

The U.S. Environmental Protection Agency (the "EPA") has taken steps towards the regulation of greenhouse gas ("GHG") emissions under existing federal law. On December 14, 2009, the EPA made an "endangerment and cause or contribute finding" under the Clean Air Act, codified at 40 C.F.R. 1. In the finding, the EPA determined that the body of scientific evidence supported a finding that six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The EPA also found that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. This finding requires that the EPA regulate emissions of certain GHGs from motor vehicles.

Regulation by the EPA can be initiated by private parties or by governmental entities other than the EPA. On July 11, 2008, the EPA issued an Advanced Notice of Proposed Rulemaking (the "ANPR") relating to GHG emissions and climate change. The final rule, the Mandatory Reporting of Greenhouse Gases Rule (74 FR 56260), requires reporting of GHG data and other relevant information from large stationary sources and electricity and fuel suppliers.

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, including California, and have been proposed on the federal level. California passed Assembly Bill 32, the "California Global Warming Solutions Act of 2006," which requires the Statewide level of GHGs to be reduced to 1990 levels by 2020. On October 20, 2011, the California Air Resources Board ("CARB") made the final adjustments to its implementation of Assembly Bill 32: the "California Cap-and-Trade Program" (the "Program") which was implemented in January 2012. The Program covers regulated entities emitting 25,000 MtCO_{2e} per year or more and entities in certain listed industries, including major industrial sources, electricity generating facilities, and fuel suppliers. Non-covered entities are encouraged to opt-in and voluntarily participate in the Program. It is expected that the Program will result in rising electricity and fuel costs, which may adversely affect the City and the local economy.

The City is unable to predict what additional federal or State laws and regulations with respect to GHG emissions or other environmental issues (including but not limited to air, water, hazardous substances and waste regulations) will be adopted, or what effects such laws and regulations will have on the City or the local economy. The effects, however, could be material.

Other Events

Seismic events, wildfires, tsunamis, and other natural or man-made events such as cybersecurity breaches may damage City infrastructure and adversely impact the City's ability to provide municipal services. For example, in November 2016, the San Francisco Municipal Transportation Agency (the "SFMTA") was subjected to a ransomware attack which disrupted some of the SFMTA's internal computer systems but did not impact any of the critical transportation systems. Therefore, the attack did not interrupt Muni services nor did it compromise customer privacy or transaction information. The SFMTA, however, took the precaution of turning off the ticket machines and faregates in the Muni Metro subway stations from Friday, November 25 until the morning of Sunday, November 27. While the City takes prudent measures to prevent cyberattacks, no assurance can be given that the City will not be the target of future cybersecurity attacks that could adversely impact the City's operations.

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

Risk Management and Insurance

The Lease Agreement obligates the City to maintain and keep in force various forms of insurance, subject to deductibles, on the Leased Property for repair or replacement in the event of damage or destruction to the Leased Property. The City is also required to maintain rental interruption insurance in an amount equal to but not less than 24 months' Base Rental payments. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Lease Agreement and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest with respect to the Certificates when due.

The Lease Agreement allows the City to self-insure against any or all risks, except rental interruption and title defects, through an alternative risk management program such as its risk management retention program. The City expects to self-insure for all hazards for which the Lease Agreement permits self-insurance. *[Confirm.]* See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – LITIGATION AND RISK MANAGEMENT – Risk Retention Program."

State Law Limitations on Appropriations

Article XIII B of the State Constitution limits the amount that local governments can appropriate annually. The ability of the City to make Base Rental payments may be affected if the City should exceed its appropriations limit. The City does not anticipate exceeding its appropriations limit in the foreseeable future. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Article XIII B of the California Constitution."

Changes in Law

No assurance can be given that the State or the City electorate will not at some future time adopt initiatives or that the State Legislature or the City's Board of Supervisors will not enact legislation that will amend the laws or the Constitution of the State or the Charter, respectively, in a manner that could result in a reduction of the City's General Fund revenues and therefore a reduction of the funds legally available to the City to make Base Rental payments. See, for example, APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CONSTITUTIONAL AND

STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Articles XIII C and XIII D of the California Constitution."

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

State of California Financial Condition

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

U.S. Government Finances

The City receives a portion of its funding from the federal government. The City's finances may be adversely impacted by fiscal matters at the federal level under the new presidential administration and Congress. Such matters include but are not limited to cuts to federal spending, potential withholding of federal grants or other funds flowing to "sanctuary jurisdictions" and suspension or termination of other federal grants for capital projects. The City cannot predict the outcome of future federal budget deliberations. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET – Impact of Presidential Election on Federal Revenues."

Other

There may be other risk factors inherent in ownership of the Certificates in addition to those described in this section.

TAX MATTERS

Tax Exemption

The delivery of the Certificates is subject to delivery of the opinion of Co-Special Counsel, to the effect that interest evidenced by the Certificates for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates (the "Code"), of the owners thereof pursuant to section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The delivery of the Certificates is also

subject to the delivery of the opinion of Co-Special Counsel, based upon existing provisions of the laws of the State of California that interest evidenced by the Certificates is exempt from personal income taxes of the State of California. The form of Co-Special Counsel's anticipated opinion is included as APPENDIX F. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

Interest evidenced by the Certificates owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Co-Special Counsel will rely upon the representations and certifications of the City made in a certificate of even date with the initial delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance with the provisions of the Lease Agreement and the Trust Agreement by the City subsequent to the issuance of the Certificates. The Lease Agreement, the Trust Agreement and the Tax Certificate contain covenants by the City with respect to, among other matters, the use of the proceeds of the Certificates and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest evidenced by the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

Except as described above, Co-Special Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Co-Special Counsel's opinion is not a guarantee of a result, but represents their legal judgment based upon their review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") or the State of California with respect to the matters addressed in the opinion of Co-Special Counsel, and Co-Special Counsel's opinion is not binding on the IRS or the State of California. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Certificates is commenced, under current procedures, the IRS is likely to treat the City as the "taxpayer," and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest evidenced by the Certificates, the City may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to Certificate holders of the exclusion of interest evidenced by the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain Certificates

The initial public offering price of certain Certificates (the "Discount Certificates") may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest evidenced by the Certificates described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price of certain Certificates (the "Premium Certificates") may be greater than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Premium Certificate (assuming that a substantial amount of the Premium Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Certificates. The basis for federal income

tax purposes of a Premium Certificate in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Certificates for federal income purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

OTHER LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Certificates and with regard to the tax status of the interest represented by the Certificates (see "TAX MATTERS" herein) are subject to the separate legal opinions of Norton Rose Fulbright US LLP, Los Angeles, California and Curls Bartling, P.C., Oakland, California, Co-Special Counsel. The signed legal opinions of Co-Special Counsel, dated and premised on facts existing and law in effect as of the date of original delivery of the Certificates, will be delivered to the initial purchasers of the Certificates at the time of original delivery of the Certificates.

The proposed form of the legal opinions of Co-Special Counsel are set forth in APPENDIX F hereto. The legal opinions to be delivered may vary that text if necessary to reflect facts and law on the date of delivery. The opinions will speak only as of their date, and subsequent distributions of it by recirculation of this Official Statement or otherwise will create no implication that Co-Special Counsel have reviewed or express any opinion concerning any of the matters referred to in the opinion subsequent to its date. Certain legal matters will be passed upon for the City by the City Attorney and by Hawkins Delafield & Wood LLP; San Francisco, California, Disclosure Counsel.

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

The legal opinions and other letters of counsel to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions or advice regarding the legal issues and other matters expressly addressed therein. By rendering a legal opinion or advice, the giver of such opinion or advice does not become an insurer or guarantor of the result indicated by that opinion, or the transaction on which the opinion or advice is rendered, or of the future

performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

PROFESSIONALS INVOLVED IN THE OFFERING

KNN Public Finance and Ross Financial have served as Co-Financial Advisors to the City with respect to the sale of the Certificates. The Co-Financial Advisors have assisted the City in the City's review and preparation of this Official Statement and in other matters relating to the planning, structuring, and sale of the Certificates. The Co-Financial Advisors have not independently verified any of the data contained herein nor conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement and assume no responsibility for the accuracy or completeness of any of the information contained herein. The Co-Financial Advisors, Co-Special Counsel and Disclosure Counsel will all receive compensation from the City contingent upon the sale and delivery of the Certificates.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners of the Certificates to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for fiscal year 20___, which is due not later than March ____, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB"). The notices of enumerated events will be filed by the City with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in APPENDIX D: "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the initial purchasers of the Certificates in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). In the last five years, the City has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of enumerated events.

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

ABSENCE OF LITIGATION

No litigation is pending or threatened concerning the validity of the Certificates, the Trust Agreement, the Lease Agreement, the Facilities Lease, the corporate existence of the City, or the entitlement to their respective offices of the officers of the City who will execute and deliver the Certificates and other documents and certificates in connection therewith. The City will furnish to the initial purchasers of the Certificates a certificate of the City as to the foregoing as of the time of the original delivery of the Certificates.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), S&P Global Ratings ("S&P") and Fitch Ratings ("Fitch") have assigned municipal bond ratings of "___", "___" and "___" respectively, to the Certificates. Certain information not included in this Official Statement was supplied by the City to the rating agencies to be considered in evaluating the Certificates. The ratings reflect only the views of each rating agency, and any explanation of the significance of any rating may be obtained only from the respective credit rating agencies: Moody's, at www.moody's.com; S&P, at www.sandp.com; and Fitch, at

www.fitchratings.com. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. No assurance can be given that any rating issued by a rating agency will be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of the ratings obtained, or other actions of a rating agency related to its rating, may have an adverse effect on the market price of the Certificates. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal. See "CONTINUING DISCLOSURE" herein.

SALE OF CERTIFICATES

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

MISCELLANEOUS

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

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

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Benjamin Rosenfield
Controller

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES

APPENDIX B

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE
CITY AND COUNTY OF SAN FRANCISCO
FOR THE FISCAL YEAR ENDED JUNE 30, 20__**

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

The following summary discussion of selected features of the Trust Agreement, the Facilities Lease and the Lease Agreement, all dated as of _____ 1, [2019], are made subject to all of the provisions of such documents and to the discussions of such documents contained elsewhere in this Official Statement. This summary does not purport to be a complete statement of said provisions and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request from the City through the Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102-4682.

[to come from Co-Special Counsel]

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

[Par Amount]*
CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION, SERIES 20__
(1500 MISSION PROJECT)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of San Francisco (the "City") in connection with the delivery of the certificates of participation captioned above (the "Certificates"). The Certificates are issued pursuant to that certain Trust Agreement (the "Trust Agreement"), dated as of _____ 1, [2019], between the City and [Trustee], as trustee (the "Trust Agreement"). Pursuant to Section 8.10 of the Trust Agreement and Section 4.8 of that certain Lease Agreement dated as of _____ 1, [2019], by and between the Trustee and the City, the City covenants and agrees as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms will have the following meanings:

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

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

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

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

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

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

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

"Rule" will mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The City will, or will cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which is June 30), commencing with the report for the 20__ Fiscal Year (which is due not later than March _____), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the City, the City will provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City will submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City's fiscal year changes, it will give notice of such change in the same manner as for a Listed Event under Section 5(b).

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

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

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

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

(b) a summary of budgeted general fund revenues and appropriations;

(c) a summary of the assessed valuation of taxable property in the City;

(d) a summary of the ad valorem property tax levy and delinquency rate;

(e) a summary of aggregate annual scheduled lease payments or rental obligations with respect to outstanding certificates of participation and lease revenue bonds payable from the general fund of the City.

(f) a summary of outstanding and authorized but unissued general fund lease obligations, certificates of participation, and other long-term obligations payable from the general fund of the City.

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

SECTION 5. Reporting of Significant Events.

(a) To the extent applicable and pursuant to the provisions of this Section 5, the City will give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults, if material;
- (3) Unscheduled draws on any debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;
- (7) Modifications to the rights of Certificate holders, if material;
- (8) Certificate calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Certificates, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) Consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a

trustee.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City will, in a timely manner not in excess of ten business days after the occurrence of the Listed Event, file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

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

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

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

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

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

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

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

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

SECTION 10. Remedies. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate to cause the City to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a

federal or state court located in the City and County of San Francisco, State of California, and that the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate will be an action to compel performance.

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

SECTION 12. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Date: _____.

CITY AND COUNTY OF SAN FRANCISCO

Benjamin Rosenfield
Controller

Approved as to form:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE – EXHIBIT A

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

Name of City: CITY AND COUNTY OF SAN FRANCISCO
Name of Issue: CITY AND COUNTY OF SAN FRANCISCO
CERTIFICATES OF PARTICIPATION, SERIES 20__
(1500 MISSION PROJECT)
Date of Delivery: _____

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

Dated: _____

CITY AND COUNTY OF SAN FRANCISCO

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

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in numbered paragraphs 1-11 of this Appendix E, concerning The Depository Trust Company, New York, New York ("DTC") and DTC's book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

Information Furnished by DTC Regarding its Book-Entry Only System

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the certificates (as used in this Section, the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect

Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit the notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices will be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the paying agent or

bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

APPENDIX F

PROPOSED FORM OF CO-SPECIAL COUNSEL OPINIONS

[To come]

APPENDIX G

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

APPENDIX A

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

This Appendix contains information that is current as April 1, 2017.

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

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

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CITY GOVERNMENT

City Charter

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

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

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

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

Mayor and Board of Supervisors

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

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

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

TABLE A-1

**CITY AND COUNTY OF SAN FRANCISCO
Board of Supervisors**

Name	First Elected or Appointed	Current Term Expires
Sandra Fewer, <i>District 1</i>	2017	2021
Mark Farrell, <i>District 2</i>	2010	2019
Aaron Peskin, <i>District 3</i>	2017	2021
Katy Tang, <i>District 4</i>	2013	2019
London Breed, Board President, <i>District 5</i>	2017	2021
Jane Kim, <i>District 6</i>	2010	2019
Norman Yee, <i>District 7</i>	2017	2021
Vacant		
Hillary Rohen, <i>District 9</i>	2017	2021
Malia Cohen, <i>District 10</i>	2010	2019
Ahsha Safai, <i>District 11</i>	2017	2021

Other Elected and Appointed City Officers

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

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

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

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

2008. He was responsible for the preparation and monitoring of the City's ten-year capital plan, oversight of a number of internal service offices under the City Administrator, and implementing the City's 311 non-emergency customer service center. From 2001 to 2005, Mr. Rosenfield worked as the Budget Director for then-Mayor Willie L. Brown, Jr. and then-Mayor Newsom. As Budget Director, Mr. Rosenfield prepared the City's proposed budget for each fiscal year and worked on behalf of the Mayor to manage City spending during the course of each year. From 1997 to 2001, Mr. Rosenfield worked as an analyst in the Mayor's Budget Office and a project manager in the Controller's Office.

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

CITY BUDGET

Overview

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

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, through its annual budget. In July 2016, the City adopted a full two-year budget. The City's fiscal year 2016-17 adopted budget appropriates annual revenues, fund balance, transfers and reserves of approximately \$9.59 billion, of which the City's General Fund accounts for approximately \$4.86 billion. In fiscal year 2017-18 appropriated revenues, fund balance, transfers and reserves total approximately \$9.72 billion and \$5.09 billion of General Fund budget. For a further discussion of the fiscal years 2016-17 and 2017-18 adopted budgets, see "City Budget Adopted for Fiscal years 2016-17 and 2017-18" herein.

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

Budget Process

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

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

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

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

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

November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle

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

Proposition A requires four significant changes:

1. Specifies a two-year (biennial) budget, replacing the annual budget. Fixed two-year budgets are currently approved by the Board of Supervisors for five departments: the Airport, Child Support Services, the Port, the Public Utilities Commission and MTA. All other departments prepared balanced, rolling two-year budgets.
2. Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The most recent five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the Mayor, Budget Analyst for the Board of Supervisors and Controller's Office on December 16, 2016, for fiscal year 2017-18 through fiscal year 2021-22, to be considered by the Board of Supervisors. See "Five Year Financial Plan" below.
3. Charges the Controller's Office with proposing to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt and financial measures in the case of disaster recovery and requires the City to adopt budgets consistent with these policies once approved. The Controller's Office may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent year.

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

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

Role of Controller; Budgetary Analysis and Projections

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

In addition to the five year planning responsibilities established in Proposition A of November 2009 and discussed above, Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued the most recent of these reports, the fiscal year 2015-16 Nine Month Budget Status Report (the "Nine Month Report"), on May 9, 2016. The City Charter also directs the Controller to annually report on the accuracy of economic assumptions underlying the revenue estimates in the Mayor's proposed budget. On June 15, 2016 the Controller released the Discussion of the Mayor's fiscal year 2016-17 and fiscal year 2017-18 Proposed Budget (the "Revenue Letter" as described in "Budget Process" above). All of these reports are available from the Controller's website: www.sfcontroller.org. The information from said website is not incorporated herein by reference.

General Fund Results: Audited Financial Statements

The General Fund portions of the fiscal years 2016-17 and 2017-18 Original Budgets total \$4.86 billion and \$5.09 billion, respectively. This does not include expenditures of other governmental funds and enterprise fund departments such as the Airport, the MTA, the Public Utilities Commission, the Port and the City-owned hospitals (San Francisco General and Laguna Honda). Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2012-13 through 2015-16 and the Original Budgets for fiscal years 2016-17 and 2017-18. See "PROPERTY TAXATION -Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

The City's most recently completed Comprehensive Annual Financial Report (the "CAFR," which includes the City's audited financial statements) for fiscal year 2015-16 was issued on November 18, 2016. The fiscal year 2015-16 CAFR reported that as of June 30, 2016, the General Fund available for appropriation in subsequent years was

\$435 million (see Table A-4), of which \$172.1 million was assumed in the fiscal year 2016-17 Original Budget and \$191.2 million was assumed in the fiscal year 2017-18 Original Budget. This represents a \$44 million increase in available fund balance over the \$391 million available as of June 30, 2015 and resulted primarily from greater-than-budgeted additional tax revenue, particularly property and business tax revenues, partially offset by weakness in sales and parking tax revenues in fiscal year 2015-16, as well as lower required transfers to support the Department of Public Health. The fiscal year 2016-17 CAFR is scheduled to be completed in late November 2017.

TABLE A-2

CITY AND COUNTY OF SAN FRANCISCO						
Budgeted General Fund Revenues and Appropriations for						
Fiscal Years 2012-13 through 2017-18						
(000s)						
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
	Final Revised	Final Revised	Final Revised	Final Revised	Original	Original
	Budget	Budget	Budget	Budget	Budget ²	Budget ³
Prior-Year Budgetary Fund Balance & Reserves	\$557,097	\$674,637	\$941,702	\$1,236,090	\$178,109	\$195,221
Budgeted Revenues						
Property Taxes	\$1,078,083	\$1,153,417	\$1,232,927	\$1,291,000	\$1,412,000	\$1,468,000
Business Taxes	452,853	532,988	572,385	634,460	669,450	697,887
Other Local Taxes	733,295	846,924	910,430	1,062,535	1,117,245	1,262,875
Licenses, Permits and Franchises	25,378	25,533	27,129	27,163	28,876	29,187
Fines, Forfeitures and Penalties	7,194	4,994	4,242	4,550	4,580	4,578
Interest and Investment Earnings	6,817	10,946	6,853	10,680	13,970	14,353
Rents and Concessions	21,424	23,060	22,692	15,432	16,140	15,828
Grants and Subventions	721,837	799,188	856,336	900,997	959,099	978,866
Charges for Services	169,058	177,081	210,020	219,628	236,102	236,786
Other	13,384	14,321	21,532	31,084	61,334	27,821
Total Budgeted Revenues	\$3,229,323	\$3,588,452	\$3,864,545	\$4,197,529	\$4,518,796	\$4,736,181
Bond Proceeds & Repayment of Loans	627	1,105	1,026	918	881	881
Expenditure Appropriations						
Public Protection	\$1,058,324	\$1,102,667	\$1,158,771	\$1,211,007	\$1,298,185	\$1,323,268
Public Works, Transportation & Commerce	68,351	79,635	89,270	138,288	176,768	165,498
Human Welfare & Neighborhood Development	670,958	745,277	828,555	892,069	970,679	1,009,995
Community Health	635,960	703,092	703,569	751,416	786,218	824,100
Culture and Recreation	105,580	112,624	119,051	125,253	158,954	158,979
General Administration & Finance	190,151	199,709	214,958	235,647	349,308	333,291
General City Responsibilities ¹	86,527	86,516	116,322	113,672	154,344	164,895
Total Expenditure Appropriations	\$2,815,852	\$3,029,520	\$3,230,496	\$3,467,352	\$3,894,456	\$3,980,026
Budgetary reserves and designations, net	\$4,191	\$0	\$39,966	\$9,907	\$58,469	\$61,014
Transfers In	\$195,388	\$242,958	\$199,175	\$235,416	\$161,995	\$159,211
Transfers Out	(646,018)	(720,806)	(873,592)	(962,511)	(906,856)	(1,050,454)
Net Transfers In/Out	(\$450,630)	(\$477,848)	(\$674,417)	(\$727,095)	(\$744,861)	(\$891,243)
Budgeted Excess (Deficiency) of Sources						
Over (Under) Uses	\$516,375	\$756,825	\$862,394	\$1,230,182	\$0	\$1
Variance of Actual vs. Budget	146,901	184,184	373,696	\$296,673		
Total Actual Budgetary Fund Balance³	\$663,276	\$941,009	\$1,236,090	\$1,526,855	\$0	\$1

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

² Fiscal year 2016-17 Final Revised Budget will be available upon release of the FY 2016-17 CAFR.

³ Fiscal year 2017-18 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the previous year's Final Revised Budget.

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2016 was \$1.4 billion (as shown in Table A-3 and Table A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of \$4.4

billion. Audited General Fund balances are shown in Table A-3 on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2012 through June 30, 2016.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO
Summary of Audited General Fund Balances
Fiscal Years 2011-12 through 2015-16
(000s)

	2012	2013	2014	2015	2016
Restricted for rainy day (Economic Stabilization account)	\$31,099	\$23,329	\$60,289	\$71,904	\$74,986
Restricted for rainy day (One-time Spending account)	3,010	3,010	22,905	43,065	45,120
Committed for budget stabilization (citywide)	74,330	121,580	132,264	132,264	178,434
Committed for Recreation & Parks expenditure savings reserve	4,946	15,907	12,862	10,551	8,736
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	62,699	74,815	92,269	137,641	190,965
Assigned for appropriation carryforward	85,283	112,327	159,345	201,192	293,921
Assigned for budget savings incentive program (citywide)	22,410	24,819	32,088	33,939	58,907
Assigned for salaries and benefits (MOU)	7,100	6,338	10,040	20,155	18,203
Total Fund Balance Not Available for Appropriation	\$290,877	\$382,125	\$522,062	\$650,711	\$869,272
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies	\$23,637	\$30,254	79,223	131,970	\$145,443
Assigned for General reserve	\$22,306	\$21,818	-	-	-
Assigned for subsequent year's budget	104,284	122,689	135,938	180,179	172,128
Unassigned for General Reserve	-	-	45,748	62,579	76,913
Unassigned - Budgeted for use second budget year	103,575	111,604	137,075	194,082	191,202
Unassigned - Contingency for second budget year	-	-	-	-	60,000
Unassigned - Available for future appropriation	12,418	6,147	21,656	16,569	11,872
Total Fund Balance Available for Appropriation	\$266,220	\$292,512	\$419,640	\$585,379	\$657,558
Total Fund Balance, Budget Basis	\$557,097	\$674,637	\$941,702	\$1,236,090	\$1,526,830
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$557,097	\$674,637	\$941,702	\$1,236,090	\$1,526,830
Unrealized gain or loss on investments	6,838	(1,140)	935	1,141	343
Nonspendable fund balance	19,598	23,854	24,022	24,786	522
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(46,140)	(38,210)	(37,303)	(37,303)	(36,008)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(62,241)	(93,910)	(66,415)	(50,406)	(56,709)
Deferred Amounts on Loan Receivables	(16,551)	(20,067)	(21,670)	(23,212)	-
Pre-paid lease revenue	(2,876)	(4,293)	(5,709)	(5,900)	(5,816)
Total Fund Balance, GAAP Basis	\$455,725	\$540,871	\$835,562	\$1,145,196	\$1,429,162

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

Table A-4, entitled "Audited Statement of Revenues, Expenditures and Changes in General Fund Balances," is extracted from information in the City's CAFR for the five most recent fiscal years. Audited financial statements for the fiscal year ended June 30, 2016 are included herein as Appendix B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2016." Prior years' audited financial statements can be obtained from the City Controller's website. Information from the City Controller's website is not incorporated herein by reference. Excluded from this Statement of General Fund Revenues and Expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

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TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Audited Statement of Revenues, Expenditures and Changes in General Fund Balances
Fiscal Years 2011-12 through 2015-16¹
(000s)

	2012	2013	2014	2015	2016
Revenues:					
Property Taxes	\$1,056,143	\$1,122,008	\$1,178,277	\$1,272,623	\$1,393,574
Business Taxes ²	435,316	479,627	562,896	609,614	659,086
Other Local Taxes	751,301	756,346	922,205	1,085,381	1,054,109
Licenses, Permits and Franchises	25,022	26,273	26,975	27,789	27,909
Fines, Forfeitures and Penalties	8,444	6,226	5,281	6,369	8,985
Interest and Investment Income	10,262	2,125	7,866	7,867	9,613
Rents and Concessions	24,932	35,273	25,501	24,339	46,553
Intergovernmental	678,808	720,625	827,750	854,464	900,820
Charges for Services	145,797	164,391	180,850	215,036	233,976
Other	17,090	14,142	9,760	9,162	22,291
Total Revenues	\$3,153,115	\$3,327,036	\$3,747,361	\$4,112,644	\$4,356,916
Expenditures:					
Public Protection	\$991,275	\$1,057,451	\$1,096,839	\$1,148,405	\$1,204,666
Public Works, Transportation & Commerce	52,815	68,014	78,249	87,452	136,762
Human Welfare and Neighborhood Development	626,194	660,657	720,787	786,362	853,924
Community Health	545,962	634,701	668,701	650,741	666,138
Culture and Recreation	100,246	105,870	113,019	119,278	124,515
General Administration & Finance	182,898	186,342	190,335	208,695	223,844
General City Responsibilities	96,132	81,657	86,968	98,620	114,663
Total Expenditures	\$2,595,522	\$2,794,692	\$2,954,898	\$3,099,553	\$3,324,512
Excess of Revenues over Expenditures	\$557,593	\$532,344	\$792,463	\$1,013,091	\$1,032,404
Other Financing Sources (Uses):					
Transfers In	\$120,449	\$195,272	\$216,449	\$164,712	\$209,494
Transfers Out	(53,190)	(646,912)	(720,806)	(873,741)	(962,343)
Other Financing Sources	3,682	4,442	6,585	5,572	4,411
Other Financing Uses	-	-	-	-	-
Total Other Financing Sources (Uses)	(\$429,059)	(\$447,198)	(\$497,772)	(\$703,457)	(\$748,438)
Extraordinary gain/(loss) from dissolution of the Redevelopment Agency	(815)	-	-	-	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	\$127,719	\$85,146	\$294,691	\$309,634	\$283,966
Total Fund Balance at Beginning of Year	\$328,006	\$455,725	\$540,871	\$835,562	\$1,145,196
Total Fund Balance at End of Year -- GAAP Basis³	\$455,725	\$540,871	\$835,562	\$1,145,196	\$1,429,162
Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End					
- GAAP Basis	\$133,794	\$135,795	\$178,066	\$234,273	\$249,238
- Budget Basis	\$220,277	\$240,410	\$294,669	\$390,830	\$435,202

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

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

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

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

Five-Year Financial Plan

The Five-Year Financial Plan ("Plan") is required under Proposition A, a Charter amendment approved by voters in November 2009. The Charter requires the Plan to forecast expenditures and revenues for the next five fiscal years, propose actions to balance revenues and expenditures during each year of the Plan, and discuss strategic goals and corresponding resources for City departments. Proposition A required that a Plan be adopted every two years. The City updates the Plan annually. The most recently adopted Plan, for fiscal years 2015-16 through 2019-20, was adopted by the Board of Supervisors and signed by the Mayor on April 30, 2015.

On March 22, 2016, the Mayor, Budget Analyst for the Board of Supervisors and the Controller's Office issued the Joint Report for fiscal year 2016-17 through fiscal year 2019-20, which provided an update to the financial outlook of the April 2015 Plan. This report projected a cumulative deficit of \$690 million over the following four year period. The increase in the cumulative shortfall projection since that time is largely due to increases in the projected employer contribution rates for the City's retirement system, increased costs for employee and retiree health benefits, the adoption of several voter-approved spending requirements without commensurate revenue increases, and higher rates of inflationary growth in employee wages and contracts.

On December 16, 2016, the Mayor, Budget Analyst for the Board of Supervisors and the Controller's Office issued a proposed Plan for fiscal year 2017-18 through fiscal year 2021-22, to be considered by the Board of Supervisors. The proposed Plan projects shortfalls of \$119 million, \$283 million, \$585 million, \$713 million, and \$848 million cumulatively for fiscal years 2017-18 through fiscal year 2021-22, respectively. This report will be updated in March, 2017 with the most recent information on the City's fiscal condition available at that time.

Continued Increases in Employer Contribution Rates to City Retirement System: Consistent with the Joint Report issued in March, 2016, the December 2016 proposed Plan anticipates increased retirement costs. This is in contrast to the pension relief anticipated at the time of the proposed Plan from December 2014, when decreased pension contributions were expected after the amortization of investment losses during the financial crisis. The increase in employer contribution rates is due to three main factors: lower than expected actual fiscal year 2015-16 investment earnings; updated demographic assumptions, which show that retirees are living longer and collecting pensions longer than previously expected; and an appellate court ruling against the City which found that voter-adopted changes to the conditions under which retirees could receive a supplemental COLA violated retirees' vested rights. Current projections are marginally improved since the March 2016 Joint Report, as they incorporate final fiscal year 2015-16 earnings of 1.3%, compared to -5.0% assumed in the March 2016 Joint Report given investment performance at that point.

Increases in Voter Adopted Baselines and Set-Asides: Since the March 2016 Joint Report, several new spending requirements have been adopted by voters: a Recreation and Parks baseline (June 2016 Proposition B), a Dignity Fund baseline (November 2016 Proposition I), and a Street Trees baseline (November 2016 Proposition E). In addition to these spending requirements, the voters rejected the proposed General Sales Tax (November 2016 Proposition K) and adopted an increase to the Real Property Transfer Tax rate (November 2016 Proposition W), as well as a tax on the distribution of sugar-sweetened beverages (November 2016 Proposition V). The December 2016 proposed Plan assumes both the new revenues and expenditure requirements.

When voters approve increases to existing baselines, set-asides, or other spending requirements without commensurate revenue increases from new funding sources, this grows the projected deficits and future obligations of the City and also reduces policymakers' flexibility when balancing the budget.

While the projected shortfalls in the December 2016 proposed Plan reflect the difference in projected revenues and expenditures over the next five years if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and/or additional revenues. These projections assume no ongoing solutions are implemented. To the extent budgets are balanced with ongoing solutions, future shortfalls will decrease.

The December 2016 proposed Plan does not assume an economic downturn due to the difficulty of predicting recessions; however, the City has historically not experienced more than six consecutive years of expansion and the current economic expansion began over seven years ago. For this reason, the December 16 proposed Plan includes a recession scenario, which reflects a revenue shortfall of \$960 million during the forecast period, based on the

average rates of revenue declines experienced in major tax revenue sources during the previous two recessions. At a high level, the recession scenario would necessitate significant reductions in expenditures.

City Budget Adopted for Fiscal Years 2016-17 and 2017-18

On August 1, 2016, Mayor Lee signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for the fiscal years ending June 30, 2017 and June 30, 2018. This is the fifth two-year budget for the entire City. The adopted budget closed the \$100 million and \$240 million General Fund shortfalls for fiscal year 2016-17 and fiscal year 2017-18 identified in the December 2015 Plan update through a combination of increased revenues and expenditures savings.

The Original Budget for fiscal years 2016-17 and fiscal year 2017-18 totals \$9.59 billion and \$9.72 billion respectively, representing year over year increases of \$360 million and \$50 million. The General Fund portion of each year's budget is \$4.86 billion in fiscal year 2016-17 and \$5.09 billion in fiscal year 2017-18 representing increases of \$272 million and \$232 million. There are 30,626 funded full time positions in the fiscal year 2016-17 Original Budget and 30,903 in the fiscal year 2017-18 Original Budget representing year-over-year increases of 1,074 and 277 positions, respectively.

The Original Budget for fiscal years 2016-17 and 2017-18 adheres to the City's policy limiting the use of certain nonrecurring revenues to nonrecurring expenses proposed by the Controller's Office and approved unanimously by the Board of Supervisors on November 22, 2011. The policy was approved by the Mayor on December 1, 2011 and can only be suspended for a given fiscal year by a two-thirds vote of the Board. Specifically, this policy limited the Mayor and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance (defined as General Fund prior year unassigned fund balance before deposits to the Rainy Day Reserve or Budget Stabilization Reserve in excess of the average of the previous five years), the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves; acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long term obligations.

Based on the revenue and expenditure projections contained in the December 2016 proposed plan, on December 8, 2016, the Mayor's Office issued budget instructions to departments requiring expenditure reductions of 3.0% in fiscal year 2017-18 and an additional reduction of 3.0% in fiscal year 2018-19.

Other Budget Updates

On February 10, 2017, the Controller's Office issued a Six-Month Budget Status report (Six-Month Report) which projected the General Fund would end fiscal year 2016-17 with a balance of \$299.8 million. This represents a \$71.8 million improvement from the previously assumed ending balance. The fund balance projection includes \$203.1 million in starting fund balance, a projected \$91.8 million revenue surplus, \$81.7 million savings from departmental operations, offset by \$74.9 million in increased reserve deposits and \$1.9 million in increased contributions to baselines. The general revenue improvements are driven primarily by a significant increase in property and property transfer tax revenues, offset by shortfalls in hotel, parking, and sales tax. The Nine-Month Budget Status Report, to be published in May, 2017, will provide updated projections.

Impact of the State of California Budget on Local Finances

Revenues from the State represent approximately 14% of the General Fund revenues appropriated in the budget for fiscal years 2016-17 and 2017-18, and thus changes in State revenues could have a significant impact on the City's finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor's Proposed Budget required to be submitted in January; and 2) the "May Revise" to the Governor's Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget. City policy makers review and estimate the impact of both the Governor's Proposed and May Revise Budgets prior to the City adopting its own budget.

On June 27, 2016, the Governor signed the 2016-17 State Budget, spending \$170.9 billion from the General Fund and other State funds. General Fund appropriations total \$122.5 billion, \$6.9 billion or 6% more than the final 2015-16 spending level. An increase in State revenues boosted 2015-16 spending above the levels approved by the State Legislature in June 2015. The budget agreement balances new spending with targeted one-time expenditures and preparations for the next recession. The budget makes significant investments in education, including \$2.6 billion through the Local Control Funding Formula, as well as \$1.4 billion in one-time funding for K-14 schools. Additionally, the state budget includes new commitments to expand health care and social safety net programs. The budget also allocates funding for one-time infrastructure projects for state, university, and community college facilities. Finally, the budget prepares for the next recession by increasing deposits to the Rainy Day Fund to a balance \$6.7 billion (including a one-time payment of \$2 billion), setting an additional \$1.8 billion to protect the budget from unexpected revenue shortfalls, and continuing to pay down Proposition 2 debt and liabilities.

On January 10, 2017, the Governor released the fiscal year 2017-18 Proposed State Budget, which discontinues the In-Home Supportive Services Maintenance-of-Effort (IHSS MOE) agreement negotiated in 2012, returning the program to prior state-county sharing ratios. If implemented as proposed, this would shift \$626.2 million in State General Fund costs to counties, including over \$40 million in costs to San Francisco. The Governor has indicated his willingness to work with counties to modify the proposal. The Proposed Budget also assumes slower revenue growth than prior forecasts. Fiscal year 2017-18 overall revenue is 2.1% lower than projected in the Governor's fiscal year 2016-17 Adopted Budget. Notably, sales tax – which underlies the County's 1991 and 2011 realignment funds – is expected to be 3.9% lower in fiscal year 2017-18 compared to the fiscal year 2016-17 Adopted Budget.

Impact of Federal Government on Local Finances

The City is assessing the potential material adverse changes in current and anticipated federal funding under the new presidential administration and Congress. These changes include, for example, potential increased costs associated with changes to or termination or replacement of the Affordable Care Act, potential withholding of federal grants or other funds flowing to "sanctuary jurisdictions" and suspension or termination of other federal grants for capital projects. The scope and timing of such changes will not be known until the administration concretely proposes specific changes or Congress acts on such proposals, as applicable. As to potential withholding of funds for "sanctuary cities" the City has challenged in federal court the Presidential Executive Order that would cut funding from "sanctuary jurisdictions," and awaits a ruling. The fiscal year 2016-17 Original Budget includes about \$1.2 billion in federal payments, of which about \$1 billion is for entitlement programs mostly administered by the City's Human Services Agency and Department of Public Health. The City also receives about \$800 million in multi-year federal grants. The City will continue to monitor federal budget and policy changes, but cannot at this time determine the financial impacts of any proposed federal budget changes.

Budgetary Reserves

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

The financial policies passed on April 13, 2010 codified the current practice of maintaining an annual General Reserve to be used for current-year fiscal pressures not anticipated during the budget process. The policy set the reserve equal to 1% of budgeted regular General Fund revenues in fiscal year 2012-13 and increasing by 0.25% each year thereafter until reaching 2% of General Fund revenues in fiscal year 2016-17. The Original Budget for fiscal years 2016-17 and 2017-18 includes starting balances of \$90.4 million and \$106.5 million for the General Reserve for fiscal years 2016-17 and 2017-18, respectively. On December 16, 2014, the Board of Supervisors adopted financial policies to further increase the City's General Reserve from 2% to 3% of General Fund revenues between fiscal year 2017-18 and fiscal year 2020-21 while reducing the required deposit to 1.5% of General Fund revenues

during economic downturns. The intent of this policy change is to increase reserves available during a multi-year downturn.

In addition to the operating cash and general reserves the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the Board of Supervisors. These include the Salaries and Benefit Reserve (Original Budget for fiscal years 2016-17 and 2017-18 includes \$16.6 million in fiscal year 2016-17 and \$19.3 million in fiscal year 2017-18), and the Litigation Reserve (Original Budget for fiscal years 2016-17 and 2017-18 includes \$11 million in each year). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

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

Rainy Day Reserve

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

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

Fiscal year 2015-16 revenue exceeded the deposit threshold by \$8.2 million generating a deposit of \$3.1 million to the City Reserve, \$1.0 million to the School Reserve, and \$2.1 million to the One-Time or Capital Expenditures account. Deposits to the Rainy Day Reserve's Economic Stabilization account are subject to a cap of 10% of actual total General Fund revenues as stated in the City's most recent independent annual audit. Amounts in excess of that cap in any year will be allocated to capital and other one-time expenditures.

Monies in the City Reserve are available to provide a budgetary cushion in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Monies in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. The fiscal year 2015-16 combined ending balance of the One-Time and Economic Stabilization portions of the Reserve was \$120.1 million. There are no projected deposits or withdrawals assumed in the fiscal year 2016-17 and 2017-18 budgets.

Budget Stabilization Reserve

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

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

Fiscal year 2015-16 RPTT receipts exceeded the five-year annual average by \$22.3 million and ending general fund unassigned fund balance was \$47.5 million, triggering a \$52.3 million deposit. However, \$6.2 million of this deposit requirement was offset by the Rainy Day Reserve deposit, resulting in a \$46.2 million deposit to the Budget Stabilization Reserve and leaving an ending balance to \$178.4 million. The fiscal years 2016-17 and 2017-18 budgets assume no reserve deposits given projected RPTT receipts. The Controller's Office determines deposits in October of each year based on actual receipts during the prior fiscal year.

The maximum combined value of the Rainy Day Reserve and the Budget Stabilization Reserve is 10% of General Fund revenues, which would be approximately \$437 million for fiscal year 2015-16. No further deposits will be made once this cap is reached, and no deposits are required in years when the City is eligible to withdraw. The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve, however, there is no provision for allocations to the SFUSD. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn; in the second year, the maximum withdrawal is 50%; and, in the third year, the entire remaining balance may be drawn.

THE SUCCESSOR AGENCY

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

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

Authority and Personnel

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

The Successor Agency currently employs approximately 46 full-time equivalent positions. The Executive Director, Tiffany Bohee, was appointed in February 2012. The other principal full-time staff positions are the Deputy Executive Director, Community and Economic Development; the Deputy Executive Director, Finance and Administration; the Deputy Executive Director, Housing; and the Successor Agency General Counsel. Each project area in which the Successor Agency continues to implement redevelopment plans, is managed by a Project Manager. There are separate staff support divisions with real estate and housing development specialists, architects, engineers and planners, and the Successor Agency has its own fiscal, legal, administrative and property management staffs.

Effect of the Dissolution Act

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

Pursuant to Resolution No. 11-12 (the "Establishing Resolution") adopted by the Board of Supervisors of the City on January 24, 2012 and signed by the Mayor on January 26, 2012, and Sections 34171(j) and 34173 of the Dissolution Act, the Board of Supervisors of the City confirmed the City's role as successor to the Former Agency.

On June 27, 2012, the Redevelopment Law was amended by AB 1484, which clarified that successor agencies are separate political entities and that the successor agency succeeds to the organizational status of the former redevelopment agency but without any legal authority to participate in redevelopment activities except to complete the work related to an approved enforceable obligation.

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

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

Oversight Board

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

Department of Finance Finding of Completion

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

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

State Controller Asset Transfer Review

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

Continuing Activities

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

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

PROPERTY TAXATION

Property Taxation System – General

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

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

Assessed Valuations, Tax Rates and Tax Delinquencies

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

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor Agency (also known as the Office of Community Investment and Infrastructure or OCII). Property tax revenues attributable to the growth in assessed value of taxable property (known as "tax increment") within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations, causing a loss of tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds

are not affected or diverted. The Successor Agency received \$122 million of property tax increment in fiscal year 2015-16, diverting about \$69 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 99.07% for fiscal year 2015-16. This table has been modified from the corresponding table in previous disclosures in order to make the levy and collection figures consistent with statistical reports provided to the State. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder's Office, numbered 212 for fiscal year 2015-16 compared to 102 for fiscal year 2014-15. The trustee deeds recorded in fiscal year 2011-12, fiscal year 2012-13 and fiscal year 2013-14 were 804, 363 and 187, respectively. In the first half of fiscal year 2016-17 there were 126 Notice of Trustee's Sales deeds recorded.

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property
Fiscal Years 2012-13 through 2016-17
(000s)

Fiscal Year	Net Assessed Valuation (NAV) ¹	% Change from Prior Year	Total Tax Rate per \$100 ²	Total Tax Levy ³	Total Tax Collected ³	% Collected June 30
2012-13	\$165,043,120	4.0%	1.169	\$1,997,645	\$1,970,662	98.65%
2013-14	172,489,208	4.5%	1.188	2,138,245	2,113,284	98.83%
2014-15	181,809,981	5.4%	1.174	2,139,050	2,113,968	98.83%
2015-16	194,392,572	6.9%	1.183	2,290,280	2,268,876	99.07%
2016-17	211,532,524	8.8%	1.179	2,494,392	Not available	Not available

¹ Based on initial assessed valuations for fiscal year 2016-17. 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 2015-16 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported to the State of California (available on the website of the California State Controller's Office). Total Tax Levy for fiscal year 2016-17 is based on NAV times the 1.1792% tax rate.

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

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

At the start of fiscal year 2016-17, the total net assessed valuation of taxable property within the City was \$211.5 billion. Of this total, \$197.8 billion (93.5%) represents secured valuations and \$13.8 billion (6.5%) represents unsecured valuations. See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.

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

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

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in appeals as the economy rebounds. Historically, during severe economic downturns, partial reductions of up to approximately 30% of the assessed valuations appealed have been granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCCD, BAAQMD, and BART share proportionately in the rest of any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary General Fund appeals reserve fund for fiscal years 2011-12 through 2015-16 are listed in Table A-6 below.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Refunds of Prior Years' Property Taxes
General Fund Assessment Appeals Reserve
Fiscal Years 2011-12 through 2015-16
(000s)

Fiscal Year	Amount Refunded
2011-12	\$53,288
2012-13	36,744
2013-14	25,756
2014-15	16,304
2015-16	16,199

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

As of July 1, 2016, the Assessor granted 7,055 temporary reductions in property assessed values worth a total of \$128.7 million (equating to a reduction of approximately \$1.52 million in general fund taxes), compared to 8,598 temporary reductions worth \$425.1 million (equating to a reduction of approximately \$5.03 million in general fund taxes) as of July 1, 2015, and 10,726 temporary reductions worth \$640.3 million (equating to a reduction of approximately \$7.52 million in general fund taxes) as of July 1, 2014. The July 2016 temporary reductions of \$128.7 million represent .06% of the fiscal year 2016-17 Net Assessed Valuation of \$211.5 billion shown in Table A-5. All of the temporary reductions granted are subject to review in the following year. Property owners who are not satisfied with the valuation shown on a Notice of Assessed Value may have a right to file an appeal with the Assessment Appeals Board ("AAB") within a certain period of time. For regular, annual secured property tax assessments, the time period for property owners to file an appeal typically falls between July 2nd and September 15th.

As of December 31, 2016, the total number of open appeals before the AAB was 1,754, compared to 2,931 open AAB appeals as of December 31, 2015. In the first half of fiscal year 2016-17 there were 1,242 appeals filed. The difference between the current assessed value and the taxpayers' opinion of values for the open AAB appeals is \$13.3 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all of the taxpayers' requests, this represents a negative potential property tax impact of about \$157.29 million (based upon the fiscal year 2015-16 tax rate) with an impact on the General Fund of about \$67.9 million. The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction in assessed valuation that the Assessor may ultimately grant. City revenue estimates take into account projected losses from pending and future assessment appeals.

Tax Levy and Collection

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City's boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the Bay Area Air

Quality Management District and BART. The total tax levy for all taxing entities in fiscal year 2016-17 is estimated to produce about \$2.6 billion, not including supplemental, escape and special assessments that may be assessed during the year. Of this amount, the City has budgeted to receive \$1.4 billion into the General Fund and \$176.2 million into special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD are estimated to receive about \$163.1 million and \$30.6 million, respectively, and the local ERAF is estimated to receive \$536.6 million (before adjusting for the vehicle license fees ("VLF") backfill shift). The Successor Agency will receive about \$118 million. The remaining portion is allocated to various other governmental bodies, various special funds, and general obligation bond debt service funds, and other taxing entities. Taxes levied to pay debt service for general obligation bonds issued by the City, SFUSD, SFCCD and BART may only be applied for that purpose.

General Fund property tax revenues in fiscal year 2015-16 were \$1.39 billion, representing an increase of \$102.6 million (7.9%) over fiscal year 2015-16 Original Budget and \$121.0 million (9.5%) over fiscal year 2014-15 actual revenue. Property tax revenue is budgeted at \$1.4 billion in fiscal year 2016-17 representing an increase of \$18.4 million (1.3%) over fiscal year 2015-16 actual receipts and \$1.5 billion in fiscal year 2017-18 representing an annual increase of \$56.0 million (4.0%) over fiscal year 2016-17 budget. Tables A-2 and A-3 set forth a history of budgeted and actual property tax revenues for fiscal years 2011-12 through 2015-16, and budgeted receipts for fiscal years 2016-17 and fiscal year 2017-18.

The City's General Fund is allocated about 48% of total property tax revenue before adjusting for the VLF backfill shift. The State's Triple Flip ended in fiscal year 2015-16, eliminating the sales tax in-lieu revenue from property taxes from succeeding fiscal years and shifting it to the local sales tax revenue line.

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

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

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

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

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

through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan as shown on Table A-7.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO
Teeter Plan
Tax Loss Reserve Fund Balance
Fiscal Years 2011-12 through 2015-16
(000s)

Year Ended	Amount Funded
2011-12	\$17,980
2012-13	18,341
2013-14	19,654
2014-15	20,569
2015-16	22,882

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

Assessed valuations of the aggregate ten largest assessment parcels in the City for the fiscal year beginning July 1, 2016 are shown in Table A-8. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the Office of the Assessor-Recorder.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Top 10 Parcels Total Assessed Value
July 1, 2016
(000s)

Assessee	Location	Parcel Number	Type	Total Assessed	
				Value ¹	% of Basis of Levy ²
Blm Property Venture LLC	101 California St	0263 011	Commercial Office	\$995,506	0.51%
HWA 555 Owners LLC	555 California St	0259 026	Commercial Office	978,872	0.50%
PPF Paramount One Market Plaza Owner LP	1 Market St	3713 007	Commercial Office	801,910	0.41%
Union Investment Real Estate GMBH	555 Mission St	3721 120	Commercial Office	473,755	0.24%
Emporium Mall LLC	845 Market St	3705 056	Commercial Retail	447,990	0.23%
SPF China Basin Holdings LLC	185 Berry St	3803 005	Commercial Office	440,275	0.23%
SHC Embarcadero LLC	4 The Embarcadero	0233 044	Commercial Office	413,190	0.21%
Wells Reit II-333 Market St LLC	333 Market St	3710 020	Commercial Office	411,153	0.21%
Post Montgomery Associates	165 Sutter St	0292 015	Commercial Retail	402,849	0.21%
PPF OFF One Maritime Plaza LP	300 Clay St	0204 021	Commercial Office	382,166	0.20%
				2,95%	

¹Represents 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.

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

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

Taxation of State-Assessed Utility Property

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property values are allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formulae generally based on the distribution of taxes in the prior year. The fiscal year 2016-17 valuation of property assessed by the State Board of Equalization is \$3.1 billion.

OTHER CITY TAX REVENUES

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

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

Business Taxes

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

The payroll expense tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. The 1.5% payroll tax rate in 2013 was adjusted to 1.35% in tax year 2014, 1.16% in tax year 2015 and annually thereafter according to gross receipts tax collections to ensure that the phase-in of the gross receipts tax neither results in a windfall nor a loss for the City. The new gross receipts tax ordinance, like the current payroll expense tax, is imposed for the privilege of "engaging in business" in San Francisco. The gross receipts tax will apply to businesses with \$1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. Proposition E also imposes a 1.4% tax on administrative office business activities measured by a company's total payroll expense within San Francisco in lieu of the Gross Receipts Tax, and increases annual business registration fees to as much as \$35,000 for businesses with over \$200 million in gross receipts. Prior to Proposition E, business registration taxes varied from \$25 to \$500 per year per subject business based on the prior year computed payroll tax liability. Proposition E increased the business registration tax rates to between \$75 and \$35,000 annually.

Business tax revenue in fiscal year 2015-16 was \$660.9 million (all funds), representing an increase of \$49.0 million (8.0%) from fiscal year 2014-15. Business tax revenue is budgeted at \$671.4 million in fiscal year 2016-17 representing an increase of \$10.5 million (1.6%) over fiscal year 2015-16 revenue.

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Business Tax Revenues
Fiscal Years 2011-12 through 2017-18
All Funds
(000s)

Fiscal Year	Revenue	Change	
2011-12	\$437,677	\$45,898	11.7%
2012-13	480,131	42,454	9.7%
2013-14	563,406	83,276	17.3%
2014-15	611,932	48,525	8.6%
2015-16	660,926	48,994	8.0%
2016-17 budgeted	671,450	10,524	1.6%
2017-18 budgeted	699,987	28,537	4.3%

Includes Payroll Tax, portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and beginning in fiscal year 2013-14, Gross Receipts Tax revenues. Figures for fiscal years 2011-12 through 2015-16 are audited actuals. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

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

Transient Occupancy Tax (Hotel Tax)

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. Hotel tax revenue growth is a function of changes in occupancy, average daily room rates ("ADR") and room supply. Revenue per available room (RevPAR), the combined effect of occupancy and ADR, increased by more than 7% annually for each of the last six years, driving an 87% increase in hotel tax revenue between fiscal years 2010-11 and 2015-16. Increases in RevPAR are budgeted to continue at a slower pace through fiscal year 2017-18. Fiscal year 2015-16 transient occupancy tax was \$392 million, representing a \$6.6 million decrease from fiscal year 2014-16 revenue. Fiscal year 2016-17 is budgeted to be \$414 million, an increase of \$21.5 million (5.5%) from fiscal year 2015-16. Fiscal year 2017-18 is budgeted to be \$440 million, an increase of \$26 million (6%) from fiscal year 2015-16 budget.

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

TABLE A -10

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Revenues
Fiscal Years 2011-12 through 2017-18
(000s)

Fiscal Year	Tax Rate	Revenue	Change	
2011-12	14.0%	\$239,568	\$24,056	11.2%
2012-13 ¹	14.0%	241,961	2,393	1.0%
2013-14	14.0%	313,138	71,177	29.4%
2014-15 ¹	14.0%	399,364	86,226	27.5%
2015-16 ¹	14.0%	392,686	(6,678)	-1.7%
2016-17 budgeted	14.0%	414,200	21,514	5.5%
2017-18 budgeted	14.0%	440,205	26,004	6.3%

Figures for fiscal year 2011-12 through fiscal year 2015-16 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

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

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

Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources. Prior to November 8, 2016, the rates were \$5.00 per \$1,000 of the sale price of the property being transferred for properties valued at \$250,000 or less; \$6.80 per \$1,000 for properties valued more than \$250,000 and less than \$999,999; \$7.50 per \$1,000 for properties valued at \$1.0 million to \$5.0 million; \$20.00 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; and \$25 per \$1,000 for properties valued at more than \$10.0 million. After the passage of Proposition V on November 8, 2016, transfer tax rates were amended, raising the rate to \$22.50 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; \$27.50 per \$1,000 for properties valued at more than \$10.0 million and less than \$25.0 million; and \$30.00 per \$1,000 for properties valued at more than \$25.0 million. This change is projected to result in an additional \$18.2 million in transfer tax revenue in fiscal year 2016-17 and \$34.8 million in fiscal year 2017-18, and is reflected in the December 2016 projected Five Year Plan projections.

Real property transfer tax ("RPTT") revenue in fiscal year 2015-16 was \$269 million, a \$46 million (-14.5%) decrease from fiscal year 2014-15 revenue. Fiscal year 2016-17 RPTT revenue is budgeted to be \$235 million, approximately \$34 million (-13%) less than the revenue received in fiscal year 2015-16 primarily due to the assumption that fiscal year 2014-15 represents the peak in high value property transactions during the current economic cycle. This slowing is budgeted to continue into fiscal year 2017-18 with RPTT revenue budgeted at \$225 million, a reduction of \$10 million (-4%).

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Real Property Transfer Tax Receipts
Fiscal Years 2011-12 through 2017-18
(000s)

Fiscal Year	Revenue	Change	
2011-12	\$233,591	\$98,407	72.8%
2012-13	232,730	(861)	-0.4%
2013-14	261,925	29,195	12.5%
2014-15	314,603	52,678	20.1%
2015-16	269,090	(45,513)	-14.5%
2016-17 budgeted	235,000	(34,090)	-12.7%
2017-18 budgeted	225,000	(10,000)	-4.3%

Figures for fiscal year 2011-12 through 2015-16 are audited actuals. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

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

Sales and Use Tax

The State collects the City's local sales tax on retail transactions along with State and special district sales taxes, and then remits the local sales tax collections to the City. The rate of tax is one percent; however, between fiscal year 2004-05 and the first half of fiscal year 2015-16, the State diverted one-quarter of this, and replaced the lost revenue with a shift of local property taxes to the City from local school district funding. This "Triple Flip" concluded on December 31, 2015, after which point the full 1% local tax is recorded in the General Fund.

Local sales tax collections in fiscal year 2015-16 were \$168 million, an increase of \$28 million (20%) from fiscal year 2014-15 sales tax revenue. Moderate revenue growth is expected to continue during fiscal year 2016-17 with \$200.1 million budgeted, an increase of \$8 million (5%) from fiscal year 2015-16. Fiscal year 2017-18 revenue is budgeted to be \$208 million, an increase of \$7 million (3.5%) from fiscal year 2016-17 budget.

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

Table A-12 reflects the City's actual sales and use tax receipts for fiscal years 2011-12 through 2015-16, and budgeted receipt for fiscal year 2016-17 and 2017-18, as well as the imputed impact of the property tax shift made in compensation for the one-quarter of the sales tax revenue taken by the State through the fiscal year 2015-16.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Revenues
Fiscal Years 2011-12 through 2017-18
(000s)

Fiscal Year	Tax Rate	City Share	Revenue	Change	
2011-12	8.50%	0.75%	\$117,071	\$10,769	10.1%
2011-12 adj. ¹	8.50%	1.00%	155,466	14,541	10.3%
2012-13	8.50%	0.75%	122,271	5,200	4.4%
2012-13 adj. ¹	8.50%	1.00%	162,825	7,359	4.7%
2013-14 ²	8.75%	0.75%	133,705	11,434	9.4%
2013-14 adj. ¹	8.75%	1.00%	177,299	14,474	8.9%
2014-15 ²	8.75%	0.75%	140,146	6,441	4.8%
2014-15 adj. ¹	8.75%	1.00%	186,891	9,592	5.4%
2015-16 ²	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 <i>budgeted</i> ³	8.75%	1.00%	200,060	(4,058)	-2.4%
2017-18 <i>budgeted</i> ³	8.50%	1.00%	207,060	7,000	3.5%

Figures for fiscal year 2011-12 through fiscal year 2015-16 are audited actuals. Figures for fiscal years 2016-17 and 2017-18 are Original Budget amounts.

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

²The 2015-16 adjusted figure includes the State's final payment to the Counties for the lost 0.25% of sales tax, from July 1, 2015 through December 31, 2015. It also includes a true-up payment for April through June 2015.

³In November 2012 voters approved Proposition 30, which temporarily increases the state sales tax rate by 0.25% effective January 1, 2013 through December 31, 2016. The City share did not change.

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

Utility Users Tax

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

Fiscal year 2015-16 Utility User Tax revenues were \$99 million, representing no change from fiscal year 2014-15 revenue. Fiscal year 2016-17 revenue is budgeted to be \$94.3 million, representing expected decline of \$4.4 million (4.4%) from fiscal year 2015-16. Fiscal year 2017-18 Utility User Tax revenues are budgeted at \$95.5 million, a \$1.2 million increase from fiscal year 2016-17 budget.

Emergency Response Fee; Access Line Tax

The City imposes an Access Line Tax ("ALT") on every person who subscribes to telephone communications services in the City. The ALT replaced the Emergency Response Fee ("ERF") in 2009. It applies to each telephone

line in the City and is collected from telephone communications service subscribers by the telephone service supplier. Access Line Tax revenue for fiscal year 2015-16 was \$44 million, a \$5 million (-11%) decrease over the previous fiscal year due to a large one-time payment in fiscal year 2014-15 related to a prior year audit finding. In fiscal year 2016-17, the Access Line Tax revenue is budgeted at \$47 million, a \$3 million (-8%) decrease from fiscal year 2015-16 revenue. Fiscal year 2017-18 revenue is budgeted at \$48 million a \$1 million (3%) increase from fiscal year 2016-17 budget. Budgeted amounts in fiscal year 2016-17 and fiscal year 2017-18 assume annual inflationary increases to the access line tax rate as required under Business and Tax Regulation Code Section 784.

Sugar Sweetened Beverage Tax

On November 9, 2016 voters adopted a Proposition V, a one cent per ounce tax on the distribution of sugary beverages. This measure takes effect on January 1, 2018 and is expected to raise \$15 million in annual revenue.

Parking Tax

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

Fiscal year 2015-16 Parking Tax revenue was \$86.0 million, \$1.2 million (-1%) below fiscal year 2014-15 revenue. Parking tax revenue is budgeted at \$92.8 million in fiscal year 2016-17, an increase of \$6.8 million (7%) over the fiscal year 2015-16. In fiscal year 2017-18, Parking Tax revenue is budgeted at \$95.2 million, \$2.4 million (3%) over the fiscal year 2016-17 budgeted amount. Parking tax growth estimates are commensurate with expected changes to the CPI over the same period.

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

INTERGOVERNMENTAL REVENUES

State – Realignment

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

1991 Health & Welfare Realignment. In fiscal year 2015-16, the General Fund share of 1991 realignment revenue was \$176 million. In fiscal year 2016-17, it is budgeted at \$180 million, or \$3 million (2%) more than the fiscal year 2015-16 actual. This growth is attributed to a \$6 million (5%) increase in sales tax distribution and a \$3 million (8%) decrease in the VLF distribution due to the base allocation changes and projected fiscal year 2015-16 growth payments. The fiscal year 2017-18 General Fund share of revenue is budgeted at \$176 million, a net annual decrease of \$3 million (-2%) in sales tax and VLF distributions based on the projected growth payments.

Increases in both years are net of State allocation reductions due to implementation of the Affordable Care Act (ACA) equal to assumed savings for counties as a result of treating fewer uninsured patients. The State's fiscal year 2015-16 Budget included assumed Statewide county savings of \$742 million and the fiscal year 2016-17 Budget included assumed savings of \$565 as a result of ACA implementation, and redirects these savings from realignment allocations to cover CalWORKs expenditures previously paid for by the State's General Fund. Reductions to the City's allocation are assumed equal to \$11.9 million in both years. Future budget adjustments could be necessary depending on final State determinations of ACA savings amounts, which are expected in January 2017 and January 2018 for fiscal year 2014-15 and fiscal year 2015-16, respectively.

Public Safety Realignment. Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons

and parole agents to county jails and probation officers. In fiscal year 2015-16, this revenue source totaled \$40 million. Based on the State's budget, this revenue is budgeted at \$41 million in fiscal year 2016-17, a \$1 million (2%) increase over the fiscal year 2015-16 actual. This increase reflects increased State funding to support implementation of AB109. The fiscal year 2017-18 budget assumes a \$2 million (6%) increase from fiscal year 2016-17 budget.

Public Safety Sales Tax

State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. This revenue is a function of the City's proportionate share of Statewide sales activity. Revenue from this source for fiscal year 2015-16 was \$97 million, an increase of \$3 million (3%) from fiscal year 2014-15 revenues. This revenue is budgeted at \$102 million in fiscal year 2016-17 and \$106 million in fiscal year 2017-18, representing annual growth of \$5 million (5%) and \$4 million (4%) respectively. These revenues are allocated to counties by the State separately from the local one-percent sales tax discussed above, and are used to fund police and fire services. Disbursements are made to counties based on the county ratio, which is the county's percent share of total statewide sales taxes in the most recent calendar year. The county ratio for San Francisco in fiscal year 2015-16 is 3% and is expected to remain at that level in fiscal year 2016-17 and fiscal year 2017-18.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, the City received \$588 million of funds in fiscal year 2015-16 from grants and subventions from State and federal governments to fund public health, social services and other programs in the General Fund. This represents a \$17 million (3%) increase from fiscal year 2014-15. The fiscal year 2016-17 budget is \$637 million, an increase of \$49 million (8%).

Charges for Services

Revenue from charges for services in the General Fund in fiscal year 2015-16 was \$234 million and is projected to be largely unchanged in the fiscal year 2016-17 and 2017-18 budget.

CITY GENERAL FUND PROGRAMS AND EXPENDITURES

Unique among California cities, San Francisco as a charter city and county must provide the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including port and airport; construction and maintenance of all public buildings and facilities; water, sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for approximately 50% of all City expenditures. In addition, the Charter imposes certain baselines, mandates, and property tax set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including MTA, children's services and public education, and libraries. Budgeted baseline and mandated funding is \$968 million in fiscal year 2016-17 and \$1 billion in fiscal year 2017-18. As noted above, voters approved additional spending requirements on the November 2016 ballot, which are incorporated into five-year projections and will be included in the fiscal year 2017-18 budget.

General Fund Expenditures by Major Service Area

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

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO
Expenditures by Major Service Area
Fiscal Years 2011-12 through 2017-18
 (000s)

Major Service Areas	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
	Original Budget	Original Budget	Original Budget	Original Budget	Original Budget	Original Budget	Original Budget
Public Protection	\$998,237	\$1,058,689	\$1,130,932	\$1,173,977	\$1,223,981	\$1,298,185	\$1,323,268
Human Welfare & Neighborhood Development	672,834	670,375	700,254	799,355	857,055	176,768	165,498
Community Health	575,446	609,892	701,978	736,916	787,554	970,679	1,009,995
General Administration & Finance	199,011	197,994	244,591	293,107	286,871	786,218	824,100
Culture & Recreation	100,740	111,066	119,579	126,932	137,062	158,954	158,979
General City Responsibilities	110,725	145,560	137,025	158,180	186,068	349,308	333,291
Public Works, Transportation & Commerce	51,588	67,529	80,797	127,973	161,545	154,344	164,895
Total*	\$2,708,581	\$2,861,106	\$3,115,155	\$3,416,440	\$3,640,137	\$3,894,456	\$3,980,026

*Total may not add due to rounding

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

Public Protection primarily includes the Police Department, the Fire Department and the Sheriff's Office. These departments are budgeted to receive \$450 million, \$241 million and \$170 million of General Fund support respectively in fiscal year 2016-17 and \$460 million, \$245 million, and \$178 million respectively in fiscal year 2017-18. Within Human Welfare & Neighborhood Development, the Department of Human Services, which includes aid assistance and aid payments and City grant programs, is budgeted to receive \$219 million of General Fund support in the fiscal year 2016-17 and \$233 million in fiscal year 2017-18.

The Public Health Department is budgeted to receive \$608 million in General Fund support for public health programs and the operation of San Francisco General Hospital and Laguna Honda Hospital in fiscal year 2016-17 and \$712 million in fiscal year 2017-18.

For budgetary purposes, enterprise funds are characterized as either self-supported funds or General Fund-supported funds. General Fund-supported funds include the Convention Facility Fund, the Cultural and Recreation Film Fund the Gas Tax Fund, the Golf Fund, the Grants Fund, the General Hospital Fund, and the Laguna Honda Hospital Fund. The MTA is classified as a self-supported fund, although it receives an annual general fund transfer equal to 80% of general fund parking tax receipts pursuant to the Charter. This transfer is budgeted to be \$74.3 million in fiscal year 2016-17 and \$76.2 million in the fiscal year 2017-18.

Baselines

The Charter requires funding for baselines and other mandated funding requirements. The chart below identifies the required and budgeted levels of appropriation funding for key baselines and mandated funding requirements. Revenue-driven baselines are based on the projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending. This table reflects spending requirements at the time the fiscal year 2016-17 and fiscal year 2017-18 budget was finally adopted. It does not include spending requirements subsequently adopted by voters in November 2016, which require the City to maintain street trees (Proposition E), estimated at \$19 annually, and fund services for seniors and adults with disabilities (Proposition I), estimated at \$38 million in fiscal year 2016-17.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO

Baselines & Set-Asides

Fiscal Year 2016-17

(in Millions)

Baselines & Set-Asides	FY 2016-17	FY 2016-17
	Required Baseline	Original Budget
Municipal Transportation Agency (MTA)	\$212.0	\$212.0
MTA Baseline - Population Adjustment	\$38.0	\$38.0
Parking and Traffic Commission	\$79.5	\$79.5
Children's Services	\$153.1	\$157.5
Transitional Aged Youth	\$18.4	\$23.2
Library Preservation	\$72.5	\$72.5
Public Education Baseline Services	\$9.2	\$9.2
Recreation and Park Maintenance of Effort	\$67.4	\$67.4
Public Education Enrichment Funding		
Unified School District	\$64.6	\$64.6
Office of Early Care and Education	\$32.3	\$32.3
City Services Auditor	\$16.3	\$16.3
Human Services Homeless Care Fund	\$16.7	\$16.7
<u>Property Tax Related Set-Asides</u>		
Municipal Symphony	\$2.6	\$2.6
Children's Fund Set-Aside	\$72.6	\$72.6
Library Preservation Set-Aside	\$51.8	\$51.8
Open Space Set-Aside	\$51.8	\$51.8
<u>Staffing and Service-Driven</u>		
Police Minimum Staffing	Requirement likely met	
Fire Neighborhood Firehouse Funding	Requirement met	
Treatment on Demand	Requirement met	
Total Baseline Spending	\$958.90	\$968.08

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

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

EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

The cost of salaries and benefits for City employees represents approximately 50% of the City's expenditures, totaling \$4.7 billion in the fiscal year 2016-17 Original Budget (all-funds), and \$4.9 billion in the fiscal year 2017-18 Original Budget. Looking only at the General Fund, the combined salary and benefits budget was \$2.2 billion in the fiscal year 2016-17 Original Budget and \$2.3 billion in the fiscal year 2017-18 Original Budget. This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-retirement health and medical benefits. Employees of SFUSD, SFCCD and the San Francisco Superior Court are not City employees.

Labor Relations

The City's budget for fiscal years 2016-17 and 2017-18 includes 30,626 and 30,903 budgeted City positions, respectively. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021 ("SEIU"); the International Federation of Professional and Technical Engineers, Local 21("IFPTE"); and the unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (the Meyers-Milias-Brown Act, California Government Code Sections 3500-3511) and the City Charter. San Francisco is unusual among California's cities and counties in that nearly all of our employees, even managers, are represented by labor organizations. Further, the City Charter provides a unique impasse resolution procedure. In most cities and counties, when labor organizations cannot reach agreement on a new contract, there is no mandatory procedure to settle the impasse. However, in San Francisco, nearly all of our contracts advance to interest arbitration in the event the parties cannot reach agreement. This process provides a mandatory ruling by an impartial third party arbitrator, who will set the terms of the new agreement. Except for nurses and less than one-hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through final and binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final and binding unless legally challenged. Wages, hours and working conditions of nurses are not subject to interest arbitration, but are subject to Charter-mandated economic limits. Strikes by City employees are prohibited by the Charter. Since 1976, no City employees have participated in a union-authorized strike.

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

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

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

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

In February 2017, the City negotiated two-year contract extensions (for fiscal years 2017-18 and 2018-19) with most of its labor unions. The parties agreed to a wage increase schedule of 3% on July 1, 2017 and 3% on July 1, 2018, with a provision to delay the fiscal year 2018-19 adjustment by six months if the City's deficit for Fiscal Year 2018-2019, as projected in the March, 2018 update to the Five Year Financial Plan, exceeds \$200 million. Existing agreements with police officers, firefighters, and physicians expire in June 2018; the agreement with supervising nurses expires in June, 2019.

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

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO (All Funds)
Employee Organizations as of July 1, 2016

<u>Organization</u>	<u>Budgeted Positions</u>	<u>Expiration Date of MOU</u>
Automotive Machinists, Local 1414	466	30-Jun-19
Bricklayers, Local 3/Hod Carriers, Local 36	18	30-Jun-19
Building Inspectors Association	96	30-Jun-19
Carpenters, Local 22	115	30-Jun-19
Carpet, Linoleum & Soft Tile	3	30-Jun-19
CIR (Interns & Residents)	-	30-Jun-19
Cement Masons, Local 580	38	30-Jun-19
Deputy Sheriffs Association	801	30-Jun-19
District Attorney Investigators Association	45	30-Jun-19
Electrical Workers, Local 6	914	30-Jun-19
Glaziers, Local 718	9	30-Jun-19
International Alliance of Theatrical Stage Employees, Local 16	27	30-Jun-19
Ironworkers, Local 377	15	30-Jun-19
Laborers International Union, Local 261	1,114	30-Jun-19
Municipal Attorneys' Association	453	30-Jun-19
Municipal Executives Association	1,287	30-Jun-19
MEA - Police Management	6	30-Jun-18
MEA - Fire Management	9	30-Jun-18
Operating Engineers, Local 3	63	30-Jun-19
City Workers United	132	30-Jun-19
File Drivers, Local 34	37	30-Jun-19
Plumbers, Local 38	347	30-Jun-19
Probation Officers Association	154	30-Jun-19
Professional & Technical Engineers, Local 21	6,131	30-Jun-19
Roofers, Local 40	13	30-Jun-19
S.F. Institutional Police Officers Association	2	30-Jun-19
S.F. Firefighters, Local 798	1,837	30-Jun-18
S.F. Police Officers Association	2,506	30-Jun-18
SEIU, Local 1021	12,471	30-Jun-19
SEIU, Local 1021 Staff & Per Diem Nurses	1,723	30-Jun-19
SEIU, Local 1021 H-1 Rescue Paramedics	4	30-Jun-18
Sheet Metal Workers, Local 104	45	30-Jun-19
Sheriff's Managers and Supervisors Association	99	30-Jun-19
Stationary Engineers, Local 39	692	30-Jun-19
Supervising Probation Officers, Operating Engineers, Local 3	31	30-Jun-19
Teamsters, Local 853	171	30-Jun-19
Teamsters, Local 856 (Multi-Unit)	115	30-Jun-19
Teamsters, Local 856 (Supervising Nurses)	126	30-Jun-19
TWU, Local 200 (SEAM multi-unit & claims)	364	30-Jun-19
TWU, Local 250-A Auto Service Workers	180	30-Jun-19
TWU, Local 250-A Transit Fare Inspectors	54	30-Jun-19
TWU-250-A Miscellaneous	107	30-Jun-19
TWU-250-A Transit Operators	2,658	30-Jun-19
Union of American Physicians & Dentists	205	30-Jun-18
Unrepresented Employees	134	30-Jun-18
	35,817 ⁽¹⁾	

⁽¹⁾ Budgeted positions do not include SFUSD, SFCCD, or Superior Court Personnel.

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

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

History and Administration

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

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

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

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

Membership

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

The Retirement System estimates that the total active membership as of July 1, 2016 is 40,051, compared to 37,821 at the most recent valuation date of July 1, 2015. Active membership at July 1, 2016 includes 6,617 terminated vested members and 1,028 reciprocal members. Terminated vested members are former employees who have vested rights in future benefits from SFERS. Reciprocal members are individuals who have established membership in a reciprocal pension plan such as CalPERS and may be eligible to receive a reciprocal pension from the Retirement System in the future. Monthly retirement allowances are paid to approximately 28,286 retired members and beneficiaries. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Beginning July 1, 2008, the Retirement System had a Deferred Retirement Option Program ("DROP") program for Police Plan members who were eligible and elected participation. The program "sunset" on June 30, 2011. A total of 354 eligible Police Plan members elected to participate in DROP during the three-year enrollment window. As of July 2016, there are no members active in DROP.

Table A-16 displays total Retirement System participation (City and County of San Francisco, SFUSD, SFCCD, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates, July 1, 2012 through July 1, 2016.

TABLE A-16

SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System
Fiscal Years 2011 -12 through 2015 -16

As of 1-Jul	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
2012	28,097	4,543	1,015	33,655	25,190	1.115
2013	28,717	4,933	1,040	34,690	26,034	1.103
2014	29,516	5,409	1,032	35,957	26,852	1.099
2015	30,837	5,960	1,024	37,821	27,485	1.122
2016	32,406	6,617	1,028	40,051	28,286	1.146

Sources: SFERS' annual July 1 actuarial valuation reports
 See <http://mysfers.org/resources/publications/sfers-actuarial-valuations/>

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

Funding Practices

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

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

At the November 2016 Retirement Board meeting, the Board voted to make no changes in economic assumptions for the July 1, 2016 actuarial valuation following the recommendation of the consulting actuarial firm. Key economic assumptions are the long-term investment earnings assumption of 7.50%, the long-term wage inflation assumption of 3.75%, and the long-term consumer price index assumption of 3.25%. In November 2015 the Board voted to update demographic assumptions, including mortality, after review of a new demographic assumptions study by the consulting actuarial firm.

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

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

Employer Contribution History and Annual Valuations

Fiscal year 2014-15 total City employer contributions were \$556.5 million which included \$243.6 million from the General Fund. Fiscal year 2015-16 total City employer contributions were \$496.3 million which included \$215.2 million from the General Fund. For fiscal year 2016-17, total City employer contributions to the Retirement System are budgeted at \$515.0 million which includes \$240.4 million from the General Fund. These budgeted amounts are based upon the fiscal year 2016-17 employer contribution rate of 21.40% (estimated to be 18.8% after taking into account the 2011 Proposition C cost-sharing provisions). The fiscal year 2017-18 employer contribution rate is 23.46% per the July 1, 2016 actuarial valuation report (estimated to be 20.1% after taking into account cost-sharing provisions). The increase in employer contribution rate from 21.40% to 23.46% results primarily from two reasons: 1) the retroactive grant of 2013 and 2014 Supplemental COLAs after the October 2015 California Court of Appeal determination in *Protect Our Benefits v. City and County of San Francisco* that the “full funding” requirement for Supplemental COLAs adopted under Proposition C does not apply to members who retired on or after November 6, 1996 and were hired prior to January 7, 2012, and 2) the continued phase in of the 2015 assumption changes approved by the Retirement Board. As discussed under “City Budget – Five Year Financial Plan” increases in retirement costs are projected in the City’s December 2016 Five Year Financial Plan.

Table A-17 shows total Retirement System liabilities, assets, and percent funded for the last five actuarial valuations as well as contributions for the fiscal years 2011-12 through 2015-16. Information is shown for all employers in the Retirement System (City and County of San Francisco, SFUSD, SFCCD, and San Francisco Trial Courts). “Actuarial Liability” reflects the actuarial accrued liability of the Retirement System measured for purposes of determining the funding contribution. “Market Value of Assets” reflects the fair market value of assets held in trust for payment of pension benefits. “Actuarial Value of Assets” are the plan assets with investment returns different than expected smoothed over five years to provide a more stable contribution rate. The “Market Percent Funded” column is determined by dividing the market value of assets by the actuarial accrued liability. The “Actuarial Percent Funded” column is determined by dividing the actuarial value of assets by the actuarial accrued liability. “Employee and Employer Contributions” reflects the total of mandated employee contributions and employer contributions received by the Retirement System in the fiscal year ended June 30th prior to the July 1st valuation date.

TABLE A-17

SAN FRANCISCO CITY AND COUNTY

Employees' Retirement System

Fiscal Years 2011-12 through 2015-16

(000s)

As of 1-Jul	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
2012	19,393,854	15,293,724	16,027,683	78.9%	82.6%	608,957	18.09%
2013	20,224,777	17,011,545	16,303,397	84.1%	80.6%	701,596	20.71%
2014	21,122,567	19,920,607	18,012,088	94.3%	85.3%	821,902	24.82%
2015	22,970,892	20,428,069	19,653,339	88.9%	85.6%	894,325	26.76%
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	88.6%	84.6%	849,569	20.80%

[1] Employer contribution rates for fiscal years 2016-17 and 2017-18 are 21.40% and 23.46%, respectively.

Sources: SFERS' audited year-end financial statements and required supplemental information
SFERS' annual July 1 actuarial valuation reports

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

Please note in the table above, that the Market Percent Funded ratio is lower than the Actuarial Percent Funded ratio for the first time in four years. The Actuarial Percent Funded ratio does not yet fully reflect all asset losses from the last five fiscal years.

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

GASB Disclosures

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

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

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

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

TABLE A-17A

**SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System (in \$000s)
GASB 67/68 Disclosures**

As of	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
30-Jun						
2013	\$20,785,417	7.52%	\$17,011,545	81.8%	\$3,773,872	\$3,552,075
2014	21,691,042	7.58%	19,920,607	91.8%	1,770,435	1,660,365
2015	22,724,102	7.46%	20,428,069	89.9%	2,296,033	2,156,049
2016	25,967,281	7.50%	20,154,503	77.6%	5,812,778	5,476,653

Sources: SFERS fiscal year-end GASB 67/68 Reports as of June 30, 2014, 2015, and 2016.

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

The fiscal year 2016 increase in the City's net pension liability is due to investment return shortfalls, the Appeals Court's elimination of the full funding requirement for payment of Supplemental COLAs for certain members, and the impact of the Retirement Board's 2015 adoption of revised demographic assumptions,

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, 2016, see Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2016," Page 72. Although, the Fund did not hold hedge funds as of June 30, 2016, the Board approved a 5% allocation to absolute return/hedge funds at its February 2015 meeting. Implementation of this new allocation began during fiscal year 2016-17.

Annualized investment returns (net of fees and expenses) for the Retirement System for the five years ending June 30, 2016 were 7.53%. For the ten-year and twenty-year periods ending June 30, 2016, annualized investment returns were 5.85% and 7.66% respectively.

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

Recent Voter Approved Changes to the Retirement Plan

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

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

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

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

3. Cost-sharing provisions which increase or decrease employee contributions to SFERS on and after July 1, 2012 for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. For example, Miscellaneous employees who earn between \$50,000 and \$100,000 per year pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate, while Miscellaneous employees who earn \$100,000 or more per year pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are also required from Safety employees; and
4. Effective July 1, 2012, no Supplemental COLA will be paid unless SFERS is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits - in any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

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

On July 13, 2016, the SFERS Board adopted a Resolution to exempt members who retired before November 6, 1996, from the "fully funded" provision related to payment of Supplemental COLAs under Proposition C. The Resolution directed that retroactive payments for Supplemental COLAs be made to these retirees. After the Board adopted the Resolution, the Retirement System published an actuarial study on the cost to the Fund of payments to the pre-1996 retirees. The study reports that the two retroactive supplemental payments will trigger immediate payments of \$34 million, create additional liability for continuing payments of \$114 million, and cause a new unfunded liability of \$148 million. This liability does not include the Supplemental COLA payments that may be triggered in the future. Under the cost sharing formulas in Proposition C, the City and its employees will pay for these costs in the form of higher yearly contribution rates. The Controller has projected the future cost to the City and its employees to be \$260 million, with over \$200 million to be paid in the next five fiscal years. The City has taken legal action to obtain an injunction to prevent SFERS from making Supplemental COLA payments to these members who retired before November 6, 1996 and seeking a judicial determination as to the authority of the Board in this matter. On October 5, 2016, the Superior Court of California granted the City's motion for preliminary injunction, which enjoins SFERS from making such payments pending final court ruling on the matter.

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

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

As of June 30, 2016, the audited market value of Retirement System assets was \$20.2 billion. As of February 28, 2017, the unaudited market value of SFERS' portfolio was \$21.5 billion. These values represent, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are audited at each fiscal year end as part of the annual audit of the Retirement System's financial statements.

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

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

Other Employee Retirement Benefits

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members, at rates determined by the CalPERS board. Such payment from the General Fund equaled \$19.2 million in fiscal year 2012-13 and \$20.0 million in fiscal year 2013-14. For fiscal year 2014-15, the City prepaid its annual CalPERS obligation at a level of \$25.2 million. Further discussion of the City's CalPERS plan obligations are summarized in Note 9 to the City's CAFR, as of June 30, 2016, attached to this Official Statement as Appendix B. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under "Medical Benefits – *Post-Employment Health Care Benefits and GASB 45.*"

Medical Benefits

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

Medical benefits for eligible active City employees and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the "City Beneficiaries") are administered by the San Francisco Health Service System (the "San Francisco Health Service System" or "SFHSS") pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the San Francisco Health Service System also administers medical benefits to active and retired employees of SFUSD, SFCCD, and the San Francisco Superior Court (collectively the "System's Other Beneficiaries"). However, the City is not required to fund medical benefits for the System's Other Beneficiaries and therefore this section focuses on the funding by the City of medical and dental benefits for City Beneficiaries. The San Francisco Health Service System is overseen by the City's Health Service Board (the "Health Service Board"). The seven member Health Service Board is composed of members including a seated member of the City's Board of Supervisors, appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; a member nominated by the Controller and approved by the Health Service Board, and three members of the San Francisco Health Service System, active or retired, elected from among their members. The plans (the "SFHSS Medical Plans") for providing medical care to the City Beneficiaries and the System's Other Beneficiaries (collectively, the "HSS Beneficiaries") are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

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

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

Determination of Employer and Employee Contributions for Medical Benefits

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

In the Memoranda of Understandings negotiated through collective bargaining in June 2014, the 10-County Average was eliminated in the calculation of premiums for Active employees represented by most unions, and exchanged for a percentage based employee premium contribution. The long term impact of the premium contribution model is anticipated to be a reduction in the relative proportion of the projected increases in the City's contributions for Healthcare, stabilization of the medical plan membership and maintenance of competition among plans. The contribution amounts are paid by the City into the Health Service Trust Fund. The 10-County Average is still used as a basis for calculating all retiree premiums. To the extent annual medical premiums exceed the contributions made by the City as required by the Charter and union agreements, such excess must be paid by HSS Beneficiaries or, if elected by the Health Service Board, from net assets also held in the Health Service Trust Fund. Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g., surviving spouses and surviving domestic partners of City retirees) ("Nonemployee City Beneficiaries") are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The San Francisco Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under "*Post-Employment Health Care Benefits and GASB 45.*"

Contributions relating to Nonemployee City Beneficiaries are also based on the negotiated methodologies found in most of the union agreements and, when applicable, the City contribution of the "10-County average contribution" corresponding to such Nonemployee City Beneficiaries as described in Charter Section A8.423 along with the following:

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

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

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

Health Care Reform

The description that follows of the implementation of the Patient Protection and Affordable Care Act is current. The election of a Republican President in November 2016 who promised to repeal "Obamacare" (aka the Affordable Care Act) combined with both Houses of Congress with Republican majorities who are equally set on repealing Obamacare puts many of the fees and taxes in limbo until legislation is passed to "repeal and replace Obamacare" by the current Congress and signed by President Trump aka HealthReform 2.0.

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (Public Law 111-114), and on March 30, 2010 signed the Health Care and Education Reconciliation of 2010 (collectively, the "Health Care Reform Law" or the Affordable Care Act (ACA) or "Obamacare"). The ACA was intended to extend health insurance to over 32 million uninsured Americans by 2019, and includes other significant changes with

respect to the obligation to carry health insurance by individuals and the provision of health care by private and public employers, such as the City.

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

Provisions of Health Care Reform already implemented by HSS include discontinued eligibility for non-prescription drugs reimbursement through flexible spending accounts ("FSAs") in 2011, eliminated copayments for wellness visits, eliminated life-time caps on coverage, and expanded eligibility to cover member dependent children up to age 26 in 2011, eliminated copayments for women's preventative health including contraception in 2012, W-2 reporting on total healthcare premium costs, implementation of a medical loss ratio rebate on self-insured plans, issuance of a separate summary of benefits to every member and provided to every new member and providing information on State Exchanges to both employees currently on COBRA and future COBRA recipients and as of 2015 and 2016, and beyond, healthcare FSAs are limited to \$2,550 annually.

The change to the definition of a full time employee was implemented in 2015. The City modified health benefit eligibility to employees who are employed, on average, at least 20 hours of service per week. The Automatic Enrollment requirement in the Health Care Reform was deferred indefinitely. This requires that employers automatically enroll new full-time employees in one of the employer's health benefit plans (subject to any waiting period authorized by law). Further it is required than employees be given adequate notice and the opportunity to opt out of any coverage in which they were automatically enrolled. It is uncertain when or if final guidance will be issued by the Department of Labor.

The federal Health Care Reform Law created e two direct fees: Transitional Reinsurance Fee and Patient Centered Outcomes Research Institute ("PCORI") fee and one tax, the Federal Health Insurer Tax ("HIT"). The Transitional Reinsurance Fee was eliminated beginning in 2017 and the HIT tax was waived in 2017. PCORI was factored into the calculation of medical premium rates and premium equivalents for the 2017 plan year and the impact on the City is \$0.22 million.

Beginning in 2013, the Patient Center Outcomes Research Institute ("PCORI") Fee was assessed at the rate of \$2.00 per enrollee per year to all participants in the Self-Insured medical-only plan (approximately 8,600). The fee is charged directly to SFHSS In 2015 the rate was \$2.17, \$2.25 in 2016 and \$2.25 in 2017. The 2017 impact to the City for PCORI is \$0.22 million. SFHSS pays this fee directly to the Internal Revenue Service (IRS) and the fee will increase with health care inflation until it sunsets in 2019.

The Federal HIT tax is a fixed-dollar amount applied to "full funded" HMOs and was charged in the 2016 plan year. The 2016 plan year premiums for Kaiser Permanente, Blue Shield of California, and the dental and vision plans included the impact of the HIT tax. Late in 2016, Blue Shield and the California Department of Managed Health Care agreed that the HIT tax was not applicable to Blue Shield because SFHSS "flex funds" Blue Shield meaning that SFHSS is at risk directly for non-physician costs and thus it is not fully-insured. This resulted in a refund for 2016 of \$9.93 million which is being applied to the 2018 rate stabilization reserve. The estimated impact of the HIT tax on the City was \$12.73 million. When the refund from Blue Shield of California is taken into account, the total impact on the City was \$2.8 million for Kaiser Permanente, and the dental and vision plans.

All of these fees and taxes are reportedly going to be eliminated under HealthCare Reform 2.0 with the exception of the "Cadillac Tax" currently delayed until 2020 and proposed to be delayed until 2025 in HealthCare reform 2.0. The "Cadillac Tax" is an excise tax on high cost insurance coverage.

Beginning in 2016, employers are required to report coverage for employees to the IRS each January on complex electronic interface systems using 1095 forms. The San Francisco Health Service System spent over 2080 hours on system configuration and is compliant with this requirement for 2016 and 2017

As part of overall "HealthCare reform 2.0" under President-elect Trump, it is likely that the age for Medicare eligibility will be increased. If this occurs, there will be an estimated 1,500 additional "early retirees" not subsidized by Medicare requiring coverage by HSS. The Republicans have also proposed a "voucher" system for Medicare. If this occurs it will require major changes to retiree health coverage. At this time it is too early to predict what changes will be made and it is very possible that changes will be passed but not implemented until January 2019, after the mid-term Congressional elections.

Local Elections:

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

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

Proposition C (2011) City Pension and Health Care Benefit

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

Employer Contributions for San Francisco Health Service System Benefits

For fiscal year 2015-16, based on the most recent audited financial statements, the San Francisco Health Service System received approximately \$674.6 million from participating employers for San Francisco Health Service System benefit costs. Of this total, the City contributed approximately \$569.0 million; approximately \$158.4 million of this \$569.0 million amount was for health care benefits for approximately 23,453 retired City employees and their eligible dependents and approximately \$410.6 million was for benefits for approximately 31,085 active City employees and their eligible dependents.

The 2016 aggregate plan costs for the City increased by 3.80%. This is due to a number of factors including aggressive contracting by HSS that maintains competition among our vendors, implementing Accountable Care Organizations that reduced utilization and increased use of generic prescription rates and changing our Blue Shield plan from a fully-funded to a flex-funded product. Flex-funding allows lower premiums to be set by our actuarial consultant, AON-Hewitt, without the typical margins added by Blue Shield; however, more risk is assumed by the City and reserves are required to protect against this risk. The flatten trend is anticipated to continue.

Post-Employment Health Care Benefits and GASB 45

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

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

5. The City's account balance in any fiscal year is fully funded. The account is fully funded when it is large enough to pay then-projected retiree health care costs as they come due; and,
- 6.

7. The City's retiree health care costs exceed 10% of the City's total payroll costs in a fiscal year. The Controller, Mayor, Trust Board, and a majority of the Board of Supervisors must agree to allow payments from the Fund for that year. These payments can only cover retiree health care costs that exceed 10% of the City's total payroll cost. The payments are limited to no more than 10% of the City's account; or,
- 8.
9. The Controller, Mayor, Trust Board, and two-thirds of the Board of Supervisors approve changes to these limits.

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

City's Estimated Liability. The City is required by GASB 45 to prepare a new actuarial study of its post-retirement benefits obligation every two years. As of July 1, 2014, the most recent actuarial valuation date, the funded status of retiree health care benefits was 1.1%. The actuarial accrued liability for benefits was \$4.26 billion, and the actuarial value of assets was \$49.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.21 billion. As of July 1, 2014, the estimated covered payroll (annual payroll of active employees covered by the plan) was \$2.62 billion and the ratio of the UAAL to the covered payroll was 160.8%. The City's actuary is currently updating this valuation for release in January, 2017.

The difference between the estimated ARC and the amount expended on post-retirement medical benefits in any year is the amount by which the City's overall liability for such benefits increases in that year. The City's most recent CAFR estimated that the 2015-16 annual OPEB cost was \$326.1 million, of which the City funded \$168.9 million which caused, among other factors, the City's long-term liability to increase by \$157.3 million (as shown on the City's balance sheet and below). The annual OPEB cost consists of the ARC, one year of interest on the net OPEB obligation, and recognition of one year of amortization of the net OPEB obligation. While GASB 45 does not require funding of the annual OPEB cost, any differences between the amount funded in a year and the annual OPEB cost are recorded as increases or decreases in the net OPEB obligation. See Note 9(b) to the City's CAFR, as of June 30, 2016, included as Appendix B to this Official Statement. Five-year trend information is displayed in Table A-18 (dollars in thousands):

TABLE A-18

CITY AND COUNTY OF SAN FRANCISCO
Five-year Trend
Fiscal Years 2011-12 to 2015-16
(000s)

Fiscal Year Ended	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
6/30/2012	\$405,850	38.5%	\$1,348,883
6/30/2013	418,539	38.3%	1,607,130
6/30/2014	353,251	47.2%	1,793,753
6/30/2015	363,643	46.0%	1,990,155
6/30/2016	326,133	51.8%	2,147,434

Actuarial projections of the City's OPEB liability will be affected by Proposition B as well as by changes in the other factors affecting that calculation. For example, the City's actuarial analysis shows that by 2031, Proposition B's three-percent of salary funding requirement will be sufficient to cover the cost of retiree health benefits for employees hired after January 10, 2009. See "Retirement System – Recent Voter Approved Changes to the Retirement Plan" above. As of June 30, 2016, the fund balance in the Retiree Health Care Trust Fund established by Proposition B was \$114.8 million, an increase of 57% versus the prior year. Future projections of the City's GASB

45 liability will be lowered by the HSS implementation of the Employer Group Waiver Plan prescription benefit program for City Plan retirees. See “– Local Elections: Proposition C (2011).”

Total City Employee Benefits Costs

The City budgets to pay its ARC for pension and has established a Retiree Health Care Trust Fund into which both the City and employees are required to contribute funds as retiree health care benefits are earned. Currently, these Trust deposits are only required on behalf of employees hired after 2009, and are therefore limited, but will grow as the workforce retires and this requirement is extended to all employees in 2016. Proposition A, passed by San Francisco voters on November 5, 2013 restricted the City’s ability to make withdrawals from the Retiree Health Care Trust Fund.

The balance in the Retiree Health Care Trust Fund as of June 30, 2016 is approximately \$114.8 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Table A-19 provides a five-year history for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. For all fiscal years shown, a “pay-as-you-go” approach was used by the City for health care benefits.

Table A-19 below provides a summary of the City’s employee benefit actual and budgeted costs from fiscal years 2012-13 to fiscal year 2016-17.

TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO
Employee Benefit Costs, All Funds
Fiscal Years 2012-13 through 2016-17
(000s)

	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
	Actual	Actual	Actual	Actual	Budget
SFERS and PERS Retirement Contributions	\$452,325	\$535,309	\$593,619	\$531,821	\$550,302
Social Security & Medicare	156,322	160,288	171,877	184,530	196,741
Health - Medical + Dental, active employees ¹	370,346	369,428	383,218	421,864	451,905
Health - Retiree Medical ¹	155,885	161,859	146,164	158,939	169,612
Other Benefits ²	16,665	16,106	18,439	20,827	26,719
Total Benefit Costs	\$1,151,543	\$1,242,990	\$1,313,318	\$1,317,981	\$1,395,279

Fiscal year 2011-12 through fiscal year 2015-16 figures are audited actuals. Fiscal year 2016-17 figures are original budget.

¹ Does not include Health Service System administrative costs. Does include flexible benefits that may be used for health insurance.

² “Other Benefits” includes unemployment insurance premiums, life insurance, and other miscellaneous employee benefits.

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

INVESTMENT OF CITY FUNDS

Investment Pool

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

Investment Policy

The management of the Pool is governed by the Investment Policy administered by the Office of the Treasurer and Tax Collector in accordance with California Government Code Sections 27000, 53601, 53635, et. al. In order of priority, the objectives of this Investment Policy are safety, liquidity, and return on investments. Safety of principal

is the foremost objective of the investment program. The investment portfolio maintains sufficient liquidity to meet all expected expenditures for at least the next six months. The Office of the Treasurer and Tax Collector also attempts to generate a market rate of return, without undue compromise of the first two objectives.

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. See "APPENDIX C – City and County of San Francisco Office of the Treasurer – Investment Policy" for a complete copy of the Treasurer's Investment Policy, dated May 2016. The Investment Policy is also posted at the Treasurer's website. The information available on such website is not incorporated herein by reference.

Investment Portfolio

As of January 31, 2017, the City's surplus investment fund consisted of the investments classified in Table A-20, and had the investment maturity distribution presented in Table A-21.

TABLE A-20

City and County of San Francisco
Investment Portfolio
Pooled Funds
As of January 31, 2017

Type of Investment	Par Value	Book Value	Market Value
U.S. Treasuries	\$1,725,000,000	\$1,719,369,388	\$1,722,116,000
Federal Agencies	3,952,698,000	3,953,600,531	3,948,032,323
State and Local Obligations	290,934,000	295,096,161	292,790,433
Public Time Deposits	1,200,000	1,200,000	1,200,000
Negotiable Certificates of Deposit	815,000,000	815,000,000	815,392,583
Banker's Acceptances			
Commercial Paper	695,000,000	690,793,243	693,578,118
Medium Term Notes	101,604,000	101,782,575	101,749,678
Money Market Funds	461,139,949	461,139,949	461,139,949
Supranationals	80,000,000	79,925,100	79,870,750
Total	\$8,122,575,949	\$ 8,117,906,948	\$ 8,115,869,835

January 2017 Earned Income Yield: 0.899%

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

TABLE A-21

City and County of San Francisco
Investment Maturity Distribution
Pooled Funds
As of January 31, 2017

Maturity in Months	Par Value	Percentage
0 to 1	\$1,025,148,949	12.62%
1 to 2	1,298,425,000	15.99%
2 to 3	671,298,000	8.26%
3 to 4	166,085,000	2.04%
4 to 5	520,240,000	6.40%
5 to 6	143,520,000	1.77%
6 to 12	1,027,010,000	12.64%
12 to 24	1,425,830,000	17.55%
24 to 36	1,138,950,000	14.02%
36 to 48	432,500,000	5.32%
48 to 60	273,569,000	3.37%
	\$8,122,575,949	100.00%

Weighted Average Maturity: 412 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, 2016 are described in Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2016," Notes 2(d) and 5.

CAPITAL FINANCING AND BONDS

Capital Plan

In October 2005, the Board of Supervisors adopted, and the Mayor approved, Ordinance No. 216-05, which established a new capital planning process for the City. The legislation requires that the City develop and adopt a ten-year capital expenditure plan for City-owned facilities and infrastructure. It also created the Capital Planning Committee ("CPC") and the Capital Planning Program ("CPP"). The CPC, composed of other City finance and capital project officials, makes recommendations to the Mayor and Board of Supervisors on all of the City's capital expenditures. To help inform CPC recommendations, the CPP staff, under the direction of the City Administrator, review and prioritize funding needs; project and coordinate funding sources and uses; and provide policy analysis and reports on interagency capital planning.

The City Administrator, in conjunction with the CPC, is directed to develop and submit a ten-year capital plan every other fiscal year for approval by the Board of Supervisors. The Capital Plan is a fiscally constrained long-term finance strategy that prioritizes projects based on a set of funding principles. It provides an assessment of the City's infrastructure needs over ten years, highlights investments required to meet these needs and recommends a plan of finance to fund these investments. Although the Capital Plan provides cost estimates and proposes methods to finance such costs, the document does not reflect any commitment by the Board of Supervisors to expend such amounts or to adopt any specific financing method. The Capital Plan is required to be updated and adopted biennially, along with the City's Five Year Financial Plan and the Five-Year Information & Communication Technology Plan. The CPC is also charged with reviewing the annual capital budget submission and all long-term financing proposals, and providing recommendations to the Board of Supervisors relating to the compliance of any such proposal or submission with the adopted Capital Plan.

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year. The fiscal year 2016-2025 Capital Plan was approved by the CPC on March 2, 2015 and was adopted by the Board of Supervisors in April 2015. The Capital Plan contains \$32 billion in capital investments over the coming decade for all City departments, including \$5.1 billion in projects for General Fund-supported departments. The Capital Plan proposes \$1.66 billion for General Fund pay-as-you-go capital projects over the next ten years. The amount for General Fund pay-as-you-go capital projects is assumed to grow to over \$200 million per year by fiscal year 2025-26. Major capital projects for General Fund-supported departments included in the Capital Plan consist of upgrades to public health, police, fire and park facilities; street and right-of-way improvements; the removal of barriers to accessibility; park improvements; the replacement of the Hall of Justice; and seismic upgrades to the Veteran's Memorial Building, among other capital projects. Approximately \$1.8 billion of the capital projects of General Fund supported departments are expected to be financed with general obligation bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, the General Fund, and other sources.

In addition to the City General Fund-supported capital spending, the Capital Plan recommends \$18.2 billion in enterprise fund department projects to continue major transit, economic development and public utility projects such as the Central Subway project, runway and terminal upgrades at San Francisco International Airport, Pier 70 infrastructure investments, and the Sewer System Improvement Program, among others. Approximately \$12.2 billion of enterprise fund department capital projects is financed with voter-approved revenue bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, user/operator fees, General Fund and other sources.

While significant investments are proposed in the City's adopted Capital Plan, identified resources remain below those necessary to maintain and enhance the City's physical infrastructure. As a result, over \$8.5 billion in capital needs are deferred from the plan's horizon. Over two-thirds of these unfunded needs are for the City's transportation and waterfront infrastructure, where core maintenance investments have lagged for decades. Mayor Edwin Lee has convened a taskforce to recommend funding mechanisms to bridge a portion of the gaps in the City's transportation needs, but it is likely that significant funding gaps will remain even assuming the identification of significant new funding sources for these needs.

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

Tax-Supported Debt Service

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds") can only be authorized with a two-thirds approval of the voters. As of April 1, 2017, the City had approximately \$2.25 billion aggregate principal amount of general obligation bonds outstanding.

Table A-22 shows the annual amount of debt service payable on the City's outstanding general obligation bonds.

TABLE A-22

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds Debt Service
As of April 1, 2017 ^{1 2}

Fiscal Year	Principal	Interest	Annual Debt Service
2017	\$189,434,110	\$48,373,909	\$237,808,019
2018	123,873,225	88,868,612	212,741,837
2019	124,230,545	84,676,748	208,907,293
2020	123,541,232	78,649,111	202,190,343
2021	122,085,457	72,700,986	194,786,443
2022	128,083,401	67,121,223	195,204,624
2023	131,760,251	61,192,905	192,953,156
2024	134,366,206	54,907,030	189,273,236
2025	135,221,476	48,463,484	183,684,960
2026	130,491,279	42,140,369	172,631,648
2027	135,690,840	36,402,040	172,092,880
2028	140,604,035	30,447,874	171,051,909
2029	141,041,751	24,668,943	165,710,694
2030	137,285,095	18,856,513	156,141,608
2031	99,261,950	13,238,784	112,500,734
2032	102,620,000	9,573,281	112,193,281
2033	68,105,000	5,848,349	73,953,349
2034	43,770,000	3,291,929	47,061,929
2035	35,160,000	1,711,971	36,871,971
2036	12,680,000	475,476	13,155,476
TOTAL ³	\$2,259,305,853	\$791,609,537	\$3,050,915,390

¹ This table does not reflect any debt other than City direct tax-supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

² Totals reflect rounding to nearest dollar.

³ Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all real and personal assessment district indebtedness or any redevelopment agency indebtedness.

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

General Obligation Bonds

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

In November 1992, voters approved Proposition A, which authorized the issuance of up to \$350.0 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program (the "Loan Program"). The purpose of the Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued \$35.0 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed all outstanding bonds remaining from such issuance. In February 2007, the Board of Supervisors approved the issuance of additional indebtedness under this authorization in an amount not to exceed \$35.0 million. Such issuance would be achieved pursuant to the terms of a Credit Agreement with Bank of America, N.A. (the "Credit Bank"), under which the Credit Bank agreed to fund one or more loans to the City from time to time as evidenced by the City's issuance to the Credit Bank of the Taxable General Obligation Bond (Seismic Safety Loan Program), Series 2007A. The funding by the Credit Bank of the loans at the City's request and the terms of repayment of such loans are governed by the terms of the Credit Agreement. Loan funds received by the City from the Credit Bank are in turn used to finance loans to Seismic Safety Loan Program borrowers. In March 2007, the City initiated an initial borrowing of \$2.0 million, and in October 2007, the City borrowed approximately \$3.8 million from the Credit Bank. In January 2008, the City borrowed approximately \$3.9 million and in November 2008, the City borrowed \$1.3 million from the Credit Bank. Further borrowings under the Credit Agreement with the Credit Bank (up to the \$35.0 million not-to-exceed amount) are expected as additional loans to Seismic Safety Loan Program borrowers are approved.

In February 2008, voters approved Proposition A, which authorized the issuance of up to \$185.0 million in general obligation bonds for the construction, reconstruction, purchase, and/or improvement of park and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition A in the amount of approximately \$42.5 million in August 2008. The City issued the second series in the amount of approximately \$60.4 million in March 2010 and the third series in the amount of approximately \$73.4 million in March 2012. The City issued the fourth series in the amount of approximately \$8.7 million in January 2016. In June 2010, voters approved Proposition B, which authorized the issuance of up to \$412.3 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement and retrofitting of neighborhood fire and police stations, the auxiliary water supply system, a public safety building, and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds under Proposition B in the amount of \$79.5 million in December 2010 and the second series of bonds in the amount of \$183.3 million in March 2012. The City issued the third series in the amount of approximately \$38.3 million in August 2012 and the fourth series of bonds in the amount of \$31.0 million in June 2013, and the fifth series in the amount of \$54.9 million was issued in October 2014. The final series was issued in June 2016 in the amount of approximately \$25 million. In November 2011, voters approved Proposition B, which authorized the issuance of up to \$248.0 million in general obligation bonds to provide funds to repair and repave City streets and remove potholes; strengthen and seismically upgrade street structures; redesign street corridors by adding or improving pedestrian signals, lighting, sidewalk extensions, bicycle lanes, trees and landscaping; construct and renovate curb ramps and sidewalks to increase accessibility and safety for everyone, including persons with disabilities; and add and upgrade traffic signals to improve MUNI service and traffic flow. The City issued the first series of bonds under Proposition B in the amount of approximately \$74.3 million in March 2012 and the second series of bonds in the amount of \$129.6 million in June 2013. The City issued the final series in June 2016 in the amount of approximately \$109 million.

In November 2012, voters approved Proposition B, which authorized the issuance of up to \$195.0 million in general obligation bonds to provide funds for the construction, reconstruction, renovation, demolition, environmental remediation and/or improvement of park, open space, and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition B in the amount of approximately \$71.9 million in June 2013. The City issued the second series of bonds in the amount of \$43 million in January 2016.

In June 2014, voters approved Proposition A, which authorized the issuance of up to \$400.0 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement and retrofitting of neighborhood fire and police stations, emergency firefighting water system, medical examiner facility, traffic.

company & forensic services division and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds in the amount of \$100.6 million in October 2014 and the second series of bonds in the amount of \$44 million in June 2016.

In November 2014, voters approved Proposition A, which authorized the issuance of up to \$500 million in general obligation bonds to provide funds to finance the construction, acquisition and improvement of certain transportation and transit related improvements and other related costs. The City issued the first series of bonds under Proposition A in the amount of approximately \$67 million in June 2015.

In November 2015, voters approved Proposition A which authorized the issuance of up to \$310 million in general obligation bonds to provide funds to finance the construction, development, acquisition, and preservation of housing affordable to low- and middle-income households and to assist in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; to repair and reconstruct dilapidated public housing; to fund a middle-income rental program; and to provide for homeownership down payment assistance opportunities for educators and middle-income households. The City issued the first series of bonds under Proposition A in the amount of approximately \$75 million in October 2016.

In June 2016, voters approved Proposition A, which authorized the issuance of up to \$350 million in general obligation bonds to provide funds to protect public health and safety, improve community medical and mental health care services, earthquake safety, and emergency medical response; to seismically improve, and modernize neighborhood fire stations and vital public health and homeless service sites; to construct a seismically safe and improved San Francisco Fire Department ambulance deployment facility; and to pay related costs.

Refunding General Obligation Bonds

The Board of Supervisors adopted Resolution No. 272-04 on May 11, 2004 (the "2004 Resolution"). The Mayor approved the 2004 Resolution on May 13, 2004. The 2004 Resolution authorized the issuance of not to exceed \$800.0 million aggregate principal amount of its General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding all or a portion of the City's then outstanding General Obligation Bonds. On November 1, 2011, the Board of Supervisors adopted, and the Mayor approved, Resolution No. 448-11 (the "2011 Resolution," and together with the 2004 Resolution, the "Refunding Resolutions"). The 2011 Resolution authorized the issuance of not to exceed \$1.356 billion aggregate principal amount of the City's General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding certain outstanding General Obligation Bonds of the City. The City has issued eight series of refunding bonds under the Refunding Resolutions, as shown on Table A-23.

TABLE A-23

CITY AND COUNTY OF SAN FRANCISCO General Obligation Refunding Bonds As of December 31, 2016

Series Name	Date Issued	Principal Amount Issued (000s)	Amount Outstanding
2008-R1	May 2008	\$232,075,000	\$8,170,000
2008-R2	July 2008	39,320,000	11,105,000
2008-R3	July 2008	118,130,000	-
2011-R1	November 2011	339,475,000	226,920,000 ¹
2015-R1	February 2015	293,910,000	277,165,000 ²

¹ Series 2004-R1 Bonds were refunded by the 2011-R1 Bonds in November 2011

² Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015.
Series 2008-R3 Bonds were partially refunded.

Table A-24 below lists for each of the City's voter-authorized general obligation bond programs the amount originally authorized, the amount issued and outstanding, and the amount of remaining authorization for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of April 1, 2017, the City had authorized and unissued general obligation bond authority of approximately \$1.37 billion.

TABLE A-24

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds
As of April 1, 2017

<u>Description of Issue (Date of Authorization)</u>	<u>Series</u>	<u>Issued</u>	<u>Outstanding</u> ¹	<u>Authorized & Unissued</u>
Seismic Safety Loan Program (11/3/92)	2007A	\$30,315,450	\$22,765,853	
	2015A	24,000,000	24,000,000	260,684,550
Clean & Safe Neighborhood Parks (2/5/08)	2010B	24,785,000	7,510,000	
	2010D	35,645,000	35,645,000	
	2012B	73,355,000	53,215,000	
	2016A	8,695,000	8,120,000	
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	15,800,000	
	2010A	120,890,000	36,645,000	
	2010C	173,805,000	173,805,000	
	2012D	251,100,000	170,800,000	
	2014A	209,955,000	176,035,000	
Earthquake Safety and Emergency Response Bond (6/8/10)	2010E	79,520,000	45,425,000	
	2012A	183,330,000	133,965,000	
	2012E	38,265,000	32,805,000	
	2013B	31,020,000	19,065,000	
	2014C	54,950,000	46,910,000	
	2016C	25,215,000	24,110,000	
Road Repaving & Street Safety (11/8/11)	2012C	74,295,000	54,480,000	
	2013C	129,560,000	79,570,000	
	2016E	44,145,000	42,200,000	
Clean & Safe Neighborhood Parks (11/6/12)	2013A	71,970,000	44,215,000	
	2016B	43,220,000	26,345,000	79,810,000
Earthquake Safety and Emergency Response Bond (6/3/14)	2014D	100,670,000	85,920,000	
	2016D	109,595,000	81,340,000	189,735,000
Transportation and Road Improvement (11/4/15)	2015B	67,005,000	47,005,000	432,995,000
Affordable Housing Bond (11/4/15)	2016F	75,130,000	75,130,000	234,870,000
Public Health and Safety Bond (6/7/16)	2017A	173,120,000 #	173,120,000	176,880,000
SUB TOTALS		\$2,385,205,450	\$1,735,945,853	\$1,374,974,550
General Obligation Refunding Bonds:				
Series 2008-R1 issued 5/29/08		232,075,000	8,170,000	
Series 2008-R2 issued 5/29/08		39,320,000	11,105,000	
Series 2011-R1 issued 11/9/12		339,475,000	226,920,000	
Series 2015-R1 issued 2/25/15		293,910,000	277,165,000	
SUB TOTALS		904,780,000	523,360,000	
TOTALS		\$3,289,985,450	\$2,259,305,853	\$1,374,974,550

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

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

Lease Payments and Other Long-Term Obligations

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

Table A-25 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of April 1, 2017. Note that the annual payment obligations reflected in Table A-25 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

TABLE A-25

CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Bonds and Certificates of Participation
As of April 1, 2017

Fiscal Year	Principal	Interest	Annual Payment Obligation
2017	\$7,675,000	\$8,196,634	\$15,871,634
2018	62,120,000	47,767,339	109,887,339
2019	54,205,000	45,226,132	99,431,132
2020	39,565,000	43,037,463	82,602,463
2021	47,800,000	41,030,633	88,830,633
2022	47,705,000	38,955,222	86,660,222
2023	49,775,000	36,849,250	86,624,250
2024	51,440,000	34,647,044	86,087,044
2025	51,195,000	32,345,528	83,540,528
2026	51,080,000	30,082,534	81,162,534
2027	53,465,000	27,691,181	81,156,181
2028	54,160,000	25,193,263	79,353,263
2029	56,645,000	22,623,351	79,268,351
2030	56,430,000	19,952,428	76,382,428
2031	48,005,000	17,306,077	65,311,077
2032	37,320,000	14,894,708	52,214,708
2033	35,455,000	13,113,843	48,568,843
2034	37,060,000	11,353,856	48,413,856
2035	24,895,000	9,741,125	34,636,125
2036	23,315,000	8,515,394	31,830,394
2037	21,505,000	7,364,158	28,869,158
2038	22,400,000	6,281,175	28,681,175
2039	23,325,000	5,152,823	28,477,823
2040	24,305,000	3,973,519	28,278,519
2041	25,310,000	2,744,513	28,054,513
2042	18,140,000	1,629,071	19,769,071
2043	8,815,000	958,600	9,773,600
2044	7,195,000	587,000	7,782,000
2045	7,480,000	299,200	7,779,200
TOTAL ¹	\$1,047,785,000	\$557,513,064 ²	\$1,605,298,064

¹ Totals reflect rounding to nearest dollar.

² For purposes of this table, the interest rate on the Lease Revenue Bonds Series 2008-1, and 2008-2 (Moscone Center Expansion Project) is assumed to be 3.25%. These bonds are in variable rate mode.

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

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

In 1987, voters approved Proposition B, which authorizes the City to lease finance (without limitation as to maximum aggregate par amount) the construction of new parking facilities, including garages and surface lots, in eight of the City's neighborhoods. In July 2000, the City issued \$8.2 million in lease revenue bonds to finance the construction of the North Beach Parking Garage, which was opened in February 2002. There is no current plan to issue any more bonds under Proposition B.

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of April 1, 2017 the total authorized amount for such financings was \$67.7 million. The total principal amount outstanding as of April 1, 2017 was \$2.00 million.

In 1994, voters approved Proposition B, which authorized the issuance of up to \$60.0 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued \$22.6 million and \$23.3 million of Proposition B lease revenue bonds, respectively, leaving \$14.0 million in remaining authorization. There is no current plan to issue additional series of bonds under Proposition B.

In June 1997, voters approved Proposition D, which authorized the issuance of up to \$100.0 million in lease revenue bonds for the construction of a new football stadium at Candlestick Park, the previous home of the San Francisco 49ers football team. If issued, the \$100.0 million of lease revenue bonds would be the City's contribution toward the total cost of the stadium project and the 49ers would be responsible for paying the remaining cost of the stadium construction project. There is no current plan to issue the Proposition D bonds.

On March 7, 2000, voters approved Proposition C, which extended a two and one half cent per \$100.0 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the "Open Space Fund"). Proposition C also authorizes the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. The City issued approximately \$27.0 million and \$42.4 million of such Open Space Fund lease revenue bonds in October 2006 and October 2007, respectively.

In November 2007, voters approved Proposition D, which amended the Charter and renewed the Library Preservation Fund. Proposition D continues the two and one half cent per \$100.0 in assessed valuation property tax set-aside and establishes a minimum level of City appropriations, moneys that are maintained in the Library Preservation Fund. Proposition D also authorizes the issuance of revenue bonds or other evidences of indebtedness. The City issued the first series of lease revenue bonds in the amount of approximately \$34.3 million in March 2009.

Commercial Paper Program

The Board authorized on March 17, 2009 and the Mayor approved on March 24, 2009 the establishment of a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "CP Program"). Commercial Paper Notes (the "CP Notes") are issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles in anticipation of long-term or other take-out financing to be issued when market conditions are favorable. Projects are eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project. The former Series 1 and 1-T and Series 2 and 2-T letters of credit issued in 2010 by J.P. Morgan Chase Bank, N.A. and U.S. Bank, N.A. expired in June 2016. In May 2016, the City obtained renewal credit facilities securing the CP Notes issued by State Street Bank and Trust Company with a maximum principal amount of \$75 million and by U.S. Bank, N.A. with a maximum principal amount of \$75 million. The renewal credit facilities will expire in May 2021.

The Board authorized on July 16, 2013 and the Mayor approved on July 25, 2013 an additional \$100.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 3 and 3-T and Series 4 and 4-T that increases the total authorization of the CP Program to \$250.0 million. The Series 3 and 3-T and 4 and 4-T are secured by a letter of credit issued by State Street Bank and Trust Company expiring February 2019.

As of March 6, 2017, the outstanding principal amount of CP Notes is \$218.8 million. The weighted average interest rate for CP Notes is approximately 0.77%.

Board Authorized and Unissued Long-Term Obligations

The Board of Supervisors authorized on October 26, 2010 and the Mayor approved on November 5, 2010 the issuance of not to exceed \$38 million in City and County of San Francisco certificates of participation to partially finance the rebuilding of severely distressed public housing sites, while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (the HOPE SF Project). The City anticipates issuing the certificates in the Summer of 2017.

The Board of Supervisors authorized on February 12, 2013 and the Mayor approved on February 15, 2013 the issuance of not to exceed \$507.9 million of City and County of San Francisco Certificates of Participation (Moscone Expansion Project) payable from Moscone Expansion District assessments to finance the costs of additions and improvements to the George R. Moscone Convention Center. The City anticipates issuing the certificates in 2017.

The Board of Supervisors authorized October 8, 2013 and the Mayor approved October 11, 2013 the issuance of not to exceed \$13.5 million of City and County of San Francisco Certificates of Participation (Treasure Island Improvement Project) to finance the cost of additions and improvements to the utility infrastructure at Treasure Island.

Overlapping Debt

Table A-26 shows bonded debt and long-term obligations as of April 1, 2017 sold in the public capital markets by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

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TABLE A-26

CITY AND COUNTY OF SAN FRANCISCO
Statement of Direct and Overlapping Debt and Long-Term Obligations

<u>2016-2017 Assessed Valuation</u> (net of non-reimbursable & homeowner exemptions):		\$211,532,524,208
	Outstanding	
	4/1/2017	
<u>DIRECT GENERAL OBLIGATION BOND DEBT</u>		\$2,259,305,853
General City Purposes Carried on the Tax Roll		\$2,259,305,853
GROSS DIRECT DEBT		\$2,259,305,853
<u>DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS</u>		
San Francisco COPs, Series 2001A (30 Van Ness Ave. Property)		\$24,770,000
San Francisco Finance Corporation, Equipment LRBs Series 2011A, 2012A, and 2013A		2,005,000
San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1		9,975,000
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2		99,620,000
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007		47,000,000
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A		28,045,000
San Francisco COPs, Series 2007A (City Office Buildings - Multiple Properties)		2,295,000
San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital)		125,570,000
San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project)		31,190,000
San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt		23,240,000
San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs		129,550,000
San Francisco Refunding Certificates of Participation, Series 2010A		105,045,000
San Francisco COPs, Refunding Series 2011AB (Moscone)		40,390,000
San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project)		36,815,000
San Francisco COPs, Series 2013A Moscone Center Improvement		7,750,000
San Francisco COPs, Series 2013BC Port Facilities		32,275,000
San Francisco COPs, Series 2014-R1 (Courthouse Project), 2014-R2 (Juvenile Hall Project)		38,350,000
San Francisco COPs, Series 2015AB War Memorial Veterans Building Seismic Upgrade and Improvements		127,810,000
San Francisco Refunding COPs, Series 2015-R1 (City Office Buildings-Multiple Properties Project)		120,920,000
San Francisco COPs, Series 2016A War Memorial Veterans Building Seismic Upgrade and Improvements		15,170,000
LONG-TERM OBLIGATIONS		\$1,047,785,000
GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS		\$3,307,090,853
<u>OVERLAPPING DEBT & LONG-TERM OBLIGATIONS</u>		
Bayshore Hester Assessment District		\$550,000
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds		77,490,000
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B		102,494,000
San Francisco Community College District General Obligation Bonds - Election of 2001, 2005		262,945,000
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 2011		34,260,000
San Francisco Redevelopment Agency Obligations (Property Tax Increment)		760,367,853
San Francisco Redevelopment Agency Obligations (Special Tax Bonds)		151,301,115
Association of Bay Area Governments Obligations (Special Tax Bonds)		18,140,000
Special Tax District No. 2009-1 Improvement Area 1, 2 SF Sustainable Financing		2,999,392
San Francisco Unified School District General Obligation Bonds, Series Election of 2003, 2006, and 2011		916,490,000
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS		\$2,327,037,360
GROSS COMBINED TOTAL OBLIGATIONS		\$5,634,128,213
<u>Ratios to Assessed Valuation:</u>	<u>Actual Ratio</u>	<u>Charter Req.</u>
Gross Direct Debt (General Obligation Bonds)	1.07%	< 3.00%
Gross Direct Debt & Long-Term Obligations	1.56%	n/a
Gross Combined Total Obligations	2.66%	n/a

¹ Excludes revenue and mortgage revenue bonds and non-bonded third party financing lease obligations. Also excludes tax allocation bonds sold in August, 2009.

² Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all taxable real and personal property, located within the City and County.

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

On November 4, 2003, voters approved Proposition A. Proposition A of 2003 authorized the SFUSD to issue up to \$295.0 million of general obligation bonds to repair and rehabilitate school facilities, and various other improvements. The SFUSD issued \$58.0 million of such authorization in October 2004, \$130.0 million in October 2005, and \$92.0 million in October 2006, leaving \$15.0 million authorized but unissued. In March 2012, the SFUSD issued \$116.1 million in refunding general obligation bonds that refunded \$137.4 million in general obligation bonds authorized under Proposition A of 2003.

On November 2, 2004, voters approved Proposition AA. Proposition AA authorized the San Francisco BART to issue general obligation bonds in one or more series over time in an aggregate principal amount not to exceed \$980.0 million to strengthen tunnels, bridges, overhead tracks and the underwater Transbay Tube for BART facilities in Alameda and Contra Costa counties and the City. Of the \$980.0 million, the portion payable from the levy of *ad valorem* taxes on property within the City is approximately 29.0% or \$282.0 million. Of such authorization, BART issued \$100.0 million in May 2005 and \$400.0 million in July 2007, of which the allocable City portion is approximately \$29.0 million and \$116.0 million, respectively.

On November 7, 2006, voters approved Proposition A. Proposition A of 2006 authorized the SFUSD to issue an aggregate principal amount not to exceed \$450.0 million of general obligation bonds to modernize and repair up to 64 additional school facilities and various other improvements. The SFUSD issued the first series in the aggregate principal amount of \$100 million under the Proposition A authorization in February 2007. The SFUSD issued the second series in the aggregate principal amount of \$150.0 million under the Proposition A authorization in January 2009. The SFUSD issued the third series in the aggregate principal amount of \$185.0 million under the Proposition A authorization in May 2010.

On November 8, 2011, voters approved Proposition A. Proposition A of 2011 authorized the SFUSD to issue an aggregate principal amount not to exceed \$531.0 million of general obligation bonds to repair and rehabilitate school facilities to current accessibility, health, safety, and instructional standards, and where applicable, replace worn-out plumbing, electrical and other major building systems, replace aging heating, ventilation and air handling systems, renovate outdated classrooms and training facilities, construct facilities to replace aging modular classrooms. The SFUSD issued the first series in the aggregate principal amount of \$115.0 million under the Proposition A of 2011 authorization in March 2012.

MAJOR ECONOMIC DEVELOPMENT PROJECTS

Numerous development and construction projects are in progress throughout the City at any given time. This section describes several of the most significant privately owned and managed real estate developments currently under way in the City in which there is City participation, generally in the form of a public/private partnership. The information in this section has been prepared by the City based on City-approved plans as well as unofficial plans and representations of the developer in each case, and includes forward-looking statements. These forward-looking statements consist of expressions of opinion, estimates, predictions, projections, plans and the like; such forward-looking statements in this section are those of the developers and not of the City. The City makes no prediction, representation or assurance that the plans and projects described will actually be accomplished, or the time frame in which the developments will be completed, or as to the financial impact on City real estate taxes, developer fees, other tax and fee income, employment, retail or real estate activity, or other consequences that might be expected or projected to result from the successful completion of each development project. Completion of development in each case may depend on the local economy, the real estate market, the financial health of the developer and others involved in the project, specific features of each development and its attractiveness to buyers, tenants and others, as well as the financial health of such buyers, tenants, and others. Completion and success of each development will also likely depend on other factors unknown to the City.

Hunters Point Shipyard (Phase 1 and 2) and Candlestick Point

The Hunters Point Shipyard Phase 1 and 2 and Candlestick Point project area will deliver approximately 12,100 new homes, approximately 32 percent of which will be below market rate and will include the rebuilding of the Alice Griffith public housing development consistent with the City's HOPE SF program, up to 3 million square feet of research and development space, and more than 350 acres of new parks in the southeast portion of San Francisco (the "Project"). In total, the Project will generate over \$6 billion of new economic activity to the City, more than 12,000 permanent jobs, hundreds of new construction jobs each year, new community facilities, new transit

infrastructure, and provide approximately \$90 million in community benefits. The Project's full build out will occur over 20 to 30 years. In the next five years over 1,000 units of housing and 26 acres of parks will be completed in the first phase of the Shipyard.

The first phase of development has begun at the Hunters Point Shipyard site with approximately 200 completed units and an additional 350 units currently under construction, and an additional 230 units will begin construction in 2017. On Candlestick Point, 306 housing units are under construction which includes a mix of public housing replacement and new, affordable units. In 2016, horizontal infrastructure construction commenced, which will support up to 1,710 units of housing, including 290 stand-alone affordable units and up to 145 inclusionary units, a 635,000 square foot mixed-use retail center, 220-room hotel, and a community facilities parcel. Two hillside open space areas at the base of Bayview Hill will be improved and a new wedge park and plaza will also be constructed, adding a total of 8.6 acres of open space adjacent to the new retail and residential development.

Treasure Island

Former Naval Station Treasure Island is located in the San Francisco Bay and connected to the City by the San Francisco-Oakland Bay Bridge. The former base, which ceased operations in 1997, consists of approximately 405 acres on Treasure Island and 90 acres on adjoining Yerba Buena Island. Development plans for the islands include up to 8,000 new homes, 25% of which will be offered at below-market rates; up to 500 hotel rooms; a 400 slip marina; restaurants; retail and entertainment venues; and a world-class 300-acre parks and open space system. The compact mixed-use transit-oriented development is centered around a new ferry terminal connecting the island to downtown San Francisco and is designed to prioritize walking, biking and public transit. The development plans include green building standards and best practices in low-impact development.

The first major land transfer from the Navy to the Treasure Island Development Authority ("TIDA") will occur in early 2015 and will include the northern half of Yerba Buena Island and more than half of the area of Treasure Island. The developer, Treasure Island Community Development ("TICD"), is performing the preliminary engineering and pursuing the permits required to begin construction before the end of 2015. The first phase of development will include extensive horizontal infrastructure improvements (utilities, roadway improvements, site preparation, etc.) as well as the initial vertical developments. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

Mission Bay Blocks 29-32—Warriors Multipurpose Recreation and Entertainment Venue

The Golden State Warriors, a National Basketball Association team, is developing a multipurpose recreation and entertainment venue and associated development in Mission Bay. The site is bordered by Third Street to the West, Terry Francois Boulevard to the East, 16th Street to the South and South Street to the North. The Warriors project includes a state-of-the-art multi-purpose recreation and entertainment venue for Warriors' home games, concerts and family shows. The site will also have, restaurants retail, office space, bike valet, public plazas and a limited amount of parking, and trigger the construction of a new 5 acre Bay Front Park between the new event center and the Bay. Environmental review has been completed for the site, and was upheld in a November 2016 decision. The project began construction in January 2017 and the event center will open in time for the 2019-2020 basketball season.

Transbay

The Transbay Project Redevelopment Project Area was adopted in 2005 with the purpose of redeveloping 10 acres of property owned by the State in order to generate funding for the new Transbay Transit Center. In 2012 the Transit Center District Plan, the guiding document for the area surrounding the Transit Center, was approved by the Planning Commission and by the Board of Supervisors. The Transit Center District Plan includes additional funding sources for the Transbay Transit Center. The Transbay Transit Center Project will replace the outdated Transbay Terminal at First and Mission Streets with a modern transit hub and extend the Caltrain commuter rail line underground 1.3 miles into the Financial District. The Transbay Transit Center broke ground on August 11, 2010, and is scheduled to open by the end of 2017. Demolition of existing structures on the site was completed in August 2011.

The 10 acres of property formerly owned by the State surrounding the Transbay Transit Center is being redeveloped with plans for 3,300 new homes, 1,400 to be affordable below-market rate homes, over 2 million square feet of new

office space, over 9 acres of new parks and open space, and a new retail boulevard on Folsom Street. Recently completed in the neighborhood is Rene Cazenave Apartments which is 120 units of permanent affordable housing for formerly homeless individuals, and Solaire, which consists of 479 residential units of which 70 units are affordable. There are over 1,200 units currently under construction on Folsom Street, 767,000 square feet of office space under construction at Howard and Beale Streets, and 1.4 million square feet of office space under construction at Mission and First Streets. In addition, a new construction projects along Folsom Street totaling 391 units is expected to break ground in early 2017.

The Pelli Clarke Pelli Architects-designed Transit Center will serve more than 100,000 people per day through nine transportation systems, including future California High Speed Rail, which will be designed to connect San Francisco to Los Angeles in less than 2-1/2 hours. The Center is designed to embrace the goals of green architecture and sustainability. The heart of the Transbay Transit Center, "City Park," a 5.4-acre public park that will sit atop the facility, and there will be a living green roof for the transit facility. The Center will have a LEED rating of Silver. The project is estimated to create more than 48,000 jobs in its first phase of construction, which will last seven years. The \$4.5 billion Transbay Transit Center Project is funded by various public and private funding partners, including the federal government, the State, the Metropolitan Transportation Commission, the San Francisco County and San Mateo County Transportation Authorities, and AC Transit, among others.

Mission Bay

The development plans for Mission Bay include a new University of California-San Francisco ("UCSF") research campus containing 3.15 million square feet of building space on 46 acres of land, of which 43 acres were donated by the Mission Bay Master Developer and the City; UCSF's 550-bed hospital; 3.4 million square feet of biotech, 'cleantech' and health care office space; 6,400 housing units, with 1,850 (29%) affordable to moderate-, low-, and very low-income households; 425,000 square feet of retail space; a 250-room hotel with up to 25,000 square feet of retail entertainment uses; 49 acres of public open space, including parks along Mission Creek and San Francisco Bay and eight acres of open space within the UCSF campus; a new 500-student public school; and a new fire and police station and police headquarters. Mission Bay is approximately 50% complete.

Over 4,067 units have been completed with an additional 900 units under construction, along with several new parks. Another 550 housing units, a 250-room hotel and several new commercial buildings will break ground in 2015. As discussed above, the design-development process has also begun for that Golden State Warriors project.

Seawall Lot (SWL) 337 and Pier 48 (Mission Rock)

Mission Rock is a proposed mixed-use development at Seawall Lot 337 and Pier 48, Port-owned property comprising approximately 25 acres. The Port, OEWD in its capacity as lead negotiator, and Mission Rock's competitively-selected master developer, Seawall Lot 337 Associates, LLC, have agreed on a development concept and corresponding financial terms for Mission Rock, which are reflected in a non-binding Term Sheet that the Port Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following environmental review.

The proposed development plan for Mission Rock set forth in the term sheet includes: approximately 8 acres of public parks and open spaces, including a 5-acre regional waterfront park; 650 to 1,500 new housing units, 15 percent of which will be affordable to low-income households; 1.3 to 1.7 million square feet of commercial space; 150,000 to 250,000 square feet of retail space, approximately 3,000 parking spaces within mixed-use buildings and a dedicated parking structure, which will serve San Francisco Giants baseball team patrons as well as Mission Rock occupants and visitors; and the rehabilitation and reuse of historic Pier 48 as a new brewery/distillery for Anchor Steam Brewing Company.

In the wake of the passage of Proposition B on the June 2013 ballot, the developer, Port and OEWD staff have continued to engage relevant agencies and stakeholders to further refine the project plan. The environmental review process was initiated in January 2014 and is expected to last until mid-2017. That process will be accompanied by negotiation of transaction agreements and approval of any needed height limit and zoning changes.

Pier 70

Plans for Pier 70 call for substantial development, including major parks and historic building rehabilitation, on this 69-acre site to achieve a number of goals, including preservation and adaptive reuse of historic structures; retention of the ship repair operations; provision of new open space; reactivation and economic development on the site; and needed infrastructure and site remediation. The Port, which controls Pier 70, and OEWD, in its capacity as lead negotiator, have initiated preliminary negotiations with Forest City, the developer selected to build a new mixed-use neighborhood on a 28-acre portion of Pier 70 known as the Waterfront Site. The parties have agreed on a development concept and corresponding financial terms for the Waterfront Site, which are reflected in a non-binding Term Sheet that the Port Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following community and environmental review. In November 2014, Proposition F was approved by the voters, authorizing an increase of height limits on Pier 70 from 40 feet to 90 feet.

Current development plans for the Pier 70 Waterfront Site call for 7 acres of parks and up to 3.25 million square feet of above-grade construction (not including parking) which may include up to 1.7 million square feet of office space; up to 400,000 square feet of retail, small-scale production, arts space intended to establish the new district as destination with unique character; and approximately 1600 housing units, with 30% percent of them made available to low- and middle- income households. This built area includes three historic industrial buildings that will be rehabilitated as part of the Waterfront Site development. Conclusion of the environmental review process, transaction agreements and planning approval are expected in mid-2017.

Moscone Convention Center

The Moscone Center Expansion Project will add approximately 300,000 square feet and repurpose an additional 120,000 square feet to the portion of the existing Moscone Center located on Howard Street between 3rd and 4th Streets in the Yerba Buena Gardens neighborhood of San Francisco. Nearly 140,000 square feet of this additional space would be created by excavating and expanding the existing below-grade exhibition halls that connect the Moscone North and South buildings under Howard Street, with the remaining consisting of new and repurposed lobby area, new multi-purpose/meeting room area, and new and repurposed building support area.

In addition to adding new rentable square footage, the project architects propose an iconic sense of arrival that enhances Moscone's civic presence on Howard Street and reconnects it to the surrounding neighborhood through the creation of reintroduced lost mid-block passageways. As such, the project proposes a new mid-block pedestrian entrance from Third St and a replacement pedestrian bridge connecting Yerba Buena Gardens with the cultural facilities and children's playground to the south. An additional enclosed pedestrian bridge would provide enhanced circulation for Moscone convention attendees and reduce on-street congestion.

A May 2012 analysis by Jones Lang Lasalle Hotels estimated that the City would lose up to \$2 billion in foregone revenue over the next decade if Moscone was not expanded. The project allows the City to recover approximately \$734 million of this future revenue and create 3,480 local jobs through a phased construction schedule that keeps Moscone in continuous revenue generating operation.

The proposed project is a joint partnership between the City and the hotel industry, acting through the Tourist Improvement District Management Corporation, with the City paying approximately one-third of all expansion costs and the hotel community paying approximately two-thirds. The Board of Supervisors unanimously approved the creation of the Moscone Expansion District and the issuance of \$507 million in Certificates of Participation on February 5, 2013 and the Planning Commission unanimously approved the project on August 15, 2014. Project development began in December 2012, with major construction starting in November 2014. The project is expected to reach completion by the end of 2018.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

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

sources, in the future. However, *ad valorem* property taxes required to be levied to pay debt service on general obligation bonds was authorized and approved in accordance with all applicable constitutional limitations. A summary of the currently effective limitations is set forth below.

Article XIII A of the California Constitution

Article XIII A of the California Constitution, known as "Proposition 13," was approved by the California voters in June of 1978. It limits the amount of *ad valorem* tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when "purchased, newly constructed or a change in ownership has occurred" (as such terms are used in Article XIII A) after the 1975 assessment. Furthermore, all real property valuation may be increased or decreased to reflect the inflation rate, as shown by the CPI or comparable data, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on 1) indebtedness approved by the voters prior to July 1, 1978, 2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or 3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district voting on the proposition, but only if certain accountability measures are included in the proposition.

The California Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher or lower than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate persons with disabilities and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII B of the California Constitution

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

Articles XIII C and XIII D of the California Constitution

Proposition 218, an initiative constitutional amendment, approved by the voters of the State in 1996, added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments, including charter cities such as the City, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 does not affect the levy and collection of taxes for voter-approved debt. However, Proposition 218 affects the City's finances in other ways. Article XIII C requires that all new local taxes be submitted to the electorate for approval before such taxes become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes require a two-thirds vote. Under Proposition 218, the City can only continue to collect

taxes that were imposed after January 1, 1995 if voters subsequently approved such taxes by November 6, 1998. All of the City's local taxes subject to such approval have been either reauthorized in accordance with Proposition 218 or discontinued. The voter approval requirements of Article XIII C reduce the City's flexibility to manage fiscal problems through new, extended or increased taxes. No assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

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

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

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

Statutory Limitations

On November 4, 1986, California voters adopted Proposition 62, an initiative statute that, among other things, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the local governmental entity's legislative body and by a majority vote of the voters, and (ii) that any new or increased special purpose tax be approved by a two-thirds vote of the voters.

In *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara* decision"), the California Supreme Court upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a "special tax" as required by Proposition 62. The *Santa Clara* decision did not address the question of whether it should be applied retroactively. In *McBrearty v. City of Brawley*, 59 Cal. App. 4th 1441 (1997), the Court of Appeal, Fourth District, concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

The *Santa Clara* decision also did not decide, and the California Supreme Court has not otherwise decided, whether Proposition 62 applies to charter cities. The City is a charter city. Cases decided by the California Courts of Appeal have held that the voter approval requirements of Proposition 62 do not apply to certain taxes imposed by charter cities. See *Fielder v. City of Los Angeles*, 14 Cal. App. 4th 137 (1993) and *Fisher v. County of Alameda*, 20 Cal. App. 4th 120 (1993).

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since it is a statute, it is subordinate to the authority of charter cities to impose taxes derived from the State Constitution. Proposition 218 (discussed above), however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution.

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure under Proposition 62 may not be significant. The effective date of Proposition 62 was November 1986. Proposition 62 contains provisions that apply to taxes imposed on or after August 1, 1985. Since August 1, 1985, the City has collected taxes on businesses, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rentals. See "OTHER CITY TAX REVENUES" herein. Only the hotel and stadium admissions taxes have been increased since that date. The increases in these taxes were ratified by the voters on November 3, 1998 pursuant to the requirements of Proposition 218. With the exception of the vehicle rental tax, the City continues to collect all of the taxes listed above. Since these remaining taxes were adopted prior to August 1, 1985, and have not been increased, these taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city.

Proposition 1A

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

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

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

Proposition 22

Proposition 22 ("Proposition 22") which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase a school and community college district's share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. Proposition 22 prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies (but see "San Francisco Redevelopment Agency Dissolution" above). While Proposition 22 will not change overall State and local government costs or revenues by the express terms thereof, it will cause the State to adopt alternative actions to address its fiscal and policy objectives.

Due to the prohibition with respect to the State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However,

borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

Proposition 26

On November 2, 2010, the voters approved Proposition 26 ("Proposition 26"), revising certain provisions of Articles XIII A and XIII C of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes, requires local governments to obtain two-thirds voter approval for taxes levied by local governments, and requires the State to obtain the approval of two-thirds of both houses of the State Legislature to approve State laws that increase taxes. Furthermore, pursuant to Proposition 26, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require a two-thirds vote. In addition, for State-imposed charges, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a "tax" means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law, including late payment fees, fees imposed under administrative citation ordinances, parking violations, etc.; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218. Fees, charges and payments that are made pursuant to a voluntary contract that are not "imposed by a local government" are not considered taxes and are not covered by Proposition 26.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of property owners.

Future Initiatives and Changes in Law

The laws and Constitutional provisions described above were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

On April 25, 2013, the California Supreme Court in *McWilliams v. City of Long Beach* (April 25, 2013, No. S202037), held that the claims provisions of the Government Claims Act (Government Code Section 900 *et. seq.*) govern local tax and fee refund actions (absent another State statute governing the issue), and that local ordinances were without effect. The effect of the *McWilliams* case is that local governments could face class actions over disputes involving taxes and fees. Such cases could expose local governments to significant refund claims in the

future. The City cannot predict whether any such class claims will be filed against it in the future, the outcome of any such claim or its impact on the City.

LITIGATION AND RISK MANAGEMENT

Pending Litigation

There are a number of lawsuits and claims routinely pending against the City, including those summarized in Note 16 to the City's CAFR as of June 30, 2016, attached as Appendix B to this Official Statement. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not materially impair the ability of the City to pay debt service on the Certificates, its General Fund lease or other debt obligations, nor materially impair the City's ability to fund current operations.

Millennium Tower is a 58-story luxury residential building completed in 2009 and located at 301 Mission Street in downtown San Francisco. On August 17, 2016, owners of condominiums in Millennium Tower filed a lawsuit (the "Lehman Lawsuit") against the Transbay Joint Powers Authority ("TJPA") and the individual members of the TJPA, including the City. The TJPA is a joint exercise of powers authority created by the City, the Alameda-Contra Costa Transit District, the Peninsula Corridor Joint Powers Board, and Caltrans (ex officio). The TJPA is responsible under State law for developing the Transbay Transit Center, which will be a new regional transit hub located near the Millennium Tower. See "MAJOR ECONOMIC DEVELOPMENT PROJECTS—Transbay".

The TJPA began excavation and construction of the Transbay Transit Center in 2010, after the Millennium Tower was completed. In brief, the Lawsuit claims that the construction of the Transbay Transit Center harmed the Millennium Tower by causing it to settle into the soil more than planned and tilt toward the west/northwest, and the owners claim unspecified monetary damages for inverse condemnation and nuisance. The TJPA has said that the Millennium Tower was already sinking more than planned and tilting before the TJPA began construction of the Transbay Transit Center and that the TJPA took precautionary efforts to avoid exacerbating the situation. The City expects that other lawsuits will be filed against the TJPA relating to the subsidence and tilting of the Millennium Tower. Since the Lehman Lawsuit, the City has been named as a defendant in one other lawsuit related to the Millennium Tower, the *Buttery* lawsuit. The *Buttery* suit alleges that the City failed to inform buyers of various conditions of the Millennium Tower property. The City continues to evaluate the lawsuits, and the subject matter of the lawsuits, but cannot now make any prediction as to the outcome of the lawsuits, or whether the lawsuits, if determined adversely to the TJPA or the City, would have a material adverse impact on City finances.

Risk Retention Program

Citywide risk management is coordinated by the Office of Risk Management Division within the City's General Services Agency, which is under the supervision of the City Administrator. With certain exceptions, it is the general policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed but rather to first evaluate self-insurance for such risks. The City's policy in this regard is based on its analysis that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing covenants and for other limited purposes. The City actuarially determines liability and workers' compensation risk exposures as permitted under State law. The City does not maintain commercial earthquake coverage, with certain minor exceptions.

The City's property risk management approach varies depending on various factors including whether the facility is currently under construction or if the property is owned by a self-supporting enterprise fund department. For new construction projects, the City has utilized traditional insurance, owner-controlled insurance programs or contractor-controlled insurance programs. Under the latter two approaches, the insurance program provides coverage for the entire construction project. When a traditional insurance program is used, the City requires each contractor to provide its own insurance, while ensuring that the full scope of work be covered with satisfactory levels to limit the City's risk exposure. The majority of the City's commercial insurance coverage is purchased for enterprise fund departments and other similar revenue-generating departments (the Airport, MTA, the SF Public Utilities Commission, the Port and Convention Facilities, etc.). The remainder of the commercial insurance coverage is for General Fund departments that are required to provide coverage for bond-financed facilities, coverage for

collections at City-owned museums and to meet statutory requirements for bonding of various public officials, and other limited purposes where required by contract or other agreement.

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

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

The City's estimated liability and workers' compensation risk exposures are summarized in Note 16 to the City's CAFR, attached to this Official Statement as Appendix B.

President, District 5
BOARD of SUPERVISORS



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COB/Depoties,
Dep. City Atty. Mayors
office

London Breed

PRESIDENTIAL ACTION

Date: 4/27/2017
To: Angela Calvillo, Clerk of the Board of Supervisors

RECORDED
BOARD OF SUPERVISORS
SAN FRANCISCO
2017 APR 28 FRI 12:50
BY: [Signature]

Madam Clerk,
Pursuant to Board Rules, I am hereby:

Waiving 30-Day Rule (Board Rule No. 3.23)

File No. 170468 Mayor
(Primary Sponsor)

Title. Ordinance authorizing the execution and delivery of Certificates of Participation on a tax-exempt or taxable basis evidencing and

Transferring (Board Rule No 3.3)

File No. _____
(Primary Sponsor)

Title.

From: _____ Committee

To: _____ Committee

Assigning Temporary Committee Appointment (Board Rule No. 3.1)

Supervisor _____

Replacing Supervisor _____

For: _____ Meeting
(Date) (Committee)


[Signature of London Breed]

London Breed, President

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: *EW* Mayor Edwin M. Lee 
RE: Ordinance Authorizing Certificates of Participation—1500 Mission
Project—Not to Exceed \$321,765,000
DATE: April 25, 2017

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO
2017 APR 25 PM 3:11
BY *[initials]*

Attached for introduction to the Board of Supervisors is an ordinance authorizing the execution and delivery of Certificates of Participation on a tax-exempt or taxable basis evidencing and representing an aggregate principal amount of not to exceed \$321,765,000 to fund a portion of the development costs, including construction and improvement, and related FF&E (furniture, fixture, or other equipment), technology, and moving costs for the 1500 Mission office building; authorizing the issuance of commercial paper notes in advance of the delivery of the Certificates; approving the form of Trust Agreement between the City and County of San Francisco and the Trustee (including certain indemnities contained therein); authorizing the selection of the Trustee by the Director of Public Finance; approving respective forms of a Property Lease and a Lease Agreement, each between the City and the Trustee for the lease and lease back of certain property and facilities of the City; approving the forms of Purchase Contract, Official Notice of Sale, and Notice of Intention to Sell Certificates; directing the publication of the Notice of Intention to Sell Certificates; approving the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of the Certificates; approving the form of the Continuing Disclosure Certificate; granting general authority to City officials to take necessary actions in connection with the authorization, execution, sale and delivery of the Certificates; approving modifications to documents and agreements; declaring the City's intent to reimburse certain expenditures; and ratifying previous actions taken in connection therewith.

I respectfully request a waiver of the 30-day hold and that this item be heard in Budget & Finance Committee on May 11, 2017.

Should you have any questions, please contact Mawuli Tugbenyoh (415) 554-5168.