

File No. 200615

Committee Item No. 13

Board Item No. 16

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date June 24, 2020

Board of Supervisors Meeting

Date June 30, 2020

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | Legislative Digest |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Budget and Legislative Analyst Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Youth Commission Report |
| <input type="checkbox"/> | <input type="checkbox"/> | Introduction Form |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/> | <input type="checkbox"/> | MOU |
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| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Appendix A |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Draft City Continuing Disclosure Certificate |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Draft Preliminary Official Statement |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | General Plan Referral - April 1, 2020 |
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | PowerPoint Presentation - June 24, 2020 |
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Completed by: Linda Wong

Date June 19, 2020

Completed by: Linda Wong

Date June 25, 2020

1 [Lease Agreement and Sublease Agreement - 833 Bryant, L.P. - 833 Bryant Street -
2 Permanent Supportive Housing - Annual Rent Not to Exceed \$2,014,800]

3 **Resolution approving a building Lease Agreement and Sublease Agreement each by**
4 **and between the City and 833 Bryant, L.P., a California limited partnership as the**
5 **developer and housing provider (“Housing Provider”) to provide permanent supportive**
6 **housing units for chronically homeless households in San Francisco (as referred**
7 **through the City’s Coordinated Entry System) through the lease and concurrent**
8 **sublease of a building consisting of 145 units, one manager’s unit, approximately 650**
9 **square feet of commercial space, and ancillary program space located at 833 Bryant**
10 **Street, for an initial 30-year term, with an extension of up to 10 years in the event of the**
11 **occurrence of certain rent abatement events, subject to and will commence after**
12 **Housing Provider’s satisfaction in the event of the occurrence of certain conditions**
13 **described below, securing a temporary certificate of occupancy from the San**
14 **Francisco Department of Building Inspection, anticipated in August 2021, at a not to**
15 **exceed rent of \$2,014,800 annually; authorizing the execution of a Continuing**
16 **Disclosure Certificate with respect to any bonds issued by the Housing Provider;**
17 **finding the proposed transaction is in conformance with the General Plan, and the**
18 **eight priority policies of Planning Code, Section 101.1; and adopting California**
19 **Environmental Quality Act findings.**

20
21 WHEREAS, The mission of the Department of Homelessness and Supportive Housing
22 ("HSH") is to prevent homelessness and to make homelessness rare, brief and one time in
23 San Francisco through the provision of coordinated, compassionate, and high-quality
24 services; and
25

1 WHEREAS, HSH published in 2019 a Five-Year Strategic Framework Update and
2 Implementation Plan that set forth the goal of reducing chronic homelessness by 50% by
3 December 2022; and

4 WHEREAS, The creation of permanent supportive housing units is essential to
5 achieving the goal of reducing chronic homelessness by providing permanent exits from
6 homelessness; and

7 WHEREAS, Mercy Housing California formed the Housing Provider for the purpose of
8 developing a building consisting of 145 permanent supportive housing units, one manager's
9 unit, approximately 650 square feet of commercial space, and ancillary program space
10 ("Project") located at 833 Bryant Street, in the City ("Property"); and

11 WHEREAS, The Housing Provider has entered into a long term ground lease of the
12 Property with San Francisco Homes for the Homeless No. 1 LLC ("Land Owner") for a term of
13 up to 99 years; and

14 WHEREAS, The Housing Provider sought and received private acquisition,
15 predevelopment and construction financing for the development of the Project, with the goal of
16 delivering 145 permanent supportive housing units quickly and cost-effectively to help meet
17 the City's goals; and

18 WHEREAS, HSH and the Director of Property have negotiated a Lease Agreement of
19 the Project substantially in the form on file with the Clerk of the Board of Supervisors in File
20 No. 200615 ("Lease Agreement"), pursuant to which City will lease the building from the
21 Housing Provider to provide permanent supportive housing at an annual rent of not more than
22 \$2,014,800 ("Annual Rent"), which is \$1,150 per unit per month and \$30.50 per square foot
23 per year, for an initial term of up to 30 years (subject to extension of up to 10 additional years
24 for certain rent abatement events) commencing when the Project is ready for occupancy
25 (anticipated in August 2021); and

1 WHEREAS, The Project provides newly constructed units (rather than older,
2 rehabilitated units), high-quality ancillary program space, and an option and first right of
3 refusal for the City to acquire a fee interest in the land upon any proposed land transfer or at
4 the maturity of the lease term, whichever may come first, thus ensuring permanent
5 affordability for the Project; and

6 WHEREAS, In consideration of those factors, the Director of Property has determined
7 that the Annual Rent payable by City is at or below fair market rent; and

8 WHEREAS, In order to provide for the day-to-day operation of the Project by the
9 Housing Provider, HSH and the Director of Property have negotiated and approved a
10 Sublease Agreement of the Project substantially in the form on file with the Clerk of the Board
11 of Supervisors in File No. 200615 (“Sublease Agreement”), pursuant to which the City will
12 lease the Project back to the Housing Provider for a term of up to 30 years commencing
13 concurrently with the Lease Agreement at a total rent of \$1 allowing the Housing Provider to
14 operate and manage the Property as permanent supportive housing, plus an agreement by
15 the Housing Provider to accept tenant referrals through the City’s Coordinated Entry System;
16 and

17 WHEREAS, While the proposed nominal rent of the Sublease Agreement will be less
18 than Market Rent as defined in Administrative Code, Section 23.2, the nominal rent will serve
19 a public purpose by providing permanent supportive housing to formerly homeless
20 households and further the City’s goals; and

21 WHEREAS, The Housing Provider is expected to issue or cause the issuance of bonds
22 through the California Housing Finance Agency to provide a loan to the Housing Provider to
23 fund construction costs for the Project, and in connection therewith the City will be required to
24 provide information for a preliminary official statement (the “Preliminary Official Statement”)
25 and official statement (the “Official Statement”) for distribution to potential investors, and to

1 certify on behalf of the City that the Preliminary Official Statement is deemed final as of its
2 date, within the meaning of Rule 15c2-12 (the “Rule”) promulgated under the Securities
3 Exchange Act of 1934, as amended; and

4 WHEREAS, The Housing Provider is expected to issue or cause the issuance of bonds
5 through the California Housing Finance Agency to provide a loan to the Housing Provider to
6 fund construction costs for the Project, and in connection therewith the City will be required to
7 enter into a continuing disclosure certificate to provide certain annual operating and financial
8 information about the City to the Housing Provider until the bonds mature; and

9 WHEREAS, The Board of Supervisors and Mayor demonstrated their support for the
10 Project by recognizing the funding needs in the City’s Fiscal Year (FY) 2019-21 budget, with
11 the expectation of providing annual payments for the Lease Agreement, operating and
12 services subsidies commencing in 2021; and

13 WHEREAS, The Director of Property and HSH Director will provide a letter to the
14 Housing Provider to document the City’s commitment to enter into the Lease and Sublease
15 consistent with this resolution and subject to the satisfaction by Housing Provider of certain
16 conditions precedent as follows: 1) Housing Provider’s securing a Temporary Certification of
17 Occupancy (“TCO”) from the San Francisco Department of Building Inspection for 145
18 residential apartments, one manager’s unit, and ancillary program space; 2) the Director of
19 HSH’s determination that placement of tenants is ready to commence through referrals by
20 HSH through the City’s Coordinated Entry System; and 3) the Director of HSH’s determination
21 that the annual rent has been adjusted to reflect the Project’s financing, but not to exceed
22 \$2,014,800 per year; and

23 WHEREAS, HSH will quantify the annual operating and services subsidies needed and
24 request funding authorization through the annual budget process, as is customary for
25 permanent supportive housing developments; and

1 WHEREAS, The City and Land Owner have agreed to enter into a conveyance agreement,
2 prior to or concurrent with execution of the Lease Agreement execution, providing the City
3 with the right to acquire the Property for a nominal amount upon termination of the Lease and
4 Sublease (a “Conveyance Agreement”); and

5 WHEREAS, The Planning Department, though a General Plan Referral letter dated
6 April 1, 2020 (“Planning Letter”), which is on file with the Clerk of the Board of Supervisors in
7 File No. 200615, has verified that the Project, Lease Agreement, and Sublease Agreement
8 would be consistent with the General Plan, and the eight priority policies under Planning
9 Code, Section 101.1, and is not subject to California Government Code under the California
10 Environmental Quality Act (“CEQA”), for the reasons set forth in the Planning Letter, and the
11 Board affirms this determination; now, therefore, be it

12 RESOLVED, That the Board of Supervisors hereby finds that the Lease Agreement
13 and Sublease Agreement of the Project is consistent with the General Plan, and eight priority
14 policies of Planning Code, Section 101.1, adopts CEQA findings, and hereby incorporates
15 such findings by reference as though fully set forth in this Resolution; and, be it

16 FURTHER RESOLVED, The Sublease Agreement will serve a public purpose by
17 providing permanent supportive housing to formerly homeless households and further the
18 City’s goals; and, be it

19 FURTHER RESOLVED, That in accordance with the recommendation of the Director
20 of HSH and the Director of Property, the Board of Supervisors approves the Lease Agreement
21 and Sublease Agreement, each in substantially the form presented to the Board, and
22 authorizes the Director of HSH and the Director of Property to execute and deliver the Lease
23 Agreement and Sublease Agreement, each in substantially the form presented to the Board,
24 and any such other documents that are necessary or advisable to complete the transaction
25

1 contemplated by the Lease Agreement and Sublease Agreement, and to effectuate the
2 purpose and intent of this Resolution; and, be it

3 FURTHER RESOLVED, That the Board of Supervisors authorizes the Director of
4 Property and Director of HSH to enter into any amendments or modifications to the Lease
5 Agreement and Sublease Agreement (including, without limitation, exhibits or other ancillary
6 documents) that the Director of Property and Director of HSH determine, in consultation with
7 the City Attorney, are in the best interest of the City, do not materially increase the obligations
8 or liabilities of the City, do not materially decrease the benefits to the City, or are necessary or
9 advisable to effectuate the purposes of this resolution, and are in compliance with all
10 applicable laws; and, be it

11 FURTHER RESOLVED, That the Lease Agreement shall be subject to certification as
12 to funds by the Controller, pursuant to Charter, Section 3.105; and be it

13 FURTHER RESOLVED, That the Board of Supervisors hereby authorizes the
14 Controller, in consultation with the City Attorney, to provide information for inclusion in the
15 Preliminary Official Statement and Official Statement, to deem final the Preliminary Official
16 Statement as of its date in accordance with the Rule, and to enter into a Continuing
17 Disclosure Certificate in connection with the issuance of bonds issued by the California
18 Housing Finance Agency to make a loan to the Housing Provider to provide funds to construct
19 the Project; and, be it

20 FURTHER RESOLVED, That the Board of Supervisors hereby authorizes the Director
21 of HSH, the Controller, the City Attorney, and all other designated officers of the City to take
22 all other actions that may be necessary in connection with the bond financing; and be it

23 FURTHER RESOLVED, That the Director of Property shall provide a copy of the
24 executed Lease Agreement, Sublease Agreement, and Conveyance Agreement within thirty
25 (30) days of its execution to the Clerk of the Board for the Board's file.

<p>Item 13 Files 20-0615</p>	<p>Department: Homelessness & Supportive Housing</p>
<p>EXECUTIVE SUMMARY</p>	
<p style="text-align: center;">Legislative Objectives</p> <ul style="list-style-type: none"> • The proposed resolution (1) approves (i) a Building Lease between the City and 833 Bryant L.P., an affiliate of Mercy Housing and (ii) a Sublease between 833 Bryant L.P. and the City, and (iii) the Preliminary Official Statement and Continuing Disclosure Certificate related to Tax-Exempt Bonds to be issued by the California Housing Finance Agency; and (2) finds conformance with the General Plan and confirm CEQA exemption. The lease and sublease are for a new permanent supportive housing project at 833 Bryant Street for 145 formerly homeless adults. <p style="text-align: center;">Key Points</p> <ul style="list-style-type: none"> • 833 Bryant Street is owned by the Homeless Fund No. 1 LLC - which is a subsidiary of the Homes for the Homeless Fund, a partnership of Tipping Point and the Housing Accelerator Fund. The Housing Accelerator fund selected 833 Bryant L.P. , an affiliate of Mercy Housing, to develop the housing project and Episcopal Community Services to provide services. Under the proposed building lease between the City and 833 Bryant, L.P., the City will make annual lease payments of approximately \$2.0 per year over 30 years, which will be a source of payments to repay tax-exempt financing obtained for the project. The sublease provides for Mercy to provide permanent supportive housing at the site. <p style="text-align: center;">Fiscal Impact</p> <ul style="list-style-type: none"> • Total estimated project development costs are \$55.8 million, which includes tax-exempt financing of \$34.2 million. The City’s lease payments are capped at approximately \$2.0 million per year or \$60.4 million over 30 years. The source of funding for these payments will be the City’s General Fund. <p style="text-align: center;">Policy Consideration</p> <ul style="list-style-type: none"> • This project differs from many other City-financed affordable housing projects in that the land is privately owned. The City could potentially own the land after 30 years under a planned conveyance agreement, but this agreement has not yet been finalized. • The proposed lease between the City and 833 Bryant, L.P. is consistent with City policy and prior Board appropriations to the Department of Homelessness and Supportive Housing for the project. However, because the approval of the proposed lease commits the City to annual General Fund appropriations of up to \$2 million for the next 30 years, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter. <p style="text-align: center;">Recommendations</p> <ol style="list-style-type: none"> 1. Amend the proposed resolution to request a report back from the Department of Homelessness and Supportive Housing on finalization of the conveyance agreement to assure the Board that the City has the option to purchase the land at 833 Bryant Street after 30 years and include that report in the legislative file for this item. 2. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors. 	

MANDATE STATEMENT

City Charter Section 9.118(c) states that any lease, modification, amendment or termination of a lease that had an initial term of ten years or more, including options to extend is subject to Board of Supervisors approval.

Administrative Code Section 23.27 states that the Board of Supervisors shall approve all leases on behalf of the City as tenant by resolution for which the term is longer than a year and costs over \$15,000 per month.

City Administrative Code Section 23.30 states that leases in which the City is a landlord can be for less than market rent if the lease is for a proper public purpose with Board of Supervisors' approval.

BACKGROUND

Permanent Supportive Housing Overview

Permanent supportive housing refers to housing that includes operating subsidies and on-site social services for tenants exiting homelessness who require more intensive services to maintain their housing. The City contracts with homeless services providers and operators of permanent supportive housing, which include case management, support groups, community events, and property management. In addition, the Department of Homelessness and Supportive Housing ("Homelessness & Supportive Housing") enters into contractual agreements with nonprofit organizations for the operating costs of permanent supportive housing projects (such as front desk staff and janitorial service). The Department is responsible for overseeing all of the City's supportive housing portfolio.

New Permanent Supportive Housing Project at 833 Bryant

The proposed resolution is related to a new permanent supportive housing development at 833 Bryant Street. The project will consist of 145 individual residential units, 1 manager unit, 1,030 square feet for the provision of services to tenants and tenant meetings, and 650 square feet of commercial space for a neighborhood-serving business at the ground floor. The residential units would be made available to formerly homeless adults with rent at no more than 30 percent of tenant income and provide ongoing support services and medical support. Potential tenants would be referred by Department of Homelessness and Supportive Housing's Coordinating Entry process, which prioritizes individuals for housing based on vulnerability, length of homelessness and barriers to housing.

According to the proposed Preliminary Official Statement, described below, the project is under construction, which is expected to be complete in the Summer of 2021. Full occupancy is expected at the end of 2021.

Project Selection

In April 2019, the Board of Supervisors approved an ordinance that amended Chapter 21 of the Administrative Code to allow the Department of Homelessness & Supportive Housing to enter into and amend contracts for homeless services without undergoing a competitive procurement process (File 19-0047). Under that new provision in the Administrative Code, Homelessness & Supportive Housing selected the 833 Bryant Street project for City funding without undergoing a competitive procurement. The Citywide Affordable Housing Loan Committee, which, according to Chapter 120 of the Administrative Code, was established by the Mayor “to make recommendations related to affordable housing development, as well as insuring that underwriting standards are uniform, review of funding applications are streamlined, and funding allocations are coordinated”, did not review this project.¹ The project’s financial viability was evaluated by Homelessness & Supportive Housing staff and the Office of Public Finance in consultation with staff from the Mayor’s Office of Housing and Community Development.

According to Ms. Gigi Whitley, Deputy Director for Administration and Finance at the Department of Homelessness and Supportive Housing, the Housing Accelerator Fund, a non-profit organization providing financing to affordable housing developers, initiated the project at 833 Bryant Street. Using a competitive process that included a Request for Proposals, the Housing Accelerator Fund selected Mercy Housing as the project sponsor and Episcopal Community Services as the supportive services provider. The Department of Homelessness & Supportive Housing expects the final agreement with Episcopal Community Services to exceed \$10 million and have a term greater than 10 years and plans to return for Board of Supervisors’ approval in early 2021 after the bonds are issued.

Homes for the Homeless Fund No. 1 LLC² owns the site at 833 Bryant and will enter into a 99-year ground lease with 833 Bryant, L.P., the project sponsor and an affiliate of Mercy Housing.³ According to the Department of Homelessness and Supportive Housing, the ground lease between 833 Bryant, L.P. and Homes for the Homeless Fund No. 1 LLC anticipates that the City will enter into a lease agreement with 833 Bryant, L.P. 833 Bryant, L.P. will use the City’s lease payments to pay debt service on the tax-exempt bonds (discussed below). The City will then sublease the property back to 833 Bryant, L.P. to develop and operate the housing project. The City will also provide operating and services subsidies for the project.

California Tax Credit Allocation Committee

The Internal Revenue Service allocates a specific amount of federal low-income housing tax credits to each state, which in California are allocated to affordable housing developers by the State Treasurer’s California Tax Credit Allocation Committee. Project sponsors may apply to that Committee for 4 percent tax credits, which are allocated to projects that meet certain threshold

¹ The members of the Citywide Affordable Housing Loan Committee are Mayor’s Office of Housing and Community Development, the Office of Community Investment and Infrastructure, and the Department of Homelessness and Supportive Housing.

² Homes for the Homeless Fund is a partnership between the Housing Accelerator Fund and Tipping Point Community; Homes for the Homeless Fund No. 1 LLC is a subsidiary of the Housing Accelerator Fund.

³ The land acquisition cost \$8,273,523 was paid for by Homes for the Homeless Fund.

criteria related to project attributes, and for 9 percent tax credits, which are competitively awarded. To reduce the project’s need for debt and other capital, affordable housing developers typically sell their awarded tax credits to for-profit investors. According to the Office of Public Finance, in April 2020 the project has obtained an allocation of 4 percent tax credits from the California Tax Credit Allocation Committee.

DETAILS OF PROPOSED LEGISLATION

Lease and Sublease

The proposed resolution would approve (1) a Building Lease agreement between the City and 833 Bryant L.P., an affiliate of Mercy Housing⁴ and (2) a Sublease between 833 Bryant L.P. and the City, for a supportive housing project. The Building Lease and Sublease terms are summarized below in Exhibit 1.

Exhibit 1: Building Lease and Sublease Terms

	Building Lease	Sublease
Lessor	833 Bryant, L.P.	City
Lessee	City	833 Bryant, L.P.
Effective	Certificate of Occupancy (expected Aug 2021)	Certificate of Occupancy (expected Aug 2021)
Term	30 years	30 years
Payment	1.15x bond debt service, not to exceed \$2,014,800 annually	\$1.00 one-time payment
Site Use	145 units supportive housing*	145 units supportive housing*

Source: Proposed Building Lease and Sublease

Note: If the City does not make operating and services subsidy payments, the site may be operated as affordable rental housing for low and moderate income tenants, in accordance with the tax credit and tax-exempt bond regulations that will apply to the project for 55 years.

As shown above, the City’s payments on the lease will be 1.15 times the debt service of the proposed Tax-Exempt Bonds, which is a requirement of the California Tax Credit Allocation Committee, as further described below. The proposed resolution caps annual lease payments at no more than \$2,014,800 annually, or \$1,158 per unit per month.

The purpose of the building lease is for the City to secure an interest in the project while the project sponsor makes payments on the tax-exempt bonds, described below, that will be used

⁴ In order to obtain tax credits, affordable housing developers form partnerships with financial entities consisting of limited partners and general partners. The limited partner, typically an investor, owns 99.99 percent of the partnership and therefore received that share of the project’s available tax credits. The general partner, a developer, owns 0.01 percent of the partnership. According to Preliminary Official Statement, 833 Bryant LP is affiliated with 833 Bryant, LLC, which is the general partner in the limited partnership, 833 Bryant, LP. 833 Bryant, LLC has a 0.01 percent ownership interest and Citibank, the limited investor partner, has a 99.99 percent ownership interest in the limited partnership, 833 Bryant LP.

for permanent financing. The purpose of the sublease is to require Mercy to provide permanent supportive housing at that site.

According to the Department of Homelessness & Supportive Housing, the landowner, Homes for the Homeless Fund No. 1, LLC, will enter into a conveyance option agreement with the City for a term of 99 years (the length of the ground lease), which will give the City the option to purchase the land for \$1 starting at the end of the 30-year Building Lease and Sublease terms. If the option to purchase is exercised, the agreement will require Board of Supervisors' approval.

Tax Exempt Bonds

The proposed resolution would also approve the Preliminary Official Statement and Continuing Disclosure Certificate in connection with the issuance of tax-exempt bonds to permanently finance this project issued by the California Housing Finance Agency. When preparing the final Official Statement and related disclosures, the Controller and City Attorney may modify the Preliminary Official Statement as necessary to reflect changes in the City's financial condition and other facts. These documents provide investors with information regarding the nature of the bonds and project at 833 Bryant Street and are the legally binding documents disclosing the financial risks of purchasing the bonds.

According to the Preliminary Official Statement, the bond transaction will consist of several components. The California Housing Finance Agency, a State Agency, will issue tax-exempt bonds. According to Office of Public Finance, the amount of the bonds is expected to be \$34,163,873 and is expected to be issued July 2020 following Board of Supervisors' approval of the proposed resolution. The California Housing Finance Agency will enter into a Trust Indenture agreement with U.S. Bank National Association, as bond trustee, which will disburse the bond proceeds to 833 Bryant L.P., the bond borrower. The bond holders will be repaid by the project sponsor's assignment of the City's lease payments under the proposed Building Lease.

The California Housing Finance Agency plans to issue the bonds in a negotiated, rather than a competitive sale, in order to obtain the most favorable financing terms. According to the Office of Public Finance, the Housing Accelerator Fund selected Citibank, N. A.,⁵ as the underwriter for the bond issuance following a competitive process, which included a Request for Proposals.

Other Provisions of the Proposed Resolution

Finally, the proposed resolution would find the transactions are in conformance with the City's General Plan and the eight priority policies of Planning Code Section 101.1⁶ and adopt the

⁵ Citibank, N.A., is an investment and holding company and the 99.99% limited partner investor in 833 Bryant, L.P.

⁶ The eight policy priorities are: (1) That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced; (2) That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods; (3) That the City's supply of affordable housing be preserved and enhanced; (4) That commuter traffic not impede Muni transit service or overburden our streets or neighborhood parking; (5) That a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced; (6) That the City achieve the greatest possible preparedness to protect against injury and loss

Planning Department's determination that the project is not subject to review under the California Environmental Quality Act.

FISCAL IMPACT

As noted above, the total annual lease payment is capped at \$2,014,800, which over the 30-year life of the bond equals \$60,444,000. The source of funding for these payments will be the City's General Fund. According to Ms. Whitley, the Board of Supervisors previously appropriated \$400,000 in the Department's FY 2020-21 budget for this project, however the lease payments will not be due until one year after the project is occupied, which is expected in FY 2021-22.

Exhibit 2 below shows the sources and uses of funding for the project.

Exhibit 2: 833 Bryant Permanent Sources and Uses

<u>Sources</u>	Bond Proceeds	Tax Credit Equity	Total
	\$34,163,873	\$21,661,100	\$55,824,973
<u>Use</u>			
Acquisition Related Costs*	0	1,235,429	1,235,429
Construction Hard Costs	31,325,140	7,562,077	38,887,217
Financing Costs, Fees, and Interest	2,838,733	2,543,102	5,381,835
Developer Fee	0	1,700,000	1,700,000
Other Soft Costs	0	7,437,601	7,437,601
Capital Reserve	0	1,182,891	1,182,891
Total	\$34,163,873	\$21,661,100	\$55,824,973

Source: Department of Homelessness & Supportive Housing

Note: Acquisition costs do not include \$8.3 million in land acquisition costs paid for by Homes for the Homeless, a non-profit.

As shown above, the total cost of the project is \$55.8 million.

Exhibit 3 below shows the cost per unit.

Exhibit 3: Cost per unit

Total Cost (Ex. 2)	\$55,824,973
Residential Units	145
Cost per Unit	\$385,000

Source: BLA Analysis

of life in an earthquake; (7) That landmarks and historic buildings be preserved; and, (8) That our parks and open space and their access to sunlight and vistas be protected from development.

As shown above, the total cost per unit is \$385,000. According to the Department, the unit cost is lower than comparable affordable housing projects in part because the construction is modular design and the City’s streamlined entitlement process for affordable housing projects.

POLICY CONSIDERATION

The Mayor’s Office of Housing and Community Development (MOHCD) provides gap financing to most City affordable housing projects. MOHCD’s general practice is for the City to own the land and enter into a ground lease with the affordable housing sponsor, and to provide gap loans to the sponsor for predevelopment, construction and permanent financing, which are repayable if the affordable housing project generates sufficient net income to make the payments. MOHCD gap loans are one source of funds for affordable housing projects, which also receive developer-secured financing such as tax credit equity, loans, State grants, and other sources.

Financing for the 833 Bryant Street project, which is a project of the Department of Homelessness and Supportive Housing, differs from other City-financed affordable housing projects in that the land is privately owned, and the City is paying a lease payment that will allow the project to cover total debt service on the tax-exempt loan from the General Fund, equal to approximately \$2.0 million annually in General Fund payments or \$60.4 million over 30 years. This lease payment has no opportunity for the City to receive repayment.

The City’s practice to ground lease City land for up to 99 years ensures the affordability of the housing project over the up to 99-year ground lease term. The ground lease between 833 Bryant, L.P. and the Homes for the Homeless No. 1 LLC obligates 833 Bryant, L.P., the affordable housing sponsor, to develop and operate the affordable housing for 99 years, and the Building Lease between the City and 833 Bryant, L.P. requires affordability for at least 30 years. The City could potentially own the land after 30 years under a planned conveyance agreement, noted above, but this agreement has not yet been finalized. According to Ms. Whitely, the conveyance agreement will be finalized prior to the execution of the lease between the City and 833 Bryant, L.P. The Board of Supervisors should request a report back from the Department of Homelessness and Supportive Housing on finalization of the conveyance agreement to assure the Board that the City has the option to purchase the land at 833 Bryant Street after 30 years.

The proposed lease between the City and 833 Bryant, L.P. commits the City to lease payments up to \$2.0 million per year over 30 years to repay tax-exempt bond financing obtained by 833 Bryant, L.P. to construct the project. The Budget and Legislative Analyst estimates that the present value of the 30-year lease payments to 833 Bryant, L.P. is comparable to the one-time upfront financing provided by the City to two similar affordable housing projects.⁷ While the City financing may be comparable, site ownership/control is less than other affordable housing projects financed by the City, in which the City owns the land and has the opportunity to participate in project receipts in the event that the project generates surplus cash.

⁷ The two projects are 1068 Mission Street, and Mission Bay South Block 9.

The proposed lease between the City and 833 Bryant, L.P. is consistent with City policy and prior Board appropriations to the Department of Homelessness and Supportive Housing for the project. However, because the approval of the proposed lease commits the City to annual General Fund appropriations of up to \$2 million for the next 30 years, the Budget and Legislative Analyst considers approval of the proposed resolution to be a policy matter.

RECOMMENDATIONS

1. Amend the proposed resolution to request a report back from the Department of Homelessness and Supportive Housing on finalization of the conveyance agreement to assure the Board that the City has the option to purchase the land at 833 Bryant Street after 30 years and include that report in the legislative file for this item.
2. Approval of the proposed resolution, as amended, is a policy matter for the Board of Supervisors.

Recording Requested by and
When Recorded Mail to:

City and County of San Francisco
Department of Homelessness and Supportive Housing
440 Turk Street
San Francisco, California 94102
Attn: Director

No fee for recording pursuant to
Government Code Section 27383 and 27388.1

Exempt from California Document
Transfer tax pursuant to Revenue
and Taxation Code 11921

**LEASE AGREEMENT
(833 Bryant)**

THIS LEASE AGREEMENT (this “**Lease**”) is executed and entered into as of _____, 2021 (the “**Effective Date**”), by and between 833 Bryant, L.P., a California limited partnership (the “**Partnership**”), as lessor, and the City and County of San Francisco, a municipal corporation acting by and through the Department of Homelessness and Supportive Housing (the “**City**”), as lessee.

RECITALS

A. San Francisco Homes for the Homeless No. 1 LLC, a California limited liability company (the “**Landowner**”), is a wholly-owned subsidiary of The San Francisco Housing Accelerator Fund, a California nonprofit public benefit corporation, and fee owner of that certain real property located at 833 Bryant Street, San Francisco, California, and is more particularly described in Exhibit A (the “**Property**”). [Property description to be limited to residential property]

B. The Landowner has entered into a long-term ground lease of the Property to the Partnership (the “**Ground Lease**”). The Ground Lease obligates the Partnership to develop, own, and operate one-hundred forty-five (145) affordable residential units, plus one (1) additional manager’s unit and related improvements, which the Partnership and the City intend to be made available as permanent supportive housing for chronically homeless individuals (the “**Project**”), and to develop ground floor commercial space.

C. Pursuant to an Indenture of Trust, dated as of [July] 1, 2020 (the “**Indenture**”), between the California Housing Finance Agency (the “**Bond Issuer**”) and [U.S. Bank National Association], as trustee (the “**Bond Trustee**”), the Bond Issuer, on _____, 2020, issued its

California Housing Finance Agency Revenue Bonds (San Francisco Supportive Housing – 833 Bryant) 2020 Issue N (the “**Bonds**”), for the purposes of making a loan of the proceeds thereof to the Partnership pursuant to a Loan Agreement, dated as of [July] 1, 2020 (the “**Loan Agreement**”), between the Bond Issuer and the Partnership, for the purpose of financing the construction of the Project.

D. In order to achieve the policy goals of the City to reduce chronic homelessness, the City agreed pursuant to that certain [Commitment Letter] (the “**Commitment**”) to provide certain financial assistance to the Partnership for the development and operation of the Project.

E. The City is authorized pursuant to the laws of the State of California (the “**State**”) and the Charter of the City and County of San Francisco (the “**Charter**”) to lease real property when necessary and proper for public purposes.

F. In order to operate the Project on a day-to-day basis, the City will concurrently with the execution and delivery of this Lease sublease the Property back to the Partnership pursuant to a Sublease Agreement between the City, as sublessor, and the Partnership, as sublessee, dated as of the Effective Date (the “**Sublease**”). Under the Ground Lease, the Landowner has approved the transfers contemplated by this Lease and the Sublease. Pursuant to the Sublease, the Partnership has control of the day-to-day operations of the Project. Upon termination of this Lease and resulting termination of the Sublease, the Partnership as tenant under the Ground Lease will continue to have control of the day-to-day operations of the Project.

G. The City has determined that the conditions to the execution and delivery of this Lease and the Sublease set forth in the Commitment have been satisfied.

H. It is the intent of the Partnership and the City that the City’s only financial obligation under this Lease is to pay rent as provided herein, and the City will not incur any other financial obligation, cost, or liability related to the Project or the Property under this Lease or the Sublease

I. The Partnership and the City have entered into a separate contract and the City and _____ have entered into a contract pursuant to which the City has agreed to provide an annual operating subsidy to the Partnership to support the increased operating costs (the “**Operating Subsidy Agreement**”) and the City and _____ have entered into a contract (the “**Tenant Services Subsidy Agreement**”) and tenant services costs associated with providing long-term supportive housing services to chronically homeless individuals.

J. 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 Lease do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Lease.

NOW THEREFORE, in consideration of the foregoing, of the mutual promises of the Partnership and the City (each a “**Party**”, and, collectively, the “**Parties**”), and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Parties mutually agree as follows:

ARTICLE 1.
LEASE OF THE PROPERTY; RENT; TERM

Section 1.1 Lease of the Property. As of the Effective Date, the Partnership hereby leases to the City, and the City hereby leases from the Partnership, the Property. The Partnership is conveying, and the City is accepting, the Property in its current “as is” condition subject to the representation or warranty regarding the Property’s condition contained in this Section. This Lease is subject, and subordinate, to the Ground Lease. Partnership represents and warrants to City, and covenants with City, as of the Effective Date as follows: (a) a temporary certificate of occupancy has been duly and validly issued by the San Francisco Department of Building Inspection with respect to one-hundred forty-five (145) residential units, plus one (1) additional manager’s unit comprising the Project; and (b) no Abatement Event (as defined in Section 1.5) has occurred and is continuing. Partnership shall at all times during the Term (defined below) maintain, at its cost, the Property in compliance with applicable present or future federal, state, local and administrative laws, rules, regulations, orders and requirements (collectively, “**Laws**”), including, without limitation, Disabilities Laws, Seismic Safety Laws, and Life Safety Laws.

Section 1.2 Rent.

1.2.1 Rent Payments. In consideration for the lease of the Property, pursuant to this Lease, the City shall pay the Partnership the Rent Payments, in the amounts and the dates set forth under the caption “Rent Payments” in Exhibit B (the “**Rent Payments**”), as such amounts may be adjusted from time to time in accordance with the terms hereof.

Rent Payments shall be paid by the City to the Partnership in lawful money of the United States of America and, except as provided in Section 1.5 hereof, any amount necessary to pay any Rent Payments and 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 Partnership hereunder, the City shall make all Rent Payments when due and shall not withhold any Rent Payments pending the final resolution of such dispute or for any reason whatsoever. The City’s obligation to make Rent 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 Section 1.5 hereof.

As provided in Section 4.3, the City shall make Rent Payments by paying such amounts to the Bond Trustee.

1.2.2 Adjustment of Rent Payments. It is the intention of the Parties that the principal and the interest components of the Rent Payments correspond to 1.15 times the amounts of principal and interest payable on the Bonds. In the event any Bonds are redeemed prior to their maturity dates or scheduled dates of redemption, the Parties agree to revise Exhibit B hereto to make corresponding reductions to the principal and interest components of the Rent Payment Schedule.

1.2.3 Net Lease. It is the purpose and intent of the Partnership and the City that Rental Payments hereunder shall be absolutely net to the Partnership so that this Lease is a “net-net-net lease” and shall yield to the Partnership the Rent Payments, free of any charges,

assessments, or impositions of any kind charged, assessed or imposed on or against the Property, and without counterclaim, deduction, defense, deferment or set-off by the City, except as herein specifically otherwise provided.

Section 1.3 Fair Value. The Parties agree and acknowledge that the Rent Payments, for each year, is not, and will not be, in excess of the total fair rental value of the Property for such year. In making such determination, the Parties have considered the uses and purposes served by the Property and the benefits to the general public by reason of the Partnership's use of the Property for the Project, and the requirements imposed on the Partnership by the Ground Lease and other documents that limit the Property's use solely to the Project.

Section 1.4 Budget. The City covenants to take such action as may be necessary to include each Rent Payment in its annual budget and to make the necessary appropriations for each annual Rent Payment, subject to Section 1.5 hereof; provided, however, the City's obligation to make the Rent Payment do 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 requirement to include the Rent 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. The terms of this Lease shall be governed by and subject to the budgetary and fiscal provisions of the Charter.

Section 1.5 Abatement. During any period during which an Abatement Event has occurred and is continuing, Rent Payments due hereunder shall be abated proportionately to the impact of such Abatement Event on the City's beneficial use of the Property, and the City waives the benefits of California Civil Code Sections 1932(2) and 1933(4) and of Title 11 of the United States Code, Section 365(h) and any and all other rights to terminate this Lease by virtue of any such interference and this Lease shall continue in full force and effect.

For purposes of this Section 1.5, "Abatement Event" means the occurrence and continuation of any of the following:

(a) If the City is making the full operating subsidy payments as provided in the Operating Subsidy Agreement and the full tenant services subsidy payments as provided in the Tenant Services Subsidy Agreement, the Partnership shall fail, for a period of six months during which time the City shall have been using its best efforts to compel such compliance (exercising its remedies under the Sublease), to substantially comply with its obligation to provide or cause to be provided long-term supportive housing services to chronically homeless individuals as provided in the Operating Subsidy Agreement and the Tenant Services Subsidy Agreement.

(b) If the City is not making the full operating subsidy payments as provided in the Operating Subsidy Agreement or the full tenant services subsidy payments as provided in the Tenant Services Subsidy Agreement, the Partnership shall fail to make the Property available for occupancy by low and moderate income persons at an affordability level determined by the parties under the Operating Subsidy Agreement, but at a minimum with residential rents and/or other available subsidy to cover operating expenses and achieve a 1.15 debt service coverage ratio.

(c) By reason of condemnation or material damage to or destruction of the Property, neither the Partnership nor the City has beneficial use and occupancy of the Property.

Section 1.6 Term. The term of this Lease shall commence as of the Effective Date and shall remain in full force and effect from such date until [April 1, 2050] [Note: Date of final maturity for Bonds] (the “**Term**”), unless such Term is extended or sooner terminated as set forth in Section 1.7.

Section 1.7 Extension; Early Termination. If, on [April 1, 2050] [Note: Date of final maturity for Bonds], the Rent Payments shall not have been paid, or provision therefor made, for any reason, including, without limitation, because the rental payable hereunder shall have been abated at any time and for any reason, then the Term shall be extended until ten (10) days after all the principal components and the interest components of the Rent Payments shall have been paid, or provision therefor made and no Bonds remain outstanding; provided, the Term shall in no event be extended beyond [April 1, 2060] [Note: Ten years after date of final maturity for Bonds]. If at any time prior to [April 1, 2050] [Note: Date of final maturity for Bonds] Rent Payments shall have been paid in full, or provision of moneys therefor made in and no Bonds remain outstanding, the Term shall end and this Lease shall automatically terminate without further action of the Parties.

ARTICLE 2. QUIET ENJOYMENT; USE

Section 2.1 Quiet Enjoyment. The Parties intend that as of the Effective Date the Property will be leased back to the Partnership pursuant to the Sublease for the term thereof. Subject to any rights that the Partnership may have under the Sublease (in the absence of an event of default under the Sublease) to possession and enjoyment of the Property, the Partnership hereby covenants and agrees that it will not take any action to prevent the City from having quiet and peaceable possession and enjoyment of the Property during the Term, and will, at the request of the City and at the Partnership’s cost, to the extent that it may lawfully do so, join in any legal action in which the City asserts its right to such possession and enjoyment. Nothing in this Section limits the obligation of the City to enter into the Sublease or the Partnership’s right to use and occupy the Property under the Sublease. At no cost to the City, Partnership shall furnish all utilities and services to the Property.

Section 2.2 Use. Throughout the Term, the Property shall only be used solely for the construction and operation of the Project, provided, however, as more particularly set forth in the Sublease, as between the City and the Partnership, so long as the Sublease remains in effect the Partnership is solely responsible for all obligations of developing, owning, and operating the Project.

Section 2.3 Partnership’s Maintenance and Repairs. At no cost to the City, Partnership shall repair and maintain the Property at its cost and in safe and sanitary condition (normal wear and tear excepted), including, without limitation, the roof, foundation, bearing and exterior walls and subflooring, and the heating, ventilating, air conditioning, plumbing, electrical, fire protection, life safety, security and other mechanical, electrical and communications systems of the Property and any common areas. Without limiting the

foregoing, Partnership shall maintain the Property in a clean, safe and attractive manner, shall provide exterior graffiti removal with reasonable frequency, and shall not permit to be done in or about the Property anything that is illegal, is dangerous to persons or property or constitutes a nuisance.

Section 2.4 Changes to the Property. The Partnership shall, at its sole cost, have the right during the Term to make improvements to the Property or to attach any fixtures, structures or signs to the Property if such improvements, fixtures, structures or signs are necessary or beneficial for the use of the Property; provided, such actions by the Partnership shall not materially adversely affect the operation of the Property for the purpose intended or reduce the fair rental value of the Property in any material respect.

Section 2.5 Damage and Destruction.

(a) If the Property is damaged by fire, earthquake or other casualty, Partnership shall repair the same without delay. The City shall have no obligation to make any repairs to the Property and shall have no financial obligation with respect to any repairs to the Property. This Lease shall remain in full force and effect, except that City shall be entitled to an abatement of Rent Payments as provided in Section 1.5.

(b) If, in Partnership's reasonable judgment made in good faith, the Partnership determines that (i) repairs cannot be made within two hundred ten (210) days after the date of damage or (ii) available insurance proceeds (excluding any deductible for which Partnership shall be responsible) will not be sufficient to make necessary repairs, Partnership may elect to terminate this Lease by written notice to the City within thirty (30) days of such determination. If the Partnership does not elect to terminate this Lease as provided in this paragraph (b), this Lease shall remain in full force and effect, except that City shall be entitled to an abatement of Rent Payments as provided in Section 1.5.

(c) The parties intend that the provisions of this Section 2.5 govern fully their rights and obligations in the event of damage or destruction, and Partnership and the City each hereby waives and releases any right to terminate this Lease in whole or in part under Section 1932, subdivision 2, Section 1933, subdivision 4, and Sections 1941 and 1942 of the Civil Code of California or under any similar law, statute or ordinance now or hereafter in effect, to the extent such rights are inconsistent with the provisions hereof.

Section 2.6 Eminent Domain.

2.6.1 Definitions.

(a) "Award" means all compensation, sums or anything of value paid, awarded or received for a Taking, whether pursuant to judgment, agreement, settlement or otherwise.

(b) "Date of Taking" means the earlier of (i) the date upon which title to the portion of the Property taken passes to and vests in the condemnor or (ii) the date on which the City is dispossessed.

(c) “Taking” means a taking or damaging, including severance damage, by eminent domain, inverse condemnation or for any public or quasi-public use under law. A Taking may occur pursuant to the recording of a final order of condemnation, or by voluntary sale or conveyance in lieu of condemnation or in settlement of a condemnation action

2.6.2 General. If there is any Taking of all or any part of the Property or any interest in this Lease, the rights and obligations of the parties hereunder shall be determined pursuant to this Section 2.6. The City and the Partnership intend that the provisions hereof govern fully in the event of a Taking and accordingly, the parties each hereby waive any right to terminate this Lease in whole or in part under Sections 1265.110, 1265.120, 1265.130 and 1265.140 of the California Code of Civil Procedure or under any similar law now or hereafter in effect.

2.6.3 Total Taking; Automatic Termination. If there is a total Taking of the Property, then this Lease shall terminate as of the Date of Taking.

2.6.4 Partial Taking; Election to Terminate. If there is a Taking of any portion (but less than all) of the Property, (i) the partial Taking, in the City’s reasonable judgment, renders the remaining portion of the Property untenable or unsuitable for continued use by the City for its intended purposes or otherwise materially adversely affects the normal operations of the Property and (ii) the condition rendering the Property untenable or unsuitable either is not curable or is curable but Partnership is unwilling or unable to cure such condition, the City may, by giving written notice to the Partnership before or within thirty (30) days after the Date of Taking, elect to terminate this Lease and thereafter this Lease shall terminate upon the later of the thirtieth (30th) day after such written notice is given or the Date of Taking.

2.6.5 Termination of Lease; Rent and Award. Upon termination of this Lease in its entirety pursuant to Section 2.6.3, or pursuant to an election under Section 2.6.4, then: (a) the City’s obligation to pay Rent Payments shall continue up until the date of termination and thereafter shall cease, and (b) Partnership shall be entitled to the entire Award in connection therewith, except that the City shall receive any Award made specifically for the City’s expenses.

2.6.6 Partial Taking; Continuation of Lease. If there is a partial Taking of the Premises under circumstances where this Lease is not terminated in its entirety under Section 2.6.4 above, then this Lease shall terminate as to the portion of the Property so taken, but shall remain in full force and effect as to the portion not taken, and the rights and obligations of the parties shall be as follows: (a) Rent Payments shall be abated as provided in Section 1.5, and (b) Partnership shall be entitled to the entire Award in connection therewith, provided that City shall receive any Award made specifically for the City’s expenses.

2.6.7 Temporary Taking. Notwithstanding anything to contrary in this Section 2.6, if a Taking occurs with respect to the Property for a limited period of time not in excess of sixty (60) consecutive days, this Lease shall remain unaffected thereby, and the City shall continue to pay Rent and to perform all of the terms, conditions and covenants of this Lease. In the event of such temporary Taking, the City shall be entitled to receive that portion of any Award representing compensation for the use or occupancy of the Premises during the Term up to the total Rent owing by the City for the period of the Taking.

Section 2.7 Partnership's Indemnity and Insurance.

2.7.1 Partnership's Indemnity. Partnership shall Indemnify the City and its agents against any and all Claims arising out of or as a result of (a) any failure of the Property or any portion thereof to comply with applicable Laws as provided in Section 1.1 or any misrepresentation by the Partnership under Section 1.1, (b) any default by Partnership in the performance of any of its obligations under this Lease or any breach of any representations or warranties made by Partnership under this Lease, or (c) any negligent acts or omissions of Partnership or its agents in, on or about the Property; provided, however, Partnership shall not be obligated to Indemnify the City or its Agents to the extent any Claim arises out of the active gross negligence or willful misconduct of the City or its Agents. In any action or proceeding brought against the City or its Agents by reason of any Claim Indemnified by Partnership hereunder, Partnership may, at its sole option, elect to defend such Claim by attorneys selected by Partnership. Partnership shall have the right to control the defense and to determine the settlement or compromise of any action or proceeding, provided that the City shall have the right, but not the obligation, to participate in the defense of any such Claim at its sole cost. Partnership's obligations under this Section 2.7.1 shall survive the termination of this Lease.

2.7.2 Definitions

(a) "Claims" means any liabilities, losses, costs, claims, judgments, settlements, damages, liens, fines, penalties, and expenses, including direct and vicarious liability of every kind.

(b) "Indemnity" means to indemnify, defend and hold harmless.

2.7.3 Insurance. Partnership acknowledges and agrees that City shall not be required to carry any insurance with respect to this Lease.

Section 2.8 Hazardous Materials.

2.8.1 Definitions. As used in this Lease, the following terms shall have the meanings hereinafter set forth:

(a) "Environmental Laws" shall mean any federal, state, local or administrative law, rule, regulation, order or requirement relating to industrial hygiene, environmental conditions or Hazardous Material, whether now in effect or hereafter adopted.

(b) "Hazardous Material" shall mean any material that, because of its quantity, concentration or physical or chemical characteristics, is deemed by any federal, state or local governmental authority to pose a present or potential hazard to human health or safety or to the environment. Hazardous Material includes, without limitation, any material or substance defined as a "hazardous substance," or "pollutant" or "contaminant" pursuant to the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Section 9601 et seq.), or pursuant to Section 25316 of the California Health & Safety Code; any "hazardous waste" listed pursuant to Section 25140 of the California Health & Safety Code; any asbestos and asbestos containing materials whether or not such materials are part of

the structure of the Building or are naturally occurring substances on or about the Property; and petroleum, including crude oil or any fraction thereof, natural gas or natural gas liquids.

(c) “Release” when used with respect to Hazardous Material shall include any actual or imminent spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into, inside, in, on, under or about the Property.

2.8.2 Partnership’s Representations and Covenants. Partnership represents and warrants to the City that, to the best of Partnership’s knowledge, and except as previously disclosed in writing to the City, as of the Effective Date the following statements are true and correct: (a) the Property is not in violation of any Environmental Laws; (b) the Property is not now, nor has it been, used for the manufacture, use, storage, discharge, deposit, transportation or disposal of any Hazardous Material, except for the use of such substances in such limited quantities as are customarily used in offices, which limited use has been and is in compliance with Environmental Laws; (c) the Property does not consist of any landfill or contain any underground storage tanks; (d) the Property does not consist of any asbestos-containing materials or building materials that contain any other Hazardous Material, nor contain any lead-based paints; (e) there has been and is no Release of any Hazardous Material in, on, under or about the Property; and (f) the Property is not subject to any claim by any governmental regulatory agency or third party related to the Release of any Hazardous Material, and there is no inquiry by any governmental agency (including, without limitation, the California Department of Toxic Substances Control or the Regional Water Quality Control Board) with respect to the presence of Hazardous Material in, on, under or about the Property, or the migration of Hazardous Material from or to other real property. The Partnership shall maintain the Property throughout the Term in compliance with all Environmental Laws that could affect the health, safety and welfare of the Property’s residents or City’s use of the Property for their intended purposes.

2.8.3 Partnership’s Environmental Indemnity. Without limiting Partnership’s Indemnity in Section 2.7.1, above, Partnership shall Indemnify the City and its agents against any and all Claims arising during or after the Term of this Lease (a) as a result of any breach of any of Partnership’s representations, warranties or covenants in the preceding Section 2.8.2, or (b) in connection with any presence or Release of Hazardous Material in, on, under or about the Property.

ARTICLE 3. SPECIAL COVENANTS AND PROVISIONS

Section 3.1 Waste. The City agrees that at all times that it is in possession of the Property (subject to the Sublease), it will not commit, suffer or permit any waste on the Property, and that it will not willfully or knowingly use or permit the use of the Property for any illegal purpose or act.

Section 3.2 Further Assurances and Corrective Instruments. The Parties agree that each Party will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such additional documents, and such further instruments, as may reasonably necessary for correcting any inadequate or incorrect description of the Property

hereby leased or intended so to be or for carrying out the expressed intention of this Lease and the Sublease, including, but not limited to, any document reasonably requested by a Party to evidence the termination of this Lease in accordance with Section 1.7, above.

Section 3.3 Waiver of Personal Liability. All liabilities under this Lease on the part of a Party shall be solely liabilities of the Party, itself, and each Party hereby releases each and every director, officer and employee of the other Party of and from any personal or individual liability under this Lease. No director, officer or employee of a Party shall at any time or under any circumstances be individually or personally liable under this Lease to the other Party, or to any other party whomsoever for anything done or omitted to be done by the Party.

Section 3.4 Representations of the Partnership. The Partnership represents and warrants to the City as follows:

(a) the Partnership has the full power and authority to enter into, to execute and to deliver this Lease, and to perform all of its duties and obligations hereunder, and has duly authorized the execution of this Lease;

(b) except for the Ground Lease, the Property is not subject to any dedication, easement, right of way, reservation in patent, covenant, condition, restriction, lien or encumbrance which would prohibit or materially interfere with the use of the Property for purposes as contemplated by the Partnership;

(c) all taxes, assessments or impositions of any kind with respect to the Property, except current taxes (if any), have been paid in full;

(d) the Ground Lease is in full force and effect and the Landowner has not declared any default;

(e) the physical structure, fixtures and permanent improvements of the Property are, in compliance with the requirements of the Americans With Disabilities Act of 1990 and Title 24 of the California Code of Regulations and all other applicable federal, state, local and administrative laws, rules, regulations, orders and requirements intended to provide equal accessibility for persons with disabilities (collectively, “**Disabilities Laws**”);

(f) the Property is in compliance with all applicable federal, state, local and administrative laws, rules, regulations, orders and requirements relating to seismic safety (collectively, “**Seismic Safety Laws**”);

(g) the Property is in full compliance with all applicable federal, state, local and administrative laws, rules, regulations, orders and requirements relating to fire and life safety (including, without limitation, the San Francisco High-Rise Sprinkler Ordinance) (collectively, “**Life Safety Laws**”);

(h) the Property is in compliance with all other applicable federal, state, local and administrative laws, rules, regulations, orders and requirements; and

(i) there are no material physical or mechanical defects in the Property that would materially adversely affect City's intended use of the Property.

Section 3.5 Representations of the City. The City represents and warrants to the Partnership that the City has the full power and authority to enter into, to execute and to deliver this Lease, and to perform all of its duties and obligations hereunder, and has duly authorized the execution and delivery of this Lease.

Section 3.6 Tax Matters. In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the City covenants that it will, within the power of the City in its capacity as lessee under this Lease or as lessor under the Sublease, not knowingly take or cause to be taken any action or actions, or fail to take, upon the written request of the Bond Trustee, any action or actions, if the taking of such action or actions or the failure to take such action or actions, as the case may be, would cause interest on the Bonds to be included in gross income for federal income tax purposes.

Section 3.7 Continuing Disclosure. The City hereby covenants and agrees that it will comply with the provisions of the Continuing Disclosure Certificate. Failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an event of default hereunder; however, the Bond Trustee, any Participating Underwriter (as defined in the Continuing Disclosure Certificate) 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.

Section 3.8 [Reserved].

Section 3.9 City Contracting Provisions. The Partnership covenants and agrees to comply with the provisions set forth in Exhibit D to this Lease, which is incorporated in and made a part of this Lease by this reference.

Section 3.10 Compliance with Lease. The City and the Partnership hereby agree faithfully to observe and perform their respective covenants, conditions and requirements herein. The City shall not suffer or permit any default to occur hereunder, nor do or permit to be done in, upon or about the Property or any part thereof, anything that might in any way impair the obligation of the City to make Rent Payments hereunder. The City shall not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of this Lease.

ARTICLE 4.

ASSIGNMENT, SUBLEASING, MORTGAGING AND SELLING

Section 4.1 Assignment and Subleasing. This Lease may not be sold or assigned and the Property subleased, as a whole or in part, by the City without the prior written consent of the Partnership. Concurrently with the execution of this Agreement, the City and the Partnership have entered into the Sublease. Notwithstanding the foregoing, any single unit in the Project may be leased to an income-eligible occupant in compliance with the Ground Lease.

Section 4.2 Restrictions on the Partnership. The Partnership agrees that it will not mortgage, sell, encumber, assign, transfer or convey the Property or any portion thereof during the Term without the prior written consent of the City, which shall not be unreasonably withheld, delayed or conditioned; except for any Permitted Encumbrances (as such term is defined in the Bond Regulatory Agreement).

Section 4.3 Assignment of Rent Payments. The Partnership has assigned all of its right, title and interest in Rent Payments necessary to pay debt service then due and payable under the Bonds and related fees to the Bond Issuer to secure its obligations under the Loan Agreement and the Bond Issuer has assigned all of its right, title and interest in such payments to the Bond Trustee to secure the Bonds, and the City hereby acknowledges such assignments. Accordingly, so long as any Bonds are outstanding (in an amount equal to cover any debt service payments then due and payable under the Bonds), the City shall make such payments by remitting such amounts directly to the Bond Trustee upon receiving written instructions from the Partnership or Bond Trustee.

ARTICLE 5. DEFAULT

Section 5.1 City Events of Default. Each of the following shall constitute a “Default” by the City:

(a) Payment Default; Breach of Covenants. (i) Failure by the City to make any Rent Payment when due and payable hereunder or (ii) failure by the City to duly perform, comply with, or observe any other of the conditions, terms, or covenants of this Lease and such failure having continued uncured for thirty (30) days after receipt of written notice thereof from the Partnership to the City, or, if the breach cannot be cured within thirty (30) days, the City shall not be in breach so long as the City is diligently undertaking to cure such breach and such breach is cured within ninety (90) days.

(b) Partnership’s Remedies. On the occurrence of any Default by the City, the Partnership shall be entitled to any remedy available under applicable law, including: (i) terminating the Lease; or (ii) recovering money damages. In addition, to the extent applicable, the Partnership shall specifically be entitled to the remedies set forth in California Civil Code Sections 1951.2 and 1951.4, each of which are hereby incorporated into this Lease by this reference. Notwithstanding any other provision of this Lease, in no event shall the Partnership have the right to accelerate the payment of any Rent Payment hereunder.

Each and every remedy of the Partnership or any assignee of the rights of the Partnership hereunder is cumulative and the exercise of one remedy shall not impair the right of the Partnership or its assignee to any or all other remedies. If any statute or rule validly shall limit the remedies given to the Partnership or any assignee of the rights of the Partnership, the Partnership or its assignee nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

Section 5.2 Partnership Event of Default. Each of the following shall constitute a “Default” by the Partnership.

(a) Breach of Covenants. Failure by the Partnership to duly perform, comply with, or observe any other of the conditions, terms, or covenants of this Lease and such failure having continued uncured for sixty (60) days after receipt of written notice thereof from the City to the Partnership, or, if the breach cannot be cured within sixty (60) days, the Partnership shall not be in breach so long as the Partnership is diligently undertaking to cure such breach to the reasonable satisfaction of the City.

(b) City's Remedies. On the occurrence of any Default by the Partnership that extends beyond the applicable notice and cure periods set forth herein, the City shall be entitled to any remedy available under applicable law, including: (i) specific performance; or (ii) recovery of money damages. In addition, to the extent applicable, the City shall specifically be entitled to the remedies set forth in California Civil Code Sections 1951.2 and 1951.4, each of which are hereby incorporated into this Lease by this reference. Notwithstanding any other provisions of this Lease, in no event shall the City have the right to terminate this Lease.

Each and every remedy of the City is cumulative and the exercise of one remedy shall not impair the right of the City to any or all other remedies. If any statute or rule validly shall limit the remedies given to the City, the City nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

Section 5.3 Waiver. The waiver by the Partnership of any breach by the City, and the waiver by the City of any breach by the Partnership, 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.

ARTICLE 6. MISCELLANEOUS

Section 6.1 Notices, Demands and Communications. Formal notices, demands, and communications between the Parties shall be sufficiently given if, and shall not be deemed given unless, dispatched by registered or certified mail, postage prepaid, return receipt requested, by reputable overnight delivery service, or delivered personally, to the principal office of the Parties as follows:

Partnership: 833 Bryant, L.P.
c/o 833 Bryant LLC
1256 Market Street
San Francisco, CA 94102
Attn: Doug Shoemaker
E-mail: dshoemaker@mercyhousing.org

with copies to: Citibank N.A.
388 Greenwich Street, 6th Floor
New York, New York 10013
Attention: Mark Sherman

Nixon Peabody LLP
779 9th Street, NW, Suite 500
Washington, DC 20001-4501
Attention: Matthew W. Mullen

City: City and County of San Francisco
Department of Homelessness and Supportive Housing
440 Turk Street
San Francisco, California 94102
Attn: Director

with copy to: San Francisco Homes for the Homeless No. 1 LLC
c/o The San Francisco Housing Accelerator Fund
25 Taylor Street
San Francisco, CA 94102
Attn: Rebecca Foster
E-mail: rebecca@sfhaf.org

Such written notices, demands and communications may be sent in the same manner to such other addresses as the affected Party may from time to time designate by mail as provided in this Section.

Section 6.2 Binding Effect. Subject to the limitations set forth above, this Lease shall inure to the benefit of and shall be binding upon the Partnership, the City and their respective successors and assigns.

Section 6.3 Time of the Essence. In all matters under this Agreement, the Parties agree that time is of the essence, but subject to all express extension, and notice and cure rights in this Lease.

Section 6.4 Interpretation. Where the context requires herein, the singular shall be construed as the plural, and neuter pronouns shall be construed as masculine and feminine pronouns, and vice versa. References in this Lease to days shall be to calendar days. If the last day of any period to give or reply to a notice, meet a deadline or undertake any other action occurs on a day that is not a day of the week on which the City and County of San Francisco is open to the public for carrying on substantially all business functions (a “**Business Day**”), then the last day for giving or replying to such notice, meeting such deadline or undertaking any such other action shall be the next succeeding Business Day. In no event shall a Saturday or Sunday be considered a Business Day. The use in this Lease of the words “including”, “such as” or words of similar import when used with reference to any general term, statement or matter shall not be construed to limit such statement, term or matter to the specific statements, terms or matters, unless language of limitation, such as “and limited to” or words of similar import are used with reference thereto.

Section 6.5 Validity and Severability. If for any reason this Lease or any part thereof shall be held by a court of competent jurisdiction to be void, voidable, or unenforceable by the Partnership or the City, all of the remaining terms hereof shall nonetheless continue in full force

and effect. If for any reason it is held by such a court that any of the agreements, conditions, covenants or terms required to be observed or performed by the City hereunder, including the covenant to pay rentals hereunder, is unenforceable for the full term hereof, then and in such event this Lease is and shall be deemed to be a lease from year to year under which the rentals are to be paid by the City annually in consideration of the right of the City to use and occupancy of the Property, and all the other agreements, conditions, covenants and terms are contrary to or inconsistent with such holding, shall remain in full force and effect.

Section 6.6 Amendments, Changes and Modifications. This Lease may be amended, changed, modified, altered or terminated only in writing by the Parties.

Section 6.7 Applicable Law; Venue. This Lease shall be governed by and construed in accordance with the laws of the State of California. In the event any legal action is commenced to interpret or to enforce the terms of this Lease or to collect damages as a result of any breach thereof, the venue for such action shall be the Superior Court of the City and County of San Francisco.

Section 6.8 Captions. The captions or headings in this Lease are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Lease.

Section 6.9 Landowner and Limited Partner as Third-Party Beneficiaries. The Landowner is an express third-party beneficiary of this Lease, with a direct right of enforcement against the Parties.

Notwithstanding anything to the contrary set forth elsewhere in this Lease, the Limited Partner shall be deemed a third-party beneficiary of the provisions of this Lease that reference the Limited Partner, and the Limited Partner shall have rights to enforce such terms (as applicable). The foregoing rights of the Limited Partner to be a third-party beneficiary under this Lease shall be the only rights (express or implied) of the Limited Partner, to be a third-party beneficiary under this Lease and all such rights shall cease if the Limited Partner is no longer a partner in the Partnership.

Other than the Landowner and the Limited Partner, no other party is, or may be considered, a third-party beneficiary of this Lease.

Section 6.10 Incorporation of Recitals and Exhibits. All recitals set forth above, and all exhibits attached to this Agreement, are incorporated herein by this reference.

Section 6.11 No Merger. If both the Partnership's and the City's estate under this or any other lease relating to the Property or any portion thereof shall at any time for any reason become vested in one owner, this Lease 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 Bonds are outstanding.

Section 6.12 Complete Understanding of the Parties. This Agreement, in conjunction with the Sublease, constitutes the entire understanding and agreement of the Parties with respect to the matters set forth in this Lease, and this Lease supersedes all prior negotiations, discussions, undertakings, or agreements between the Parties. This Lease shall not be construed as if it had been prepared by one of the Parties, but rather as if all of the Parties had prepared it. The Parties to this Lease have read and reviewed this Lease and agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply to the interpretation of this Agreement (including but not limited to Civil Code Section 1654 as may be amended from time to time).

Section 6.13 Parties Not Co-Venturers. Nothing in this Agreement is intended to or does establish the Parties as partners, co-venturers, or principal and agent with one another.

Section 6.14 Counterparts; Multiple Originals. This Lease may be simultaneously executed in counterparts and multiple originals, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 6.15 Parties and their Agents; Approvals. The words “City” and “Partnership” include the plural as well as the singular. If there is more than one entity that comprises Partnership, Partnership’s obligations and liabilities under this Lease are joint and several. The term “Limited Partner” shall mean _____ or any successor limited partner of the Partnership. The term “Agents” when used with respect to either party includes the agents, employees, officers, contractors, and representatives of the party. All approvals, consents, or other determinations permitted or required by the City will be made by or through the City’s Director of Property unless otherwise provided in this Lease, subject to applicable legal requirements.

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IN WITNESS WHEREOF, the Partnership and the City have executed this Lease as of the Effective Date.

PARTNERSHIP:

833 BRYANT, L.P., a California limited partnership

By: 833 Bryant LLC, a California limited liability company, its general partner

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its sole member/manager

By: _____
Name: _____
Its: _____

Signatures Continue on the Following Page

CITY:

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Andrico Q. Penick, Director of Property

By: _____
~~Jeff Kositsky~~ Abigail Stewart-Kahn,
Acting Director of the Department of
Homelessness and Supportive Housing

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By: _____
Deputy City Attorney

EXHIBIT A
LEGAL DESCRIPTION

EXHIBIT B

SCHEDULE OF RENT PAYMENTS

[Payments on March 15 and September 15 equal to 1.15x debt service payments due on April 1 and October 1, respectively.]

EXHIBIT C
[RESERVED]

EXHIBIT D

**CITY AND COUNTY OF SAN FRANCISCO
MANDATORY CONTRACTING PROVISIONS**

Recording Requested by and
When Recorded Mail to:

City and County of San Francisco
Department of Homelessness and Supportive Housing
440 Turk Street
San Francisco, California 94102
Attn: Director

No fee for recording pursuant to
Government Code Section 27383 and 27388.1

Exempt from California Document
Transfer tax pursuant to Revenue
and Taxation Code 11921

**SUBLEASE AGREEMENT
(833 Bryant)**

THIS SUBLEASE AGREEMENT (this “**Sublease**”) is executed and entered into as of _____, 2021 (the “**Effective Date**”), by and between the City and County of San Francisco, a municipal corporation operating by and through the Department of Homelessness and Supportive Housing (the “**City**”), as sublessor, and 833 Bryant, L.P., a California limited partnership (the “**Partnership**”), as sublessee.

RECITALS

A. San Francisco Homes for the Homeless No. 1 LLC, a California limited liability company (the “**Landowner**”), is a wholly-owned subsidiary of The San Francisco Housing Accelerator Fund, a California nonprofit public benefit corporation, and fee owner of that certain real property located at 833 Bryant Street, San Francisco, California, and is more particularly describe in Exhibit A (the “**Property**”). [Property description to be limited to residential property]

B. The Landowner has entered into a long-term ground lease of the Property to the Partnership (the “**Ground Lease**”). The Ground Lease obligates the Partnership to develop, own, and operate one-hundred forty-five (145) affordable residential units, plus one (1) additional manager’s unit and related improvements, which the Partnership and the City intend to be made available as permanent supportive housing for chronically homeless individuals (the “**Project**”), and to develop ground floor commercial space. The Project will utilize low income housing tax credits from the California Tax Credit Allocation Committee (“**TCAC**”), and other funding sources obtained by the Partnership. At all times during the Term of this Agreement, including without limitation for tax purposes, a legal leasehold estate in the Project as provided in the Ground Lease shall be owned by the Partnership and the Partnership alone shall be entitled to all of the tax attributes of ownership of the Project, including, without limitation, the right to claim depreciation or cost recovery deductions, amortization and the right to claim the low-

income housing tax credit described in Section 42 of the Internal Revenue Code of 1986, as amended.

C. Pursuant to an Indenture of Trust, dated as of [July] 1, 2020 (the “**Indenture**”), between the California Housing Finance Agency (the “**Bond Issuer**”) and U.S. Bank National Association, as trustee (the “**Bond Trustee**”), the Bond Issuer, on _____, 2020, issued its California Housing Finance Agency Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds (the “**Bonds**”), for the purposes of making a loan of the proceeds thereof to the Partnership pursuant to a Loan Agreement, dated as of [July] 1, 2020 (the “**Loan Agreement**”), between the Bond Issuer and the Partnership, for the purpose of financing the construction of the Project.

D. In order to achieve the policy goals of the City to reduce chronic homelessness, the City agreed pursuant to that certain [Commitment Letter] (the “**Commitment**”) to provide certain financial assistance to the Partnership for the development and operation of the Project.

E. The City is authorized pursuant to the laws of the State of California (the “**State**”) and the Charter of the City and County of San Francisco (the “**Charter**”) to lease and to sublease real property when necessary and proper for public purposes.

F. The City has concurrently with the execution and delivery of this Sublease leased the Property from the Partnership pursuant to a Lease Agreement between the Partnership, as lessor, and the City, as lessee, dated as of the Effective Date (the “**Lease**”). Under the Ground Lease, the Landowner has approved the transfers contemplated by the Lease and this Sublease. Pursuant to this Sublease, the Partnership has control of the day-to-day operations of the Project. Upon termination of the Lease and resulting termination of this Sublease, the Partnership as tenant under the Ground Lease will continue to have control of the day-to-day operations of the Project.

G. The City has determined that the conditions to the execution and delivery of the Lease and this Sublease set forth in the Commitment have been satisfied.

H. It is the intent of the Partnership and the City that the City's only financial obligation is to pay rent as provided in the Lease, and the City will not incur any other financial obligation, cost, or liability related to the Project or the Property under the Lease or this Sublease.

I. The Partnership and the City have entered into a separate contract (the “**Operating Subsidy Agreement**”) and the City and _____ have entered into a contract (the “**Tenant Services Subsidy Agreement**”) pursuant to which the City has agreed to provide an annual operating subsidy to the Partnership to support the increased operating costs and tenant services costs associated with providing long-term supportive housing services to chronically homeless individuals.

J. 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 Sublease do exist, have happened and have been performed in regular and due time, form and

manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Sublease.

NOW THEREFORE, in consideration of the foregoing, of the mutual promises of the Partnership and the City (each a “**Party**”, and, collectively, the “**Parties**”), and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Parties mutually agree as follows:

ARTICLE 1.
SUBLEASE OF THE PROPERTY; RENT; TERM

Section 1.1 Sublease of the Property; As-Is Condition. As of the Effective Date, the City hereby subleases to the Partnership, and the Partnership hereby subleases from the City, the Property. This Sublease is subject, and subordinate, to the Lease and the Ground Lease. Partnership acknowledges and agrees that the Property is being leased and accepted in its “as is” condition, without representation or warranty of any kind, and subject to all applicable Legal Requirements (as defined in Section 2.7 below) governing their use, occupancy, and possession. The Partnership acknowledges and agrees that neither City nor any of its Agents have made, and City disclaims, any representations or warranties, express or implied, concerning the rentable area of the premises, the physical or environmental condition of the Property, the present or future suitability of the Property for Partnership’s use, or any other matter whatsoever relating to the Property, including any implied warranties of merchantability or fitness for a particular purpose.

Section 1.2 Rent. As of the Effective Date, the Partnership has paid to the City, as and for rent of the Property for the entire term hereunder, the sum of One Dollar (\$1.00), the receipt of which is hereby acknowledged by the City. This Sublease is intended to be a triple net lease. The Partnership agrees that the rent provided for herein shall be an absolute net return to the City free and clear of any expenses, charges or set-offs whatsoever.

As additional consideration to the City under this Sublease:

(a) If the City is making the full operating subsidy payments as provided in the Operating Subsidy Agreement and the full tenant services subsidy payments as provided in the Tenant Services Subsidy Agreement, the Partnership shall provide or cause to be provided long-term supportive housing services to chronically homeless individuals as provided in the Operating Subsidy Agreement and the Tenant Services Subsidy Agreement; or

(b) If the City is not making the full operating subsidy payments as provided in the Operating Subsidy Agreement or the full tenant services subsidy payments as provided in the Tenant Services Subsidy Agreement, the Partnership shall make the Property available for occupancy by low and moderate income persons at an affordability level determined by the parties under the Operating Subsidy Agreement, but at a minimum with residential rents and/or other available subsidy to cover operating expenses and achieve a 1.15 debt service coverage ratio.

Section 1.3 Term. The term of this Sublease shall commence as of the Effective Date and shall remain in full force and effect from such date until [April 1, 2050] (the “**Term**”), unless such Term is sooner terminated as set forth in Section 1.4.

Section 1.4 Early Termination. If either the Ground Lease or the Lease Agreement is terminated at any time prior to [April 1, 2050] [Note: Date of final maturity for Bonds], this Sublease shall automatically terminate without further action of the Parties.

ARTICLE 2. QUIET ENJOYMENT; USE

Section 2.1 Quiet Enjoyment. Subject to the Lease, the Partnership shall have the quiet use and enjoyment of the Property throughout the Term. Subject to any rights that the City may have under the Lease (in the absence of an event of default under the Lease by the City) to possession and enjoyment of the Property, the City hereby covenants and agrees that it will not take any action to prevent the Partnership from having quiet and peaceable possession and enjoyment of the Property during the Term, and will, at the request of the Partnership and at the City’s cost, to the extent that it may lawfully do so, join in any legal action in which the Partnership asserts its right to such possession and enjoyment.

Section 2.2 Use. Throughout the Term, the Property shall only be used solely for the construction and operation of the Project. Throughout the Term, the Partnership shall have sole responsibility and right to develop, own and operate the Project including, but not limited to:

(a) using the Project only to provide proper housing facilities and, if the City is making the full operating subsidy payments under the Operating Subsidy Agreement and the full tenant services subsidy payments under the Tenant Services Subsidy Agreement, ancillary uses to chronically homeless individuals, and to maintain the character of the Project as required by this Sublease, the Lease, TCAC regulations, the Bond Regulatory Agreement (as defined in the Lease) and the Project financing documents for so long as such agreements remain in effect; and

(b) managing all daily functions of the Project, including without limitation, the selection of residents, certification and recertification of the tenants’ household income, evictions, collection of rents and deposits, maintenance, landscaping, routine and extraordinary repairs, replacement of capital items, and security. The City shall have no responsibility or control over management of the Project. The Partnership shall retain Mercy Housing Management Group, Inc., or another professional property management company reasonably acceptable to the City to perform its management duties.

Section 2.3 Repairs and Maintenance. At no expense to the City, Partnership will maintain (and replace, if necessary) the Property (including the floors, interior plumbing, electrical wiring, fixtures, and equipment) in good repair and working order and in a clean, secure, safe, and sanitary condition. Partnership will promptly make all repairs and replacements: (a) at no cost to the City, (b) by licensed contractors or qualified mechanics approved by the City, (c) so that the repairs and replacements will be at least equal in quality, value, and utility to the original work or installation, and (d) in accordance with all applicable

Legal Requirements. Partnership hereby waives all rights to make repairs at the City's expense under Sections 1941 and 1942 of the California Civil Code or under any similar Legal Requirements.

Section 2.4 Utilities. At no cost to the City, Partnership will be solely responsible for furnishing any utilities or services that Partnership may need for its use of the Property. If any Legal Requirements impose mandatory or voluntary controls on the City or any part of the Property relating to the use or conservation of energy, water, gas, light, or electricity or the reduction of automobile or other emissions, or the provision of any other utility or service provided with respect to this Sublease, or if the City is required to make alterations to any part of the Property to comply with mandatory controls or guidelines, then that compliance and making of any related alterations will not entitle Partnership to any damages, relieve Partnership of the obligation to pay the full rent or to perform each of its other covenants under this Sublease, or constitute or be construed as a constructive or other eviction of Partnership. At any time, the City may install a water meter in the Property or to otherwise measure the amount of water consumed on the Property, and Partnership will pay for the cost of the meter or other means of measurement and its installation and maintenance.

Section 2.5 Changes to the Property. The Partnership shall, at its sole cost, have the right during the Term to make improvements to the Property or to attach any fixtures, structures or signs to the Property if such improvements, fixtures, structures or signs are necessary or beneficial for the use of the Property; provided, such actions by the Partnership shall not materially adversely affect the operation of the Property for the purpose intended or reduce the fair rental value of the Property in any material respect.

Section 2.6 Damage and Destruction.

(a) If the Property is damaged by fire, earthquake or other casualty, Partnership shall repair the same without delay. The City shall have no obligation to make any repairs to the Property and shall have no financial obligation with respect to any repairs to the Property.

(b) If, in Partnership's reasonable judgment made in good faith, the Partnership determines that (i) repairs cannot be made within two hundred ten (210) days after the date of damage or (ii) available insurance proceeds (excluding any deductible for which Partnership shall be responsible) will not be sufficient to make necessary repairs, Partnership may elect to terminate this Sublease by written notice to the City within thirty (30) days of such determination. If the Partnership does not elect to terminate this Sublease as provided in this paragraph (b), this Sublease shall remain in full force and effect.

(c) The parties intend that the provisions of this Section 2.6 govern fully their rights and obligations in the event of damage or destruction, and Partnership and City each hereby waives and releases any right to terminate this Sublease in whole or in part under Section 1932, subdivision 2, Section 1933, subdivision 4, and Sections 1941 and 1942 of the Civil Code of California or under any similar law, statute or ordinance now or hereafter in effect, to the extent such rights are inconsistent with the provisions hereof.

Section 2.7 Compliance with Legal Requirements and Risk Management Requirements.

2.7.1 Compliance with Legal Requirements. At no cost to the City, Partnership will promptly comply with all present or future federal, state, local, and administrative laws, ordinance, resolution, regulation, requirement, proclamation, order, or decree of any municipal, county, state, or federal government or other governmental or regulatory authority, board of fire underwriters, or any directive or occupancy certificate issued under any law by any public officer or officers acting in their regulatory capacity (now or later in effect, collectively “**Legal Requirements**”) relating to the Property or the use or occupancy of the Property, including the City’s “Government Requirements” set forth in Exhibit B, and with any and all recorded covenants, conditions, and restrictions affecting all or any portion of the Property, whether in effect at the time of the execution of this Sublease or adopted or recorded at any time later and whether or not they were considered by the parties in negotiating this Sublease. It is Partnership’s obligation, at no cost to the City, to cause the Property and Partnership’s uses thereof to be conducted in compliance with the Americans with Disabilities Act, 42 U.S.C. Section 12101 et seq. and any other applicable disability access Legal Requirements. Any alteration or improvement to the Property made by or on behalf of Partnership under the provisions of this Section 2.7.1 will comply with the provisions of Section 2.3 above. Partnership’s obligation to comply with all Legal Requirements is a material part of the bargained-for consideration under this Sublease. Partnership’s obligation under this Section 2.7.1 includes its responsibility to make substantial or structural repairs and alterations to the Property, regardless of, among other factors, the relationship of the cost of curative action to the Rent under this Sublease, the length of the then remaining Term, the relative benefit of the repairs to Partnership or the City, the degree to which the curative action may interfere with Partnership’s use or enjoyment of the Property, the likelihood that the parties contemplated the particular Legal Requirements involved, and whether the Legal Requirements involved are related to Partnership’s particular use of the Property.

2.7.2 Regulatory Approvals.

(a) Responsible Party. Partnership’s use of the Premises and construction of any alterations or improvements may require authorizations, approvals, or permits from governmental regulatory agencies with jurisdiction over the Property. Partnership is solely responsible for obtaining all regulatory approvals. Partnership will bear all costs associated with applying for and obtaining any regulatory approval and is solely responsible for satisfying any and all conditions imposed by regulatory agencies as part of a regulatory approval; provided, however, any condition that could affect use or occupancy of the Property or the City’s interest in the Property will first be approved by the City. Partnership will immediately pay and discharge any fines or penalties levied as a result of Partnership’s failure to comply with the terms and conditions of any regulatory approval, and the City will have no liability, monetary or otherwise, for any fines or penalties. Partnership will Indemnify the City and the other Indemnified Parties (defined below) against all Claims (defined below) arising in connection with Partnership’s failure to obtain or failure by Partnership, its agents, or its invitees to comply with the terms and conditions of any regulatory approval.

(b) The City Acting in its Proprietary Interest. The City is entering into this Sublease in its proprietary interest in the Property and not as a regulatory agency with police powers. Nothing in this Sublease will limit in any way Partnership's obligation to obtain any required approvals from City officials, departments, boards, agencies, commissions, or other body having jurisdiction over the Property. By entering into this Sublease, the City is not modifying or limiting Partnership's obligation to cause the Property to be used and occupied in accordance with all applicable Legal Requirements.

2.7.3 Compliance with the City's Risk Management Requirements. Partnership will not do anything, or permit anything to be done, in or about the Property that would be prohibited by or increase rates under a standard form fire insurance policy or subject the City to potential liability. At no cost to the City, Partnership will faithfully observe any and all requirements of the City's Risk Manager with respect to Partnership's use and occupancy of the Property.

ARTICLE 3. SPECIAL COVENANTS AND PROVISIONS

Section 3.1 Waste. The Partnership agrees that at all times that it is in possession of the Property, it will not commit, suffer or permit any waste on the Property, and that it will not willfully or knowingly use or permit the use of the Property for any illegal purpose or act.

Section 3.2 Further Assurances and Corrective Instruments. The Parties agree that each Party will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such additional documents, and such further instruments, as may be reasonably necessary for correcting any inadequate or incorrect description of the Property hereby leased or intended so to be or for carrying out the expressed intention of this Sublease and the Lease, including, but not limited to, any document reasonably requested by a Party to evidence the termination of this Sublease in accordance with Section 1.4 above.

Section 3.3 Waiver of Personal Liability. All liabilities under this Sublease on the part of a Party shall be solely liabilities of the Party, itself, and each Party hereby releases each and every director, officer and employee of the other Party of and from any personal or individual liability under this Sublease. No director, officer or employee of a Party shall at any time or under any circumstances be individually or personally liable under this Sublease to the other Party, or to any other party whomsoever for anything done or omitted to be done by the Party.

Section 3.4 Representations of the Partnership. The Partnership represents and warrants to the City as follows:

(a) the Partnership has the full power and authority to enter into, to execute and to deliver this Sublease, and to perform all of its duties and obligations hereunder, and has duly authorized the execution of this Sublease;

(b) except for the Ground Lease, the Property is not subject to any dedication, easement, right of way, reservation in patent, covenant, condition, restriction, lien or encumbrance which would prohibit or materially interfere with the use of the Property for purposes as contemplated by the Partnership;

(c) all taxes, assessments or impositions of any kind with respect to the Property, except current taxes (if any), have been paid in full; and

(d) the Ground Lease is in full force and effect and the Landowner has not declared any default.

Section 3.5 Representations of the City. The City represents and warrants to the Partnership that the City has the full power and authority to enter into, to execute and to deliver this Sublease, and to perform all of its duties and obligations hereunder, and has duly authorized the execution and delivery of this Sublease.

Section 3.6 Waiver of Claims; Indemnification.

3.6.1 Limitation on the City's Liability; Waiver of Claims. The City will not be responsible for, or liable to, Partnership, and Partnership hereby assumes the risk of, and waives and releases the City and its Agents from all Claims for any injury, loss, or damage to any person or property in or about the Property by or from any cause whatsoever including: (a) any act or omission of persons occupying any part of the Property; (b) theft; (c) explosion, fire, steam, oil, electricity, water, gas, rain, pollution, or contamination; (d) stopped, leaking, or defective building systems; (e) Property defects; and (f) any other acts, omissions, or causes. Nothing in this Section 3.6 will relieve the City from liability caused solely and directly by the active gross negligence or willful misconduct of the City or its Agents, but the City will not be liable under any circumstances for any consequential, incidental, or punitive damages.

3.6.2 Partnership's Indemnity. Partnership, on behalf of itself and its successors and assigns, will indemnify, defend, and hold harmless ("**Indemnify**") the City, including all of its boards, commissions, departments, agencies, and other subdivisions, and all of its and their Agents, and their respective heirs, legal representatives, successors, and assigns (individually and collectively, the "**Indemnified Parties**"), and each of them, from and against all liabilities, losses, costs, claims, judgments, settlements, damages, liens, fines, penalties, and expenses, including direct and vicarious liability of every kind (collectively, "**Claims**"), incurred in connection with or arising in whole or in part from: (a) any accident, injury to or death of a person (including Partnership's employees), or loss of or damage to property, howsoever or by whomsoever caused, occurring in or about the Property; (b) any default by Partnership in the observation or performance of any of the terms, covenants, or conditions of this Sublease to be observed or performed on Partnership's part; (c) the use or occupancy or manner of use or occupancy of the Property by Partnership, its Agents, its Invitees, or any person or entity claiming through or under any of them; (d) the condition of the Property; (e) any construction or other work undertaken by Partnership on the Property whether before or during the Term; or (f) any acts, omissions, or negligence of Partnership, its Agents, or its Invitees, in, on, or about the Property, all regardless of the active or passive negligence of, and regardless of whether liability without fault is imposed or sought to be imposed on, the Indemnified Parties, except to the extent that the Indemnity is void or otherwise unenforceable under applicable Legal Requirements and further except only those Claims as are caused exclusively by the willful misconduct or active gross negligence of the Indemnified Parties. The foregoing Indemnity includes reasonable fees of attorneys, consultants, and experts and related costs and the City's costs of investigating any Claim. Partnership expressly acknowledges that Partnership has an

immediate and independent obligation to defend the City from any Claim that actually or potentially falls within this indemnity provision even if the allegation is or may be groundless, fraudulent, or false, which obligation arises at the time the Claim is tendered to Partnership by the City and continues at all times thereafter. Partnership's obligations under this Section 3.6 will survive the expiration or termination of this Sublease.

Section 3.7 Insurance.

3.7.1 Partnership's Insurance.

(a) At no cost to the City, Partnership will procure and keep in effect at all times during the Term insurance as follows:

(i) Commercial general liability insurance with limits not less than One Million Dollars (\$1,000,000) combined single limit per occurrence and Two Million Dollars (\$2,000,000) annual aggregate limit for bodily injury and property damage, including coverage for contractual liability; personal injury; fire damage legal liability; advertisers' liability; owners' and contractors' protective liability; products and completed operations; broad form property damage; and explosion, collapse and underground (XCU).

(ii) Umbrella Liability coverage in amount of not less than Ten Million Dollars (\$10,000,000).

(iii) Commercial Automobile Liability insurance, with limits not less than One Million Dollars (\$1,000,000) each occurrence, combined single limit for bodily injury and property damage, including owned, hired and non-owned auto coverage, as applicable.

(iv) Worker's Compensation Insurance with Employer's Liability limits not less than One Million Dollars (\$1,000,000) each accident, if applicable.

(v) Business automobile liability insurance with limits not less than One Million Dollars (\$1,000,000) each occurrence combined single limit for bodily injury and property damage, including owned and non-owned and hired vehicles, as applicable, if Partnership uses automobiles in connection with its use of the Property.

(vi) (vi) Business interruption insurance ("Business Interruption Insurance") covering an abatement of the City's obligation to make the Rent Payments as a result of a loss, total or partial, covered by the Casualty Insurance impairing the Borrower's ability to operate its business at the Property in an amount equal to the annual Rent Payments for a period of at least one (1) year (for two (2) years if available on the open market from reputable insurance companies at a reasonable cost, as determined by the Borrower). [Business Interruption Insurance shall also cover business interruptions due to failures or interruptions in telecommunications services, strikes, employee lockouts, riots, or other civil commotion.] Business Interruption Insurance shall name the Bond Trustee as a beneficiary.

(vii) Rental interruption insurance, throughout the term of this Sublease commencing at substantial completion of the Project, to cover the City's loss, total or partial, of Rent Payments resulting from the loss, total or partial, of the use of any part of the Property as a

result of any of hazards in an amount equal to the amount sufficient at all times to pay an amount not less than the product of two times the maximum amount of Rent Payments scheduled to be paid during any rental period set forth in Exhibit B to the Lease.

(viii) Licensed professionals (i.e., architects, engineers, certified public accountants, etc.) will provide professional liability insurance with limits not less than \$1,000,000 each claim with respect to negligent acts, errors, or omissions in connection with professional services to be provided under this Sublease or to the Property.

(ix) (A) Property insurance, excluding earthquake and flood, in the amount no less than one hundred percent (100%) of the replacement value of all completed improvements and property in the care, custody and control of the Partnership or its contractor. For rehabilitation/construction projects that are unoccupied by residential or commercial tenants, tenants must obtain property insurance by the date that the project receives a certificate of substantial completion; and (B) boiler and machinery insurance, comprehensive form, covering damage to, loss or destruction of machinery and equipment located on the Development that is used by the Partnership for heating, ventilating, air-conditioning, power generation and similar purposes, in an amount not less than one hundred percent (100%) of the actual replacement value of such machinery and equipment with a deductible not to exceed Twenty Five Thousand Dollars (\$25,000) each loss.

(ix) Other insurance as is generally required by commercial owners of buildings similar in size, character, age, and location as the Property, as may change from time to time, and insurance that is required pursuant to Exhibit D of the Ground Lease.

(b) If any of the required insurance is provided under a claims-made form, Partnership will maintain the coverage continuously throughout the Term and, without lapse, for a period of three (3) years beyond the expiration or termination of this Sublease, to the effect that, if occurrences during the Term give rise to claims made after expiration or termination of this Sublease, those claims will be covered by the claims-made policies. Partnership's obligations under this Section will survive the expiration or termination of this Sublease.

(c) If any of the required insurance is provided under a form of coverage that includes a general annual aggregate limit or provides that claims investigation or legal defense costs be included in the general annual aggregate limit, the general aggregate limit will be double the occurrence or claims limits specified above.

(d) All liability insurance policies will be endorsed to provide the following:

(i) Name as additional insured the City and County of San Francisco, its officers, agents, and employees.

(ii) That the policies are primary insurance to any other insurance available to the additional insureds, with respect to any claims arising out of this Sublease, and that insurance applies separately to each insured against whom claim is made or suit is brought.

(e) Each insurance policy required under Section 3.7.1(a) above will be issued by an insurance company licensed in the State of California and with a general policyholders'

rating of “A-” or better and a financial size ranking of “Class VIII” or higher in the most recent edition of Best’s Insurance Guide.

(f) All insurance policies required to be maintained by Partnership will be endorsed to provide thirty (30) days’ prior written notice of cancellation for any reason, intended non-renewal, or reduction in coverage to both Partnership and the City. If Partnership’s insurer refuses to offer this endorsement, Partnership will promptly provide the thirty (30) day’s prior written notice of cancellation, intended non-renewal, or reduction in coverage to the City. Notice to the City will be mailed to the addresses for the City set forth in Section 6.1.

(g) On or before the Effective Date, Partnership will deliver to the City certificates of insurance and additional insured policy endorsements from insurers in a form satisfactory to the City, evidencing the coverage required under this Sublease, together with complete copies of the policies and at any other time promptly after the City’s request. During the Term, Partnership will provide the City with certificates or policies at least thirty (30) days before the expiration dates of expiring policies. If Partnership fails to procure the required insurance, or to deliver the policies or certificates, then at its option and without waiving any rights or remedies that the City may have for Partnership’s default, the City may procure the insurance for Partnership’s account, and Partnership will pay the cost to the City within five (5) days after delivery to Partnership of invoices therefor.

(h) On the City’s request, Partnership and the City will periodically review the limits and types of insurance carried under this Section. If the general commercial practice in San Francisco is to carry liability insurance in an amount or coverage materially greater than the amount or coverage then being carried by Partnership for risks comparable to those associated with the Property, then, at the City’s request, Partnership will increase the amounts or coverage carried by Partnership to conform to the general commercial practice.

(i) Partnership’s compliance with the provisions of this Section 3.7.1 will in no way relieve or decrease Partnership’s liability under Section 3.6.2, or any of Partnership’s other obligations under this Sublease.

3.7.2 Partnership’s Personal Property. At no cost to the City, Partnership is responsible for separately insuring Partnership’s personal property.

3.7.3 No Insurance Obligation by the City. Partnership acknowledges and agrees that the City has no obligation under this Sublease to carry any third party insurance coverage for the Property or otherwise.

3.7.4 Waiver of Subrogation. Notwithstanding anything to the contrary in this Sublease, the City and Partnership (each a “**Waiving Party**”) each waives any right of recovery against the other party for any loss or damage relating to the Property or any operations or contents, whether or not the loss is caused by the fault or negligence of the other party, to the extent the loss or damage is covered by third-party insurance that is required to be purchased by the Waiving Party under this Sublease or is actually covered by insurance held by the Waiving Party or its Agents. Each Waiving Party will obtain a waiver of subrogation rights endorsements

from applicable insurance carriers issuing policies relating to the Property; provided, the failure to obtain the endorsement will not affect the above waiver.

Section 3.8 Hazardous Materials.

3.8.1 Definitions. As used in this Sublease:

(a) “Environmental Laws” means all present or future Legal Requirements relating to Hazardous Material (including its use, handling, transportation, production, disposal, discharge, or storage), or to health and safety, industrial hygiene, or the environment, including soil, air, and groundwater conditions.

(b) “Hazardous Material” means any material that, because of its quantity, concentration, or physical or chemical characteristics, is at any time, now or later, deemed by any federal, state, or local governmental authority to pose a present or potential hazard to human health, welfare, or safety or to the environment. Hazardous Material includes any material or substance defined as a “hazardous substance,” “pollutant,” or “contaminant” under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, (42 U.S.C. Section 9601 et seq.) or under Section 25316 of the California Health & Safety Code; any “hazardous waste” listed under Section 25140 of the California Health & Safety Code; and petroleum, including crude oil or any fraction thereof, natural gas, or natural gas liquids.

(c) “Investigate” and “Investigation” means undertaking any activities to determine the nature and extent of Hazardous Material that may be located in, on, under, or about the Property or that has been, are being or threaten to be Released into the environment; “Remediate” and “Remediation” means to clean up, remove, contain, treat, stabilize, monitor, or otherwise control the Hazardous Material.

(d) “Release” when used with respect to Hazardous Material includes any actual or imminent spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing into or inside the Premises, or in, on, under, or about any other part of the Property or into the environment.

3.8.2 No Hazardous Materials. Neither Partnership nor any of its Agents or Invitees will cause or permit any Hazardous Material to be brought on, kept, used, stored, generated or disposed of in, on, or about the Property, or transported to or from the Property. Partnership will give the City immediate written notice of: (a) any action, proceeding, or inquiry by any governmental authority (including the California State Department of Health Services, the State or any Regional Water Quality Control Board, the Bay Area Air Quality Management District, or any local governmental entity) against Partnership with respect to the presence or Release or suspected presence or Release of Hazardous Material on the Property or the migration thereof from or to other property; (b) all demands or claims made or threatened by any third party against Partnership or the Property relating to any loss or injury resulting from any Hazardous Materials; (c) any Release of Hazardous Material on or about the Property that has occurred and may require any Investigation or Remediation; and (d) all matters of which Partnership is required to give notice under Section 25359.7 of the California Health and Safety Code.

3.8.3 Partnership's Environmental Indemnity. If Partnership breaches any of its obligations contained in this Section, or, if any act or omission of Partnership, its Agents, or its Invitees results in any Release of Hazardous Material in, on, under, or about the Premises or any other part of the Property in violation of any applicable Environmental Laws, then, without limiting Partnership's Indemnity contained in Section 3.6.2, on behalf of itself and its successors and assigns, Partnership will Indemnify the Indemnified Parties, and each of them, from and against all Claims (including damages for decrease in value of the Property, the loss or restriction of the use of rentable or usable space or of any amenity of the Property, and sums paid in settlement of claims, attorneys' fees, consultants' fees, and experts' fees and costs) arising during or after the Term and relating to the Release except only those Claims resulting exclusively from the willful misconduct or active gross negligence of the Indemnified Parties. The foregoing Indemnity includes costs incurred in connection with activities undertaken to Investigate and Remediate Hazardous Material and to restore the Property to its prior condition, fines and penalties assessed for the violation of any applicable Environmental Laws, and any natural resource damages. Without limiting the foregoing, if Partnership or any of its Agents or Invitees causes or permits the Release of any Hazardous Materials in, on, under, or about the Premises or any other part of the Property, Partnership will immediately and at no expense to the City take all appropriate actions to return the Property affected by the Release to the condition existing before the Release and otherwise Investigate and Remediate the Release in accordance with all Environmental Laws. Partnership expressly acknowledges that Partnership has an immediate and independent obligation to defend the City from any claim which actually or potentially falls within this indemnity provision even if the allegation is or may be groundless, fraudulent, or false, and this obligation arises at the time the claim is tendered to Partnership by the City and continues at all times thereafter. Partnership will afford the City a full opportunity to participate in any discussions with governmental regulatory agencies regarding any settlement agreement, cleanup or abatement agreement, consent decree, or other compromise or proceeding involving Hazardous Material.

3.8.4 Survival of Obligation. Partnership's obligations under this Section 3.8 will survive the expiration or earlier termination of this Sublease.

Section 3.9 [Reserved].

Section 3.10 Right of Entry and Inspection. The City shall have the right to enter the Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the City's rights or obligations hereunder and for all other lawful purposes.

Section 3.11 Liens. The Partnership shall keep the Property free of all liens and encumbrances except Permitted Encumbrances (as such term is defined in the Bond Regulatory Agreement). In the event the Partnership shall at any time during the term hereof cause any improvements to the Property to be constructed or materials to be supplied in or upon or attached to the Property, the Partnership shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the Partnership in, upon, about or relating to the Property or the Partnership's interest therein, except for the Property or the Partnership's interest therein, the Partnership shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due,

except that if the Partnership desires to contest any such lien it may do so. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the Partnership shall forthwith pay or cause to be paid and discharged such judgment.

ARTICLE 4.
ASSIGNMENT, SUBLEASING, MORTGAGING AND SELLING

Section 4.1 Assignment and Subleasing. This Sublease may not be sold or assigned and the Property further subleased, as a whole or in part, by the Partnership without the prior written consent of the City. Notwithstanding the foregoing, any single unit in the Project may be leased to an income-eligible occupant in compliance with the Ground Lease and the Lease Agreement.

Section 4.2 Restrictions on the City. The City agrees that it will not mortgage, sell, encumber, assign, transfer or convey its interest in the Property or any portion thereof during the Term without the prior written consent of the Partnership, which shall not be unreasonably withheld, delayed, or conditioned.

ARTICLE 5.
DEFAULT

Section 5.1 Event of Default. Each of the following shall constitute a “Default” by a Party:

(a) Breach of Covenants. Failure by a Party to duly perform, comply with, or observe any of the conditions, terms, or covenants of this Agreement, the Lease Agreement, the Operating Subsidy Agreement or the Tenant Services Subsidy Agreement and such failure having continued uncured for sixty (60) days after receipt of written notice thereof from the non-defaulting Party to the defaulting Party, or if the breach cannot be cured within sixty (60) days, the defaulting Party shall not be in breach so long as the defaulting Party is diligently undertaking to cure such breach to the reasonable satisfaction of the non-defaulting Party.

(b) City’s Remedies. On the occurrence of any Default by the Partnership that extends beyond the applicable notice and cure periods set forth herein, the Limited Partner shall propose a replacement general partner of the Partnership (subject to the reasonable approval of the City). In the event that the Limited Partner fails to propose an acceptable replacement general partner of the Partnership, the City shall be entitled to: (A) select a replacement general partner to the partnership (subject to the reasonable approval of the Limited Partner); or (B) any remedy available under applicable law (other than termination of the Sublease), including: (i) specific performance; or (ii) recovering money damages. In addition, to the extent applicable, the City shall specifically be entitled to the remedies set forth in California Civil Code Sections 1951.2 and 1951.4, each of which are hereby incorporated into this Sublease by this reference. Notwithstanding any other provision in this Sublease, in no event shall the City have the right to terminate this Sublease.

Section 5.2 Waiver. The waiver by the Partnership of any breach by the City, and the waiver by the City of any breach by the Partnership, 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.

ARTICLE 6.
MISCELLANEOUS

Section 6.1 Notices, Demands and Communications. Formal notices, demands, and communications between the Parties shall be sufficiently given if, and shall not be deemed given unless, dispatched by registered or certified mail, postage prepaid, return receipt requested, by reputable overnight delivery service, or delivered personally, to the principal office of the Parties as follows:

Partnership: 833 Bryant, L.P.
c/o 833 Bryant LLC
1256 Market Street
San Francisco, CA 94102
Attn: Doug Shoemaker
E-mail: dshoemaker@mercyhousing.org

With copies to: Citibank N.A.
388 Greenwich Street, 6th Floor
New York, NY 10013
Attention: Mark Sherman

Nixon Peabody LLP
779 9th Street, NW, Suite 500
Washington, DC 20001-4501
Attention: Matthew W. Mullen

City: City and County of San Francisco
Department of Homelessness and Supportive Housing
440 Turk Street
San Francisco, California 94102
Attn: Director

with copy to: San Francisco Homes for the Homeless No. 1 LLC
c/o The San Francisco Housing Accelerator Fund
25 Taylor Street
San Francisco, CA 94102
Attn: Rebecca Foster
E-mail: rebecca@sfhaf.org

Such written notices, demands and communications may be sent in the same manner to such other addresses as the affected Party may from time to time designate by mail as provided in this Section.

Section 6.2 Binding Effect. Subject to the limitations set forth above, this Sublease shall inure to the benefit of and shall be binding upon the Partnership, the City and their respective successors and assigns.

Section 6.3 Time of the Essence. In all matters under this Agreement, the Parties agree that time is of the essence, but subject to all express extension, and notice and cure rights in this Agreement.

Section 6.4 Interpretation. Where the context requires herein, the singular shall be construed as the plural, and neuter pronouns shall be construed as masculine and feminine pronouns, and vice versa. References in this Agreement to days shall be to calendar days. If the last day of any period to give or reply to a notice, meet a deadline or undertake any other action occurs on a day that is not a day of the week on which the City and County of San Francisco is open to the public for carrying on substantially all business functions (a “**Business Day**”), then the last day for giving or replying to such notice, meeting such deadline or undertaking any such other action shall be the next succeeding Business Day. In no event shall a Saturday or Sunday be considered a Business Day. The use in this Agreement of the words “including”, “such as” or words of similar import when used with reference to any general term, statement or matter shall not be construed to limit such statement, term or matter to the specific statements, terms or matters, unless language of limitation, such as “and limited to” or words of similar import are used with reference thereto.

Section 6.5 Severability. In the event that any provision of this Sublease shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 6.6 Amendments, Changes and Modifications. This Sublease may be amended, changed, modified, altered or terminated only in writing by the Parties. Whenever this Sublease requires or permits City’s consent or approval, the Director of Property or his or her designee will be authorized to provide the consent or approval, except as otherwise provided by applicable Legal Requirements, including the Charter. Any amendments or modifications to this Sublease, including amendments to or modifications to the exhibits to this Sublease, are subject to the mutual written agreement of City and Partnership, and City’s agreement may be made upon the sole approval of the Director of Property, or his or her designee; provided, however, (a) changing the legal description of the Property, (b) increasing the Term, (c) increasing the Rent, (d) changing the general use of the Premises from the use authorized under this Sublease, and (e) any other amendment or modification that materially increases City’s liabilities or financial obligations under this Sublease may also require the approval of City’s Board of Supervisors.

Section 6.7 Applicable Law; Venue. This Sublease shall be governed by and construed in accordance with the laws of the State of California. In the event any legal action is commenced to interpret or to enforce the terms of this Agreement or to collect damages as a result of any breach thereof, the venue for such action shall be the Superior Court of the City and County of San Francisco.

Section 6.8 Captions. The captions or headings in this Sublease are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Sublease.

Section 6.9 Landowner and Limited Partner as Third-Party Beneficiaries. The Landowner is an express third-party beneficiary of this Sublease, with a direct right of enforcement against the Parties.

Notwithstanding anything to the contrary set forth elsewhere in this Sublease, the Limited Partner shall be deemed a third-party beneficiary of the provisions of this Sublease that reference the Limited Partner, and the Limited Partner shall have rights to enforce such terms (as applicable). The foregoing rights of the Limited Partner to be a third-party beneficiary under this Sublease shall be the only rights (express or implied) of the Limited Partner, to be a third-party beneficiary under this Sublease and all such rights shall cease if the Limited Partner is no longer a partner in the Partnership.

Other than the Landowner and the Limited Partner, no other party is, or may be considered, a third-party beneficiary of this Sublease.

Section 6.10 Incorporation of Recitals and Exhibits. All recitals set forth above, and all exhibits attached to this Sublease, are incorporated herein by this reference.

Section 6.11 No Merger. If both the Partnership's and the City's estate under this or any other lease relating to the Property or any portion thereof shall at any time for any reason become vested in one owner, this Sublease 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 Bonds are outstanding.

Section 6.12 Complete Understanding of the Parties. This Sublease, in conjunction with the Lease, constitutes the entire understanding and agreement of the Parties with respect to the matters set forth in this Sublease, and this Sublease supersedes all prior negotiations, discussions, undertakings, or agreements between the Parties. This Sublease shall not be construed as if it had been prepared by one of the Parties, but rather as if all of the Parties had prepared it. The Parties to this Sublease have read and reviewed this Sublease and agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not apply to the interpretation of this Sublease (including but not limited to Civil Code Section 1654 as may be amended from time to time).

Section 6.13 Parties Not Co-Venturers. Nothing in this Agreement is intended to or does establish the Parties as partners, co-venturers, or principal and agent with one another.

Section 6.14 Counterparts; Multiple Originals. This Sublease may be simultaneously executed in counterparts and multiple originals, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 6.15 Parties and their Agents; Approvals. The words “City” and “Partnership” include the plural as well as the singular. If there is more than one entity that comprises Partnership, Partnership’s obligations and liabilities under this Sublease are joint and several. The term “Limited Partner” shall mean Citibank, N.A. or any successor limited partner of the Partnership. The term “Agents” when used with respect to either party includes the agents, employees, officers, contractors, and representatives of the party, and the term “Invitees” when used with respect to Partnership includes the clients, customers, invitees, guests, licensees, assignees, or subtenants of Partnership. All approvals, consents, or other determinations permitted or required by City will be made by or through City’s Director of Property unless otherwise provided in this Sublease, subject to applicable Legal Requirements.

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IN WITNESS WHEREOF, the City and the Partnership have executed this Sublease as of the Effective Date.

CITY:

CITY AND COUNTY OF SAN
FRANCISCO

By: _____
Andrico Q. Penick
Director of Property

By: _____
Abigail Stewart-Kahn, Acting Director
of the Department of Homelessness and
Supportive Housing

APPROVED AS TO FORM:

DENNIS J. HERRERA, City Attorney

By: _____
Keith Nagayama, Deputy City Attorney

Signatures Continue on the Following Page

PARTNERSHIP:

833 BRYANT, L.P., a California limited partnership

By: 833 Bryant LLC, a California limited liability company, its general partner

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its sole member/manager

By: _____
Name: _____
Its: _____

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.

ACKNOWLEDGMENT

STATE OF CALIFORNIA)
)
COUNTY OF _____)

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

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

WITNESS my hand and official seal.

Name: _____
Notary Public

EXHIBIT A
LEGAL DESCRIPTION OF THE LAND

EXHIBIT B

LAWS APPLICABLE TO THE PROPERTY AND THE PROJECT

BOND PURCHASE AGREEMENT

\$ _____
California Housing Finance Agency
Revenue Bonds
(San Francisco Supportive Housing – 833 Bryant Apartments)
2020 Issue N – Social Bonds

July __, 2020

California Housing Finance Agency
Financing Division, MS 940
500 Capitol Mall, Suite 1400
Sacramento, California 95814

Office of the Treasurer of the State of California
Public Finance Division
915 Capitol Mall, Room 261
Sacramento, CA 95814

833 Bryant, L.P.
c/o Mercy Housing California
1256 Market Street
San Francisco, California 94102
Attention: Sharon Christen

Ladies and Gentlemen:

Citigroup Global Markets Inc., as underwriter (the “Underwriter”) offers to enter into this agreement (this “Bond Purchase Agreement”) with the California Housing Finance Agency (the “Issuer”), the Honorable Fiona Ma, Treasurer of the State of California (the “Treasurer”), solely in her capacity as agent for sale for the California Housing Finance Agency and 833 Bryant, L.P., a California limited partnership (the “Borrower”), which, upon acceptance of this offer and receipt by the Issuer, the Treasurer, the Borrower and the Underwriter of the Letter of Representations of the City and County of San Francisco, California (the “City”) in the form attached hereto as Exhibit H (the “Letter”) and hereby incorporated herein by reference, will be binding upon the Issuer, the Treasurer, the Borrower and the Underwriter. This offer is made subject to the Issuer’s, the Treasurer’s and the Borrower’s acceptance on or before 5:00 p.m., Pacific time, as of the date set forth above. If this offer is not timely accepted, it will thereafter be subject to withdrawal by the Underwriter upon written notice delivered to the Issuer and the Borrower at any time prior to the acceptance hereof by the Issuer and the Borrower.

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture (as hereinafter defined) or, if not defined in the Indenture, in the Official Statement (as hereinafter defined).

For purposes of this Bond Purchase Agreement (a) the term “Issuer Documents” means the Indenture, the Loan Agreement, the Regulatory Agreement, the Assignment of Security Agreement (Bond Deed of Trust), the Tax Certificate and this Bond Purchase Agreement, (b) the term “Borrower Documents” means the Bond Promissory Note, the Loan Agreement, the Lease Agreement, the Sublease Agreement, the Ground Lease, the Regulatory Agreement, the Borrower Continuing Disclosure Agreement, the Tax Certificate, this Bond Purchase Agreement, the First Leasehold Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (“Leasehold Deed of Trust”) made by the Borrower in favor of the Issuer and assigned to the Trustee, and any other document executed by the Borrower relating to the Bonds (defined below), (c) the term “Trustee Documents” means the Indenture, and the Regulatory Agreement, and (d) the term “Financing Documents” means, collectively (but without duplication), the Issuer Documents, the Borrower Documents, and the Trustee Documents.

Section 1. Purchase and Sale of the Bonds.

Upon the terms and conditions and upon the basis of the representations and warranties herein set forth and in the Letter, the Underwriter hereby agrees to purchase from the Treasurer, on behalf of the Issuer, and the Treasurer, on behalf of the Issuer, hereby agrees to sell to the Underwriter, all but not less than all of the Issuer’s \$_____ Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds (the “Bonds”) at a purchase price equal to 100% of the principal amount thereof [plus accrued interest in the amount of \$_____]. The Issuer will deliver the Bonds to the order of the Underwriter (with CUSIP numbers printed thereon) against payment of the purchase price therefor in immediately available funds at 8:30 a.m., Pacific time, on the “Closing Date” as defined herein. The Bonds will mature on the date and will bear interest at the rate set forth on Schedule I attached hereto.

The Borrower agrees to pay to the Underwriter on the Closing Date, as compensation for services of the Underwriter hereunder, a fee equal to \$_____, plus \$_____ for certain fees and expenses (the “Underwriter’s Fee”).

Inasmuch as this purchase and sale represents a negotiated transaction, the Issuer and the Borrower acknowledge and agree that: (i) the transaction contemplated by this Bond Purchase Agreement is an arm’s length, commercial transaction among the Issuer, the Borrower, and the Underwriter in which the Underwriter is acting solely as a principal and is not acting as a municipal advisor, financial advisor, agent or fiduciary to the Issuer or the Borrower; (ii) the Underwriter has not assumed any advisory or fiduciary responsibility to the Issuer or the Borrower with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the Issuer or the Borrower on other matters); (iii) the Underwriter is acting solely in its capacity as an underwriter for its own account; (iv) the only obligations the Underwriter has to the Issuer or the Borrower with respect to the transaction contemplated hereby are expressly set forth in this Bond Purchase Agreement; and (v) the Issuer and the Borrower have each consulted their own legal, accounting, tax, financial and other advisors, as applicable, to the extent they have deemed appropriate. The parties acknowledge that the structure, terms and timing of the transaction have been determined by the Underwriter and the Borrower and presented to the Issuer for approval.

The Bonds shall be issued under the provisions of the Zenovich-Moscone-Chacon Housing and Home Finance Act (constituting Parts 1 through 4 of Division 31 of the Health and Safety Code of the State), as amended (the “Act”) and in accordance with the resolution approved by the Board of Directors of the Issuer, on March 17, 2020 (the “Bond Resolution”). The Bonds shall be issued pursuant to the terms of the Indenture of Trust (the “Indenture”) dated as of July 1, 2020, between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”). The Bonds are being issued by the Issuer to: (i) make a loan to the Borrower to finance and/or refinance a portion of the acquisition, construction and equipping of a 145 unit multifamily residential rental supportive affordable housing project located in the City and known as 833 Bryant Apartments (the “Project”), (ii) fund capitalized interest on the Bonds through the Lease Delivery Deadline, and (iii) pay costs of issuing the Bonds.

From the Closing Date to the Lease Delivery Deadline the Bonds will initially be secured by capitalized interest and an irrevocable standby letter of credit (the “Letter of Credit”), by Citibank, N.A. in connection with the Bonds. The Bonds are further secured during the construction period for the Project and thereafter while the Bonds are outstanding by a Leasehold Deed of Trust made by the Borrower in favor of the Issuer and assigned to the Trustee.

Principal and interest will initially be paid from funds (including accrued interest, if any) on deposit in the Capitalized Interest Account under the Indenture until thirty (30) days following the Lease Delivery Deadline (i.e. September 1, 2022), unless such deadline is extended in accordance with the Indenture, at which time payments in an amount equal to the principal of and interest on the Bonds will be paid primarily from loan payments under the Loan Agreement, dated July 1, 2020 (the “Loan Agreement”), by and between the Issuer and the Borrower, on each Bond Payment Date.

In fulfillment of its obligations under the Loan Agreement, the Borrower will assign to the Trustee all its right title and interest in and to the Lease Agreement between the City and the Borrower (the “Lease Agreement”) to be executed and delivered by the City and the Borrower on or before the Lease Delivery Deadline. The City will be required under the Lease Agreement to make Rent Payments each year from any source of legally available funds, in an amount sufficient to pay the annual principal of and interest on the Bonds on each Bond Payment Date.

It shall be a condition (a) to the obligations of the Issuer to sell and deliver the Bonds to the Underwriter, and (b) to the obligations of the Underwriter with respect to the Bonds, to purchase and accept delivery of and to pay for the Bonds, that the entire aggregate principal amount of the Bonds to be sold and delivered by the Treasurer, on behalf of the Issuer in accordance with this Section 1 shall be sold and delivered simultaneously by the Treasurer, on behalf of the Issuer and be purchased, accepted and paid for simultaneously by the Underwriter.

THE BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER, PAYABLE SOLELY FROM THE TRUST ESTATE UNDER THE INDENTURE. NONE OF THE ISSUER, THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF (EXCEPT THE ISSUER, TO THE LIMITED EXTENT SET FORTH IN THE INDENTURE) NOR ANY PUBLIC AGENCY SHALL IN ANY EVENT BE LIABLE FOR THE PAYMENT OF THE PRINCIPAL OF, PREMIUM (IF ANY) OR INTEREST ON THE BONDS OR FOR THE PERFORMANCE OF ANY PLEDGE, OBLIGATION OR AGREEMENT OF ANY KIND WHATSOEVER EXCEPT

AS SET FORTH IN THE INDENTURE, AND NONE OF THE BONDS OR ANY OF THE ISSUER'S AGREEMENTS OR OBLIGATIONS SHALL BE CONSTRUED TO CONSTITUTE AN INDEBTEDNESS OF OR A PLEDGE OF THE FAITH AND CREDIT OF OR A LOAN OF THE CREDIT OF OR A MORAL OBLIGATION OF ANY OF THE FOREGOING WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER. THE ISSUER HAS NO TAXING POWER.

On or before the Closing Date, the Issuer and the Borrower shall have delivered to the Underwriter the Official Statement, completed with the information permitted to be omitted from the Preliminary Official Statement, dated _____, 2020 (the "Preliminary Official Statement") by Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, as amended, and such other amendments and supplements as shall have been approved by the Issuer, the Underwriter, the City and the Borrower.

The Issuer and the Borrower hereby represent and warrant that the Preliminary Official Statement was deemed final by the Issuer and the Borrower as of its date and the Preliminary Official Statement was deemed final by the City as of its date, except for the omission of such information which is dependent upon the final pricing of the Bonds for completion, all as permitted to be excluded by the Rule. Each of the Issuer, the Borrower and the City have executed and delivered to the Underwriter their certificate in the respective form attached hereto as Exhibit F to evidence the foregoing.

The Underwriter acknowledges that the Issuer and the Borrower have not authorized or consented to (i) the sale of Bonds to any purchaser in connection with the initial public offering of the Bonds unless a copy of the Official Statement relating to the Bonds (the "Official Statement") is delivered to such purchaser not later than the settlement of such transaction, (ii) making any representations or providing any information to prospective purchasers of the Bonds in connection with the initial public offering and sale of the Bonds other than the information set forth in the Official Statement and any amendment thereto approved in writing by the Issuer and the Borrower, or (iii) any actions in connection with the public offering and sale of the Bonds in violation of applicable requirements of federal and state securities laws and any applicable requirements of the Municipal Securities Rulemaking Board and the Financial Industry Regulatory Authority.

Section 2. Representations and Warranties and Agreements.

The Issuer represents, warrants to, and covenants and agrees with, the Underwriter and the Borrower that:

(a) The Issuer has not participated in the preparation of the Preliminary Official Statement or the Official Statement and makes no representations with respect thereto except as expressly set forth in the following sentence, and assumes no responsibility with respect to the sufficiency, accuracy, or completeness of any of the information contained in the Preliminary Official Statement or the Official Statement or any other document used in connection with the offer and sale of the Bonds. The Underwriter acknowledges that the Issuer has made no independent investigation and has furnished no information contained in the Preliminary Official Statement or the Official Statement, except the information contained under the captions "INTRODUCTION - The Issuer" and "NO LITIGATION - The Issuer" (together, the "Issuer

Information”). The Issuer Information in the Preliminary Official Statement, as of its date, and in the Official Statement, as of its date, does not contain any untrue statement of a material fact and does not omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(b) To the best knowledge of the Issuer, the Issuer has received no notice of action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending or to the best of the Issuer’s knowledge threatened against the Issuer in any way:

(i) Affecting the organization of the Issuer, or the legal or corporate existence of the Issuer, or the title of the members of the Issuer to their respective offices, or any powers of the Issuer under the Constitution or the laws of the State of California (the “State”) pursuant to which the Issuer was created;

(ii) Seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds or the collection of revenues from the Borrower derived from payments under the Loan Agreement, or the pledge thereof;

(iii) Contesting or affecting the validity or enforceability of the Bonds or the Issuer Documents;

(iv) Contesting the power of the Issuer to enter into, execute and deliver the Issuer Documents or to consummate the transactions contemplated by such documents and the Preliminary Official Statement and the Official Statement;

(v) Contesting in any way the completeness or accuracy of the Preliminary Official Statement and the Official Statement or any amendment or supplement thereto (nor to the actual knowledge of the Issuer, is there any basis therefor); or

(vi) Wherein an unfavorable decision, ruling or finding would materially adversely affect the validity or enforceability of the Issuer Documents, the financial position or condition of the Issuer or the exclusion from gross income for federal income tax purposes of the interest on the Bonds.

(c) The Issuer is a public instrumentality and political subdivision of the State, established by and acting pursuant to the Act, and has, and at the Closing Date will have, full legal right, power and authority under the Constitution and the laws of the State: (i) to enter into the Issuer Documents; (ii) to adopt the Bond Resolution; (iii) to issue the Bonds pursuant to the Indenture and as provided herein; (iv) to pledge and assign the revenue, other money, securities, funds, accounts, guarantees, insurance, and other items pledged under the terms of the Indenture, as provision of and security for the payment of the principal of and interest on the Bonds, and to similarly pledge all money, securities and earnings held in the funds and accounts held under the Indenture, all in the manner described in the Indenture and the Loan Agreement; and (v) to carry out, give effect to and consummate all the other transactions contemplated by the Issuer Documents, the Preliminary Official Statement and the Official Statement.

(d) The Issuer has duly and validly adopted the Bond Resolution, has duly authorized and approved the execution and delivery of the Bonds, the Issuer Documents, the Preliminary Official Statement and the Official Statement, and has duly authorized and approved the performance by the Issuer of its obligations contained in, and the taking of any and all action as may be necessary to carry out, give effect to and consummate the transactions contemplated by, each of those documents, and at the Closing Date, the Bonds and the Issuer Documents will constitute the valid, legal and binding obligations of the Issuer (assuming due authorization, execution and delivery by the other parties thereto, where necessary) in accordance with their respective terms and the Bond Resolution and will be in full force and effect.

(e) The Issuer's execution and delivery of the Bonds and the Issuer Documents, the Issuer's consummation of the transactions contemplated by such documents, and the Issuer's fulfillment of or compliance with the terms, conditions or provisions thereof will not conflict with, violate or result in the breach of any of the terms, conditions or provisions of any constitutional provision or statute of the State or of any agreement, instrument, statute, governmental rule or regulation, law and order, judgment or decree to which the Issuer is now a party or by which it is bound, and will not constitute a default under any of the foregoing which has not been waived or consented to in writing by the appropriate party or parties, and will not result in the creation or imposition of any lien, charge, security interest or encumbrance of any nature upon any property or assets of the Issuer prohibited under the terms of any such agreement, instrument, statute, governmental rule or regulation, court order, judgment or decree.

(f) The issuance of the Bonds and the use of Bond proceeds in the manner described in the Preliminary Official Statement and the Official Statement, and the Issuer Documents do not constitute a loan of money in a manner prohibited by the Constitution of the State.

(g) Upon delivery of the Bonds, the Issuer will have good right, full power and lawful authority to pledge and assign the Trust Estate described in the Indenture to the Trustee as provided in the Indenture.

(h) On the Closing Date, each of the representations and warranties of the Issuer contained herein and in the Issuer Documents shall be true, correct and complete.

(i) To the best knowledge of the Issuer, except as may be required under Blue Sky or other securities laws of any state and for filings to be made with the Internal Revenue Service on Form 8038, all approvals, consents, authorization, elections and orders of or filings or registrations with any governmental authority, board, agency or issuer having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the Issuer of its obligations hereunder or under the Bonds or any of the Issuer Documents have been obtained and are in full force and effect.

(j) The Issuer will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request to qualify the Bonds for offer and sale under the "blue sky" or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate, provided that in connection therewith the Issuer shall not be required to file a general consent to service of process in any jurisdiction.

(k) Any certificate signed by an Authorized Official or other authorized officer of the Issuer shall be deemed a representation and warranty by the Issuer to the Underwriter as to the statements made therein.

(l) The Issuer will apply the proceeds of the Bonds in accordance with the Indenture.

The execution and delivery of this Bond Purchase Agreement by the Issuer shall constitute a representation to the Underwriter that the representations and warranties contained in this Section are true as of the date hereof.

Section 3. Representations, Warranties and Agreements of the Borrower.

The Borrower, as to itself and the Project, represents, warrants and agrees with the Underwriter and the Issuer as follows:

(a) The Borrower is duly organized and existing as a limited partnership under the laws of the State, has full legal right, power and authority to own its properties and to conduct its business as described in the Official Statement and to enter into and to carry out and consummate the transactions contemplated by the Borrower Documents and the Official Statement, and is duly qualified to do such business and is in good standing wherever such qualification and/or standing are required, including the State.

(b) By all necessary action, the Borrower has duly authorized and approved the execution and delivery of the Borrower Documents, and the performance by the Borrower of the obligations in connection with the issuance of the Bonds on its part contained in the Borrower Documents and the consummation by it of all other transactions contemplated by the Indenture, the Official Statement and the Borrower Documents in connection with the issuance of the Bonds.

(c) On the Closing Date, the Borrower Documents will constitute the valid, legal and binding obligations of the Borrower (assuming due authorization, execution and delivery by the respective other parties thereto, where necessary), enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws of general applicability affecting the enforcement of creditors' rights and to general principles of equity, regardless of whether such enforceability is considered in equity or in law.

(d) Between the date of this Bond Purchase Agreement and the date which is 25 days after the Closing Date, the Borrower shall promptly notify the Underwriter of the institution of any action, suit, proceeding, inquiry or investigation, of which it becomes aware, seeking to prohibit, restrain or otherwise restrict the issuance of the Bonds, the execution, delivery and performance by the Borrower of the Borrower Documents or the use of the Official Statement in connection with the offering, sale or distribution of the Bonds.

(e) As of the date hereof and on the Closing Date (and with respect to the Preliminary Official Statement, as of its date), the information contained in the Preliminary Official Statement and the Official Statement does not contain any untrue statement of a material fact and does not omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(f) If between the date of this Bond Purchase Agreement and the date which is 25 days after the Closing Date an event occurs, that is known to the Borrower that would cause the Preliminary Official Statement, the Official Statement and any amendments or supplements thereto to contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, the Borrower shall promptly notify the Underwriter, and, if in the opinion of the Underwriter such event requires an amendment of or supplement to the Official Statement, the Borrower, at the expense of the Borrower, will assist with the amendment or supplement of the Official Statement in a form and manner approved by the Issuer, the Borrower, the City and the Underwriter; provided, however, if such event shall occur on or prior to the Closing Date, the Underwriter, in its sole discretion, shall have the right to terminate its obligations hereunder by written notice to the Issuer, the Treasurer, the City and the Borrower, and the Underwriter shall have no obligation to purchase and pay for the Bonds.

(g) After due and diligent inquiry, as of the date hereof, the Borrower is not in any material respect in violation of, breach of or default under any applicable constitutional provision or law of the State or of the United States, or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Borrower or any of its activities, properties or assets, or any indenture, mortgage, deed of trust, resolution, note, agreement (including, without limitation, the Borrower Documents) or instrument to which the Borrower is a party or by which the Borrower or any of its property or assets is bound, which violation or breach of or default would have a material adverse effect upon the transactions contemplated by this Bond Purchase Agreement, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instruments; and the execution and delivery of the Borrower Documents, and compliance with the provisions on the Borrower's part contained therein, do not and will not conflict with or constitute on the part of the Borrower a violation or breach of or default under any constitutional provision or law of the State or of the United States, or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Borrower or any of its activities, properties or assets, or any indenture, mortgage, deed of trust, resolution, note, agreement (including, without limitation, the Borrower Documents) or instrument to which the Borrower is a party or by which the Borrower or any of its property or assets is bound which breach or default would have a material adverse effect upon the transactions contemplated by this Bond Purchase Agreement, nor will any such execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Borrower or under the terms of any such law, regulation or instrument, except as provided by the Bonds or the Borrower Documents provided, however, that the Borrower makes no representation or warranty with respect to compliance with applicable state securities or Blue Sky laws or the registration of the Bonds under the Securities Act of 1933, as amended, or the qualification of the Indenture under the Trust Indenture Act of 1939, as amended.

(h) All consents, approvals, authorizations, and orders of or filings or registrations with any governmental authority, board, agency or commission of the State or of the United States having jurisdiction required in connection with, or the absence of which would materially adversely affect, the execution and delivery by the Borrower of the Borrower Documents or the performance by the Borrower of its obligations thereunder have been or will be obtained prior to the Closing Date and are or will be in full force and effect prior to the Closing Date; provided,

however, that the Borrower makes no representation or warranty with respect to compliance with applicable state securities or Blue Sky laws or the registration of the Bonds under the Securities Act of 1933, as amended, or the qualification of the Indenture under the Trust Indenture Act of 1939, as amended.

(i) As of the date hereof, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any judicial or administrative court or governmental agency or body, state, federal or other, pending or, to the best knowledge of the Borrower, threatened against the Borrower, affecting the existence of the Borrower, involving the Project or seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or the financing of the Project, or in any way contesting or affecting as to the Borrower, the Bonds, any Borrower Document or the execution and delivery or adoption by the Borrower of any Borrower Document, or any proceedings of the Borrower taken with respect to the sale, execution or delivery thereof, or the application of any moneys or security provided for the payment of the Bonds, or in any way contesting or challenging the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto, or the powers of the Borrower or its authority with respect to the Borrower Documents or the consummation of the transactions contemplated hereby or thereby, or challenging the exclusion of interest on the Bonds from gross income for federal income tax purposes; nor, to the best knowledge of the Borrower, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the Borrower's financial condition or operations or the validity of the authorization, execution, delivery or performance by the Borrower of any Borrower Document.

(j) The Borrower will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect solely pursuant to direction by the Underwriter so long as required for the distribution of the Bonds; provided, however, that the Borrower shall not be required to register as a dealer or broker of securities or execute a general or special consent to service of process or qualify to do business in any jurisdiction where it is not now so subject.

(k) Any certificate signed by the Borrower and delivered to the Underwriter, or to the Issuer pursuant to the Indenture or the Borrower Documents shall be deemed a representation and warranty by the Borrower to the Underwriter, and to the Issuer as to the statements made therein as of the date thereof.

(l) The Borrower will not take or omit to take any action, which action or omission in the opinion of Bond Counsel will adversely affect the exclusion from gross income of interest on the Bonds for purposes of federal income taxation.

(m) The Borrower shall honor all other covenants contained in the Borrower Documents, which agreements are incorporated herein and made a part of this Bond Purchase Agreement; provided, however, that nothing herein shall be deemed to alter the non-recourse

nature of any covenants which are, under the terms of the Borrower Documents, without recourse to the Borrower.

(n) The Borrower has not failed to comply with its obligations under any undertakings with respect to continuing disclosure requirements designed to comply with the Rule in connection with any issue of municipal securities issued on its behalf.

The execution and delivery of this Bond Purchase Agreement by the Borrower shall constitute a representation to the Underwriter and the Issuer that the representations and warranties contained in this Section are true as of the date hereof.

Section 4. Indemnification.

(a) To the fullest extent permitted by law, the Borrower agrees to pay, defend, protect, indemnify, save and hold harmless:

(i) the Issuer, the Treasurer and the City and each past, present and future member, officer, director, official, employee and agent of the Issuer, the Treasurer and the City and each person, if any, who controls any of the foregoing within the meaning of Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of 1934, as amended (collectively, the “Issuer Indemnified Parties”), against any and all liabilities, losses, damages, costs, expenses (including reasonable attorneys’ fees), causes of action (whether in contract, tort or otherwise), suits, claims, demands and judgments of any kind, character and nature (collectively referred to herein as the “Liabilities”) caused by (1) the breach (or alleged breach) by the Borrower of any of its representations or warranties in this Bond Purchase Agreement or (2) any untrue or misleading statement or alleged untrue or alleged misleading statement of a material fact contained in the Preliminary Official Statement or the Official Statement, except, with respect to the Issuer, for information set forth under the headings “INTRODUCTION – The Issuer” and “NO LITIGATION – The Issuer,” or caused by any omission or alleged omission from the Preliminary Official Statement or the Official Statement (except, with respect to the Issuer, the above-referenced sections of the Preliminary Official Statement or the Official Statement) of any material fact necessary to be stated therein in order to make the statements made therein, in light of the circumstances under which they were made, not misleading, unless caused by the willful misconduct of the party seeking indemnification; and

(ii) the Underwriter and each past, present and future member, officer, director, official, employee and agent of the Underwriter and each person, if any, who controls any of the foregoing within the meaning of Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of 1934, as amended (collectively, the “Underwriter Indemnified Parties”), against any and all Liabilities caused by (1) the Borrower’s obligations relating to the Bonds, the Project, the Loan Agreement, the Indenture, this Bond Purchase Agreement or any document related to the Bonds, the Project or any transaction agreement, written or oral, pertaining to the foregoing; or (2) any untrue or misleading statement or alleged untrue or alleged misleading statement of a material fact contained in the Preliminary Official Statement or the Official Statement of any material

fact necessary to be stated therein in order to make the statements made therein, in light of the circumstances under which they were made, not misleading, unless caused by the gross negligence or willful misconduct of the party seeking indemnification.

(b) This paragraph shall not apply to the Issuer Indemnified Parties. The Underwriter Indemnified Parties shall notify the Borrower of the existence of any Liability to which this indemnification obligation would apply and shall give to the Borrower an opportunity to defend the same at the Borrower's expense and with counsel satisfactory to the Underwriter Indemnified Party, provided that the Underwriter Indemnified Party shall at all times also have the right to fully participate in the defense. If there may be legal defenses available to the Underwriter Indemnified Party that are in conflict with those available to the Borrower or if the Borrower shall, after this notice and within a period of time necessary to preserve any and all defenses to any claim asserted, fail to assume the defense or to employ counsel for that purpose satisfactory to the Underwriter Indemnified Party, the Underwriter Indemnified Party shall have the right, but not the obligation, to undertake the defense of, and to compromise or settle the claim or other matter on behalf of, for the account of, and at the risk of, the Borrower, provided that any compromise or settlement shall be entered into only with the consent of the Borrower.

This paragraph shall apply to the Issuer Indemnified Parties. In case any claim shall be made or action brought against an Issuer Indemnified Party for which indemnity may be sought against the Borrower, as provided above, the Issuer Indemnified Party shall promptly notify the Borrower in writing setting forth the particulars of such claim or action and the Borrower shall assume the defense thereof, including the retaining of counsel acceptable to the Issuer Indemnified Party and the payment of all expenses. The Issuer Indemnified Party shall have the right to retain separate counsel in any such action and to participate in the defense thereof but shall bear the fees and expenses of such counsel unless (i) the Borrower shall have specifically authorized the retaining of such counsel or (ii) the parties to such suit include the Issuer Indemnified Party, and the Borrower and the Issuer Indemnified Party have been advised by such counsel that one or more legal defenses may be available to it or them which may not be available to the Borrower, in which case the Borrower shall not be entitled to assume the defense of such suit notwithstanding its obligation to bear the fees and expenses of such counsel.

(c) Except with respect to the Issuer Indemnified Parties, in order to provide for just and equitable contribution in circumstances in which the indemnity provided for in paragraph (b) of this Section is for any reason held to be unavailable (other than a holding to the effect that the specific circumstances are not the subject of the indemnity), the Borrower and the Underwriter Indemnified Party shall contribute proportionately to the aggregate Liabilities to which the Borrower and the Underwriter Indemnified Party may be subject, so that the Underwriter Indemnified Party is responsible for that portion represented by the percentage that the fees paid by the Borrower to the Underwriter Indemnified Party in connection with the issuance and administration of the Bonds bear to the aggregate offering price of the Bonds, with the Borrower responsible for the balance; provided, however, that in no case shall the Underwriter Indemnified Party be responsible for any amount in excess of the fees paid by the Borrower to the Underwriter Indemnified Party in connection with the issuance and administration of the Bonds.

(d) The Issuer Indemnified Parties and the Underwriter Indemnified Parties, other than the Issuer, the Treasurer and the Underwriter, shall be considered to be third party beneficiaries of

this Bond Purchase Agreement for purposes of this Section. The provisions of this Section will be in addition to all liability that the Borrower may otherwise have and shall survive any termination of this Bond Purchase Agreement, the offering and sale of the Bonds and the payment or provisions for payment of the Bonds.

(e) The indemnification hereunder shall be in addition to, and shall not limit, any indemnity granted by the Borrower or a guarantor pursuant to the Loan Agreement, the Regulatory Agreement or any other document.

Section 5. Disclosure Matters.

The Issuer and the Borrower acknowledge that the Underwriter is required to comply with the requirements of the Rule in connection with the offer and sale of the Bonds and each agrees to cooperate (at the cost and expense of the Borrower) with the Underwriter so as to enable the Underwriter to comply with the Rule. To this end:

(a) The Borrower has delivered to the Underwriter the Official Statement that the Borrower deemed final as of its date, except for the omission of no more than the following information: the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings, and other terms of the Bonds depending on such matters (collectively, the “Permitted Omissions”).

(b) If, during the period from the date hereof to and including the date as of which the Official Statement is available to any person from a nationally recognized municipal securities information repository, but in no case less than 25 days following the Closing Date, any event occurs as a result of which the Official Statement for the Bonds as then amended or supplemented might include an untrue statement of material fact, or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Issuer, if such event relates to the information included in the Official Statement under the captions “INTRODUCTION – The Issuer” and “NO LITIGATION – The Issuer” (insofar as such information under such caption pertains to the Issuer), or the Borrower, shall promptly notify the Underwriter thereof and shall (in either case, at the expense of the Borrower), upon the request of the Underwriter, prepare and deliver to the Underwriter as many copies of an amendment or supplement which will correct such statement or omission as the Underwriter may reasonably request.

(c) On or before the date which is five business days after the date hereof (or such earlier date as is necessary to accompany any confirmation that requests payment for a Bond), the Issuer agrees to deliver or cause to be delivered to the Underwriter, at the expense of the Borrower, as many copies of the Official Statement as the Underwriter may reasonably request.

Section 6. Closing.

At 8:30 a.m., Pacific time, on July __, 2020, or at such time on such earlier or later date as shall be agreed upon in writing by the Issuer, the Treasurer, the Borrower, and the Underwriter (the “Closing Date”), the Issuer will deliver or cause to be delivered, the Bonds in definitive form, duly executed and authenticated by the Trustee. Delivery of the Bonds shall be made at the offices of the Trustee (or such other place upon which the Underwriters and the Issuer mutually agree)

which shall hold the Bonds as custodian for The Depository Trust Company, 55 Water Street, New York, New York 10041 (“DTC”) under its “FAST” system. Subject to the terms and conditions hereof, the Issuer and the Borrower shall deliver at the offices of Orrick, Herrington & Sutcliffe LLP, San Francisco, California (“Bond Counsel”), the other documents and instruments to be delivered pursuant to this Bond Purchase Agreement (the “Closing Documents”), and the Underwriter shall accept delivery of the Bonds and Closing Documents and pay the purchase price for the Bonds as set forth in Section 1 above by wire transfer, to the Trustee, in immediately available federal funds. Immediately following such payment and acceptance, the Underwriter shall receive its fee with respect to the Bonds in the amount set forth in Section 1 above by wire transfer from the Trustee in immediately available federal funds to the order of the Underwriter, in such manner as shall be agreed upon by the Borrower and the Underwriter. This delivery and payment is herein called the “Closing” and the date on which the Closing occurs is herein called the “Closing Date.” The Bonds shall be prepared and delivered as fully registered Bonds without coupons in the denominations set forth in the Official Statement or multiples thereof. One fully registered Bond in the total aggregate principal amount of the Bonds, bearing a proper, duly assigned CUSIP number, will be issued initially in the name of Cede & Co., as nominee of DTC.

Section 7. Closing Conditions.

The Underwriter has entered into this Bond Purchase Agreement in reliance upon representations, warranties and agreements of the Issuer and the Borrower contained herein and of the City contained in the Letter, and in reliance upon the representations, warranties and agreements to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Issuer, the Borrower, and the City of their obligations hereunder and under the Letter, respectively, both as of the date hereof and as of the Closing Date. Accordingly, the Underwriter’s obligations under this Bond Purchase Agreement to purchase, to accept delivery of and to pay for the Bonds shall be subject to the performance by the Issuer and the Borrower of their obligations to be performed by them hereunder at or prior to the Closing, and to the accuracy in all material respects of the representations and warranties of the Issuer and of the Borrower contained herein as of the date hereof and as of the Closing as if made on the Closing Date, and shall also be subject to the following additional conditions:

(a) The representation and warranties of the Issuer and Borrower herein and of the City in the Letter shall be true, complete and correct on the date hereof and on and as of the Closing Date, as if made on the Closing Date.

(b) At the time of the Closing, the Bond Resolution shall have been duly approved and adopted by the Issuer and shall be in full force and effect and each of the Financing Documents (except the Lease Agreement and the Sublease Agreement) shall have been duly authorized, executed and delivered, and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter and there shall have been taken in connection therewith and in connection with the issuance of the Bonds all such actions as, in the opinion of Bond Counsel and counsel for the Underwriter, shall be necessary and appropriate in connection with the transactions contemplated hereby.

(c) The Underwriter shall have the right to terminate this Bond Purchase Agreement by notification to the Issuer and the Borrower if, after the execution hereof and prior to the Closing any of the following events shall occur in the sole and reasonable judgment of the Underwriter:

(i) an event shall occur which makes untrue or incorrect in any material respect, as of the time of such event, any statement or information contained in the Official Statement or which is not reflected in the Official Statement but should be reflected therein in order to make the statements contained therein in the light of the circumstances under which they were made not misleading in any material respect and, in either such event, (a) the Issuer refuses to permit the Official Statement to be supplemented to supply such statement or information in a manner satisfactory to the Underwriter or (b) the effect of the Official Statement as so supplemented is, in the judgment of the Underwriter, to materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale, at the contemplated offering prices (or yields), of the Bonds;

(ii) legislation shall be introduced in, enacted by, reported out of committee, or recommended for passage by California, either House of the Congress, or recommended to the Congress or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation is proposed for consideration by either such committee by any member thereof or presented as an option for consideration by either such committee by the staff or such committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or a bill to amend the Code (which, if enacted, would be effective as of a date prior to the Closing) shall be filed in either House, or a decision by a court of competent jurisdiction shall be rendered, or a regulation or filing shall be issued or proposed by or on behalf of the Department of the Treasury or the Internal Revenue Service of the United States, or other agency of the federal government, or a release or official statement shall be issued by the President, the Department of the Treasury or the Internal Revenue Service of the United States, in any such case with respect to or affecting (directly or indirectly) the federal or state taxation of interest received on obligations of the general character of the Bonds which, in the judgment of the Underwriter, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale, at the contemplated offering prices (or yields), of the Bonds;;

(iii) a stop order, ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering, sale or distribution of obligations of the general character of the Bonds (including any related underlying obligations) is in violation or would be in violation of any provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended or the Trust Indenture Act of 1939, as amended;

(iv) legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended (the "Securities Act"), or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering, or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise, is or would be in violation of the federal securities law as amended and then in effect;

(v) there shall have occurred (1) any outbreak or escalation of hostilities, declaration by the United States of a national or international emergency or war, or new outbreak or escalation of a public health emergency; or (2) any other calamity or crisis in the financial markets of the United States or elsewhere or escalation thereof; or (3) a downgrade of the sovereign debt rating of the United States by any major credit rating agency or payment default on United States Treasury obligations; or (4) a default with respect to the debt obligations of, or the institution of proceedings under any federal bankruptcy laws by or against any state of the United States or any city, county or other political subdivision located in the United States having a population of over 1,000,000, which, in the judgment of the Underwriter, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale, at the contemplated offering prices (or yields), of the Bonds;

(vi) there shall have occurred a general suspension of trading, minimum or maximum prices for trading shall have been fixed and be in force or maximum ranges or prices for securities shall have been required on the New York Stock Exchange or other national stock exchange whether by virtue of a determination by that Exchange or by order of the Securities and Exchange Commission or any other governmental agency having jurisdiction or any national securities exchange shall have: (i) imposed additional material restrictions not in force as of the date hereof with respect to trading in securities generally, or to the Bonds or similar obligations; or (ii) materially increased restrictions now in force with respect to the extension of credit by or the charge to the net capital requirements of underwriters or broker-dealers which, in the judgment of the Underwriter, materially adversely affects the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale, at the contemplated offering prices (or yields), of the Bonds;

(vii) a general banking moratorium shall have been declared by federal or New York or California state authorities or a major financial crisis or a material disruption in commercial banking or securities settlement or clearances services shall have occurred which, in the judgment of the Underwriter, materially adversely affects the market price or the marketability for the Bonds or the ability of the Underwriter to enforce contracts for the sale, at the contemplated offering prices (or yields), of the Bonds;

(viii) a downgrading or suspension by Moody's Investors Service, Inc. ("Moody's") of its rating on the Bonds.

(ix) legislation shall be enacted, or any action shall be taken by the Securities and Exchange Commission, which, in the reasonable opinion of counsel for the Underwriter, has or may have the effect of requiring the contemplated distribution of the Bonds to be registered under the Securities Act of 1933, as amended, or the Indenture to be qualified as an indenture under the Trust Indenture Act of 1939, as amended;

(x) there shall have occurred, in the reasonable judgment of Underwriter, a material adverse change in the capital markets which makes the sale or financing contemplated hereby impossible on the terms, manner and basis contemplated by the Bond Resolution and mutually agreed to by the Issuer, Underwriter and the Borrower; or

(xi) there shall have occurred any materially adverse change in the affairs or financial condition of the Issuer or the Borrower which makes sale of the Bonds impossible on the terms contemplated by the Bond Resolution and mutually agreed to by the Issuer, Underwriter and the Borrower.

(d) At or prior to the Closing, the Underwriter shall receive the following documents:

(i) the Official Statement;

(ii) an approving opinion of Bond Counsel addressed to the Issuer and the Underwriter (or in the case of the Underwriter a reliance letter thereto), dated the Closing Date substantially in the form attached as Appendix F to the Official Statement;

(iii) opinions and/or letters, dated the Closing Date and addressed to the Underwriter and to such other parties as may be appropriate, of

(A) Orrick, Herrington & Sutcliffe LLP, substantially in the form attached hereto as Exhibit A;

(B) Gubb and Barshay LLP, Borrower's Counsel, substantially in the form attached hereto as Exhibit B;

(C) Hawkins Delafield & Wood LLP and Stradling Yocca Carlson and Rauth, A Professional Corporation, as Co-Disclosure Counsel to the City, in the form attached hereto as Exhibit C;

(D) Robinson & Cole LLP, as counsel to Citibank, N.A., related to the standby letter of credit, in the form attached hereto as Exhibit D; and

(E) Norton Rose Fulbright US LLP, as counsel to the Underwriter, in form and substance acceptable to the Underwriter.

(iv) a certificate, dated the Closing Date and signed on behalf of the Issuer, to the effect that:

(A) that to the best knowledge of the Issuer's signatory, no litigation or other proceedings are pending or threatened in any court or other tribunal of competent jurisdiction, state or federal: (a) to restrain or enjoin the execution or delivery of any of the Bonds or the collection of any of the amounts constituting the Trust Estate; (b) in any way contesting or affecting the authority for the execution and delivery of the Bonds or the validity of the Bonds or the Issuer Documents, or (c) in any way contesting the existence or powers of the Issuer or the title to office of the officers thereof;

(B) to the best knowledge and belief of the persons signing the certificate, the sections of the Official Statement under the headings "INTRODUCTION – The Issuer" and "NO LITIGATION - The Issuer" do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading; and

(C) that the representations and warranties of the Issuer contained in the Issuer Documents were, as of the respective dates thereof, and are, on and as of the date hereof, true and correct in all material respects with the same effect as if made on the date hereof;

(v) an executed copy of the Tax Certificate or Tax Certificates delivered by the Issuer and the Borrower, in substance acceptable to Bond Counsel;

(vi) a certificate of the Borrower, dated the Closing Date, to the effect that (A) each of the representations and warranties set forth in each of the Borrower Documents (including this Bond Purchase Agreement) is true and correct in all material respects on the Closing Date with the same effect as if made on the Closing Date, (B) no event has occurred since the date of the Official Statement to cause the information in the Official Statement to contain an untrue statement of a material fact, or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (C) the Borrower has complied with all agreements and satisfied all the conditions on its part to be performed or satisfied under the Borrower Documents (except the Lease Agreement and Sublease Agreement) at or prior to the Closing Date;

(vii) a certificate of the City, dated the Closing Date, to the effect that (A) each of the representations and warranties set forth in each of the Letter, the Commitment Letter, the City Continuing Disclosure Certificate, the Lease Agreement and the Sublease Agreement (collectively, the "City Documents") is true and correct in all material respects on the Closing Date with the same effect as if made on the Closing Date, (B) no event has occurred since the date of the Official Statement to cause the information in Appendix A to the Official Statement to contain an untrue statement of a material fact, or omit to state any material fact necessary to make the statements therein, in light of the circumstances

under which they were made, not misleading, and (C) the City has complied with all agreements and satisfied all the conditions on its part to be performed or satisfied under the City Documents (except the Lease Agreement and Sublease Agreement) at or prior to the Closing Date;

(viii) counterpart originals or certified copies of each of the Financing Documents; provided, that the Lease Agreement and the Sublease Agreement shall be substantially in the forms attached to the Bond Resolution to be executed and delivered on or before the Lease Delivery Deadline;

(ix) certificate, together with fully executed copies of the Bond Resolution, of the Secretary of the Board of Directors of the Issuer to the effect that (i) such copies are true and correct copies of the Bond Resolution; and (ii) that the Bond Resolution was duly adopted and has not been modified, amended, rescinded or revoked and is in full force and effect on the Closing Date;

(x) certificate, together with fully executed copies of the City's commitment resolution, adopted on _____] 2020 (the "Commitment Resolution"), by the Board of Supervisors of the City, of the Secretary to the Board of Supervisors of the City to the effect that (i) such copies are true and correct copies of the Commitment Resolution; and (ii) that the Commitment Resolution was duly adopted and has not been modified, amended, rescinded or revoked and is in full force and effect on the Closing Date;

(xi) written evidence satisfactory to the Underwriter that Moody's has issued a rating of "___" for the Bonds, and such rating shall be in effect on the Closing Date;

(xii) the 15c2-12 Certificates, duly executed by the Issuer, the Borrower and the City substantially in the forms set forth in Exhibit F hereto;

(xiii) a title insurance policy relating to the Project in form and substance acceptable to the Underwriter, together with agreed upon endorsements;

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

(xv) a certificate of Trustee, to the effect that: (i) it is a national banking association duly organized and existing under the laws of the United States; (ii) it has full corporate trust powers and authority to serve as Trustee under the Indenture; and (iii) it acknowledges and accepts its obligations under the Indenture and it has duly authorized, executed and delivered the Indenture and the Regulatory Agreement and that such acceptance and execution and delivery is in full compliance with, and does not conflict with, any applicable law or governmental regulation currently in effect, and does not conflict with or violate any contract to which it is a party or any administrative or judicial decision by which it is bound;

(xvi) an opinion of counsel to the Trustee, addressed to the Issuer, the Treasurer, the Borrower and the Underwriter, in form and substance acceptable to the Underwriter; and

(xvii) such additional legal opinions, certificates (including any certificates necessary or desirable in order to establish the exclusion of the interest on the Bonds from gross income for federal income tax purposes), instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the Closing Date, of the Issuer's, the Borrower's and the City's representations herein and in the Letter, as applicable, and in the Official Statement and the due performance or satisfaction by the Issuer, the Borrower and the City at or prior to such date of all agreements then to be performed, and all conditions then to be satisfied by the Issuer, the Borrower and the City, respectively.

If the obligations of the Underwriter shall be terminated for any reason permitted by this Bond Purchase Agreement, none of the Underwriter, the Borrower nor the Issuer shall be under any further obligation hereunder.

Section 8. Expenses.

(a) The Underwriter shall be under no obligation to pay, and the Borrower hereby agrees to pay, any expenses incident to the performance of the Issuer's obligations hereunder, including, but not limited to, the costs of printing and mailing the Preliminary Official Statement and the Official Statement; the fees and expenses of Issuer's counsel, including Bond Counsel, and Borrower's counsel; the fees and expenses of the Trustee and its counsel; the fees and expenses of the Treasurer and its counsel; and the fees and disbursements of any other experts or consultants retained by the Issuer, the Treasurer or the Borrower; the fees of rating agencies in connection with the rating of the Bonds; the Underwriter's Fee and the fees and expenses of counsel to the Underwriter; and the fees and expenses of Issuer's and Borrower's employees which are directly related to the offering of the Bonds, including, but not limited to, meals, transportation, and lodging of those employees; and all other expenses in connection with the public offering and sale of the Bonds. Notwithstanding the foregoing, the Issuer and the Treasurer shall have no obligation to pay any fees, expenses or costs associated with or resulting from the issuance and delivery of the Bonds, other than from the proceeds of the Bonds. The Borrower shall also pay any expenses (included in the expense component of the Underwriter's discount) incurred by the Underwriter which are incidental to implementing this Bond Purchase Agreement and the issuance of the Bonds, including, but not limited to, meals, transportation and lodging, if any, the fees of Digital Assurance Certification, L.L.C. for a continuing disclosure undertaking compliance review and any other miscellaneous closing costs.

(b) The Borrower acknowledges that it has had an opportunity, in consultation with such advisors as it may deem appropriate, if any, to evaluate and consider the fees and expenses being incurred in connection with the issuance of the Bonds. The Issuer and the Borrower acknowledge that the Underwriter's Fee will pay or reimburse the Underwriter for various expenses incurred by the Underwriter which are incidental to implementing this Bond Purchase Agreement and the issuance and purchase of the Bonds. The Underwriter is required to pay fees to the California Debt and Investment Advisory Commission in connection with the Bond offering. Notwithstanding that such fees are solely the legal obligation of the Underwriter, the Borrower agrees to reimburse the Underwriter for such fees.

Section 9. Notices.

Any notice or other communication to be given to the Issuer, the Treasurer or the Borrower may be given by mailing the same to each of them at the respective addresses set forth on the cover hereof, and any notice or other communication to be given to the Underwriter may be given by mailing the same to Citigroup Global Markets Inc., 1 Sansome Street, 27th Floor, San Francisco, California 94104; Attention: Debra Saunders, Director.

Section 10. Parties in Interest.

This Bond Purchase Agreement is made solely for the benefit of the Issuer, the Borrower and the Underwriter (including any successor or assignees of the Issuer or Underwriter), and, except as provided in Section 4 hereof, no other party or person shall acquire or have any right hereunder or by virtue hereof.

Section 11. Amendments.

This Bond Purchase Agreement may not be amended without the written consent of the Issuer, the Borrower and the Underwriter.

Section 12. Survival of Representations and Warranties.

The representations and warranties of the Issuer and the Borrower shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the Issuer and the Borrower and regardless of delivery of and payment for the Bonds.

Section 13. Execution in Counterparts.

This Bond Purchase Agreement 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.

Section 14. No Prior Agreements.

This Bond Purchase Agreement supersedes and replaces all prior negotiations, agreements and understandings between the parties hereto in relation to the sale of Bonds for the Issuer and the Borrower.

Section 15. Effective Date.

This Bond Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the Issuer, the Treasurer and the Borrower and shall be valid and enforceable as of the time of such acceptance.

Section 16. Governing Law.

This Bond Purchase Agreement shall be governed by the internal laws of the State without giving effect to the conflict of law principles of the State and any action arising out of this Bond Purchase Agreement shall be filed and maintained in courts in the State, unless the Issuer and the Treasurer waive this requirement in writing.

Section 17. No Personal Liability of Issuer and the Treasurer.

None of the Issuer, the Treasurer, members of the Issuer and the Treasurer, or any officer, agent or employee of the Issuer and the Treasurer, shall be charged personally by the Underwriter with any liability, or be held liable to the Underwriter under any term or provision of this Bond Purchase Agreement, or because of execution or attempted execution, or because of any breach or attempted or alleged breach of this Bond Purchase Agreement.

Section 18. Establishment of Issue Price.

Notwithstanding any provision of this Bond Purchase Agreement to the contrary, the following provisions related to the establishment of the issue price of the Bonds apply:

(a) *Definitions.* For purposes of this Section, the following definitions apply:

(i) “Public” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than a Tax Law Underwriter or a Related Party to a Tax Law Underwriter.

(ii) “Related Party” means any two or more persons who are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interest or profits interest of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(iii) “Sale Date” means the date of execution of this Bond Purchase Agreement by all parties.

(iv) “Tax Law Underwriter” means, with respect to each Issue of the Bonds, (A) any person that agrees pursuant to a written contract with the Issuer to participate in the initial sale of such Issue of the Bonds to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of such Issue of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

(b) *Issue Price Certificate.* The Underwriter agrees to assist the Issuer in establishing the issue price of the Bonds and to execute and deliver to the Issuer at Closing an “issue price” or similar certificate relating to each Issue of the Bonds, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit E, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the Issuer and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the Public of the Bonds (the “Issue Price Certificate”).

(c) *Public Offering.* The Underwriter confirms that, on the Sale Date, the Underwriter offered each Issue of the Bonds to the Public at the offering price or prices (each, an “Initial Offering Price”), or at the corresponding yield or yields, set forth in Schedule I attached hereto.

(d) *10% Test.* Except as set forth in the Issue Price Certificate, the Issuer will determine the issue price of the Bonds based on the first price at which 10% of the Bonds is sold to the Public (the “10% Test”) (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% Test). The Issue Price Certificate will confirm if the issue price will be the applicable Initial Offering Price because the 10% Test was satisfied as of the Sale Date.

(e) *Hold-The-Offering-Price Rule.* The Issue Price Certificate will confirm if the 10% Test was not satisfied as of the Sale Date and, if such is the case, the Issuer and the Underwriter agree that the restrictions in the next sentence will apply, which will allow the Issuer to treat the Initial Offering Price to the Public of each of the Bonds as the issue price of the Bonds (the “Hold-the-Offering-Price Rule”). If the 10% Test was not satisfied as of the Sale Date, the Underwriter will neither offer nor sell unsold Bonds to any person at a price that is higher than the applicable Initial Offering Price of the Bonds during the period starting on the Sale Date and ending on the earlier of the following:

- (i) the close of the fifth business day after the Sale Date; or
- (ii) the date on which the Tax Law Underwriters have sold at least 10% of the Bonds to the Public at a price that is no higher than the Initial Offering Price of the Bonds.

The Underwriter will promptly advise the Issuer (with a copy to the Treasurer) when the Tax Law Underwriters have sold 10% the Bonds to the Public at a price that is no higher than the applicable Initial Offering Price of the Bonds, if that occurs prior to the close of the fifth business day after the Sale Date. On or after the sixth business day after the Sale Date, if requested by the Issuer or Bond Counsel, the Underwriter also will promptly confirm that the Tax Law Underwriters have complied with the Hold-the- Offering-Price Rule. If at any time the Underwriter becomes aware of any noncompliance by a Tax Law Underwriter with respect to the Hold-the-Offering-Price Rule, the Underwriter will promptly report such noncompliance to the Issuer.

(f) *Matters Relating to Certain Agreements.* The Underwriter confirms that any selling group agreement and each retail distribution agreement to which the Underwriter is a party relating to the initial sale of an Issue of the Bonds to the Public, together with related pricing wires, contains or will contain language obligating the Underwriter, each dealer who is a member of any selling group, and each broker-dealer that is a party to any such retail distribution agreement, as

applicable, to (i) report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the Underwriter that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public and (ii) comply with the Hold-the-Offering-Price Rule, if applicable, in each case if and for so long as directed by the Underwriter and as set forth in the relating pricing wires.

The Issuer acknowledges that, in making the representation that the Underwriter will comply with the Hold-the-Offering-Price Rule with respect to any Bonds, the Underwriter is relying on (A) in the event a selling group has been created in connection with the sale of the Issue of the Bonds to the Public, the agreement of each dealer who is a member of the selling group to comply with the Hold-the-Offering-Price Rule, as set forth in a selling group agreement and the related pricing wires, and (B) in the event that an Underwriter is a party to a retail distribution agreement that was employed in connection with the sale of an issue of the Bonds, the agreement of each broker-dealer that is a party to such agreement to comply with the Hold-the-Offering-Price Rule, as set forth in the retail distribution agreement and the related pricing wires. The Issuer further acknowledges that each Tax Law Underwriter will be solely liable for its failure to comply with its agreement regarding the Hold-the-Offering-Price Rule and that no Tax Law Underwriter will be liable for the failure of any other Tax Law Underwriter to comply with its corresponding agreement regarding the Hold-the-Offering-Price Rule as applicable to an Issue of the Bonds.

(g) *Sale to Related Party not a Sale to the Public.* The Underwriter acknowledges that sales of any Bonds to any person that is a Related Party to a Tax Law Underwriter do not constitute sales to the Public for purposes of this Section.

Section 19. Underwriter's Report to the Treasurer.

Not later than ten (10) days after the Closing, the Underwriter shall submit to the Treasurer the report(s) required by Section 1899.532 of Article 4 of Subchapter 4 of Chapter 4 of Division 2 of Title 2 of the California Code of Regulations, in substantially the form attached hereto as Exhibit G.

Section 20. Limitation of Liability.

The Issuer and the Treasurer shall not be directly, indirectly, contingently or otherwise liable for any costs, expenses, losses, damages, claims or actions of any conceivable kind under any conceivable theory under this Bond Purchase Agreement or any document or instrument referred to herein or by reason of or in connection with this Bond Purchase Agreement or other document or instrument except to the extent it receives amounts from the Borrower available for such purpose.

(Remainder of Page Intentionally Left Blank)

If the foregoing is in accordance with your understanding of this Bond Purchase Agreement please sign and return to us by email your acceptance hereof, whereupon it will become a binding agreement among the Issuer, the Borrower and the Underwriter in accordance with its terms.

Very truly yours,

CITIGROUP GLOBAL MARKETS INC.,
as Underwriter

By: _____
Director

[Treasurer's Signature Page to Bond Purchase Agreement for California Housing Finance Agency Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds]

TREASURER OF THE STATE OF CALIFORNIA

By: _____
Deputy Treasurer
For California State Treasurer Fiona Ma

[CalHFA's Signature Page to Bond Purchase Agreement for California Housing Finance Agency Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds]

CALIFORNIA HOUSING FINANCE AGENCY

By:

Name: _____

Title: Director of Financing

[Borrower's Signature Page to Bond Purchase Agreement for California Housing Finance Agency Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds]

833 BRYANT, L.P., a California limited partnership

By: 833 Bryant LLC, a California limited liability company, its general partner

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its sole member/manager

By: _____
Name: _____
Its: _____

SCHEDULE I

\$ _____
CALIFORNIA HOUSING FINANCE AGENCY
REVENUE BONDS
(SAN FRANCISCO SUPPORTIVE HOUSING – 833 BRYANT APARTMENTS)
2020 ISSUE N – SOCIAL BONDS

MATURITY SCHEDULE

<u>Maturity</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>
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\$ _____ % Term Bonds due April 1, 20__ Yield: ____%; Price: _____

\$ _____ % Term Bonds due April 1, 20__ Yield: ____%; Price: _____

EXHIBIT A

[Closing Date]

Citigroup Global Markets Inc.,
as Underwriter
San Francisco, California

California Housing Finance Agency
Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments)
2020 Issue N – Social Bonds
(Supplemental Opinion)

Ladies and Gentlemen:

This letter is addressed to you, as Underwriter, pursuant to Section 7(d)(iii)(A) of the Bond Purchase Agreement, dated July __, 2020 (the “Purchase Contract”), among you, the California Housing Finance Agency (the “Issuer”), the Treasurer of the State of California (the “Treasurer”), in her capacity as agent for sale for the Issuer, and 833 Bryant, L.P. a California limited partnership (the “Borrower”), providing for the purchase of \$_____ aggregate principal amount of California Housing Finance Agency Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of July 1, 2020 (the “Indenture”), by and between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”), for the stated purpose of making a loan of the proceeds thereof to the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture or, if not defined in the Indenture, in the Purchase Contract.

We have delivered our final legal opinion (the “Bond Opinion”) as bond counsel to the Issuer concerning the validity of the Bonds and certain other matters, dated the date hereof and addressed to the Issuer. You may rely on such opinion as though the same were addressed to you.

In connection with our role as bond counsel to the Issuer, we have reviewed the Purchase Contract, the Indenture, the Loan Agreement, the Regulatory Agreement, the Tax Certificate, opinions of counsel to the Issuer, the Trustee, the Borrower and others, certificates of the Issuer, the Trustee, the Borrower and others, and such other documents, opinions and matters to the extent we deemed necessary to provide the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention

after the original delivery of the Bonds on the date hereof. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof. We have further assumed compliance with all covenants and agreements contained in such documents. In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement, the Regulatory Agreement, the Tax Certificate and the Purchase Contract and their enforceability may be subject to bankruptcy, insolvency, reorganization, receivership, arrangement, fraudulent conveyance, moratorium 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 the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinions with respect to the state or quality of title to or interest in any real or personal property described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated July __, 2020 (the "Official Statement"), or other offering material relating to the Bonds and express no view or opinion relating thereto.

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

1. The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended. No opinion is expressed with respect to the Letter of Credit.
2. The Purchase Contract has been duly executed and delivered by, and is a valid and binding agreement of, the Issuer.
3. The statements contained in the Official Statement under the captions "THE BONDS" (excluding information relating to the book-entry system, DTC or Cede & Co.), "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," "TAX MATTERS," and APPENDIX D – "Summary of Certain Provisions of the Principal Legal Documents" and APPENDIX F – "Form of Bond Counsel Opinion," excluding any material that may be treated as included under such captions by cross reference or reference to other documents or sources, insofar as such statements expressly summarize certain provisions of the Indenture, the Loan Agreement, and the form of Lease, or set out the form and content of our Bond Opinion, are accurate in all material respects.

This letter is furnished by us as bond counsel to the Issuer. No attorney-client relationship has existed or exists between our firm and you in connection with the Bonds or by virtue of this letter. We disclaim any obligation to update this letter. This letter is delivered to you as Underwriter of

the Bonds, is solely for your benefit as such Underwriter in connection with the original issuance of the Bonds on the date hereof, and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may not, be relied upon by owners of Bonds or by any other party to whom it is not specifically addressed.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

EXHIBIT B

[opinion of Gubb and Barshay LLP, Borrower's Counsel]

EXHIBIT C

[opinions of Hawkins Delafield & Wood LLP and Stradling Yocca Carlson and Rauth, A Professional Corporation, as Co-Disclosure Counsel to the City]

[Date of Delivery]

City and County of San Francisco
San Francisco, California

\$ _____
CALIFORNIA HOUSING FINANCE AGENCY
REVENUE BONDS
(SAN FRANCISCO SUPPORTIVE HOUSING – 833 BRYANT APARTMENTS)
2020 ISSUE N – SOCIAL BONDS

Ladies and Gentlemen:

We have served as Co-Disclosure Counsel to the City and County of San Francisco (the “City”) in connection with the execution, sale and delivery of the above-referenced bonds (the “Bonds”). Capitalized terms not otherwise defined herein shall have the meanings given such terms in the Official Statement related to the Bonds, dated _____, 2020 (the “Official Statement”).

We have examined originals or copies certified or otherwise identified to our satisfaction of (i) the Commitment Resolution, adopted by the Board of Supervisors on [June __], 2020; (ii) the Preliminary Official Statement related to the Bonds, dated _____, 2020 (the “Preliminary Official Statement”); (iii) the Official Statement; (v) the approving and supplemental opinions of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), dated the date hereof; (iv) the letters, certificates and opinions delivered to you in connection with the issuance of the Bonds; and (v) such other documents, certificates, instructions and records as we have considered necessary or appropriate for the purpose of this letter. We have assumed, but not independently verified, that the signatures on all documents, letters, opinions and certificates which we have examined are genuine, that all documents submitted to us are authentic and were duly and properly executed by the parties thereto and that all representations made in the documents that we have reviewed are true and accurate.

Although in our capacity as Co-Disclosure Counsel we have assisted in the preparation of the Preliminary Official Statement and the Official Statement only with respect to information relating to the City therein and in Appendix A, the Preliminary Official Statement and the Official Statement are the Issuer’s and the Borrower’s documents and as such the Issuer and the Borrower are responsible for their content as specified in Bond Purchase Agreement for the Bonds. In addition, although we have reviewed the documents described above and participated in the conferences described below, the limitations inherent in the independent verification of factual matters are such

that we are able to express only certain limited negative assurances regarding statements in the Preliminary Official Statement and the Official Statement, including Appendix A thereto. In our capacity as Co-Disclosure Counsel, we have participated in conferences prior to the date of the Preliminary Official Statement and the Official Statement with, among others, representatives of the City, the Issuer, the Borrower, the Underwriter and Bond Counsel, during which conferences the contents of the Preliminary Official Statement and the Official Statement and related matters were discussed. On the basis of the information made available to us in the course of the foregoing, our review of the documents referenced above and our reliance on the certificates and the opinions of counsel described above and our understanding of the applicable law, we advise you as a matter of fact and not opinion that no facts came to our attention which cause us to believe that the Preliminary Official Statement, as of its date, or the Official Statement, as of its date and as of the date of this letter with respect to INTRODUCTION – The City, RISK FACTORS – COVID-19, RISK FACTORS – City Long-Term Financial Challenges, RISK FACTORS – Certain Seismic Risks, RISK FACTORS – Climate Change, Risk of Sea Level Rise and Flooding Damage, RISK FACTORS – Other Events, RISK FACTORS – Cybersecurity, RISK FACTORS – Bankruptcy, NO LITIGATION – The City, and Appendix A thereto (with respect to the financial and statistical data, numbers, forecasts and projections, information concerning DTC and the book-entry system and international blue sky matters, and Appendices B, C, D, F, G and H attached thereto, we express no view) contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

We are not expressing any opinion with respect to the authorization, execution, delivery or validity of the Bonds.

This letter is furnished by us as Co-Disclosure Counsel to the City. This letter is rendered in connection with the transaction described herein, and may not be relied upon for any other purpose. This letter shall not extend to, and may not be used, circulated, quoted, referred to, or relied upon by, any other person, firm, corporation or other entity without our prior written consent, provided that a copy of this letter may be placed in the transcript for the Bonds. Our engagement with respect to this matter terminates upon the delivery of this letter to you at the time of the closing relating to the Bonds, and we have no obligation to update this letter.

Respectfully submitted,

EXHIBIT D

[opinion of Robinson & Cole LLP, as counsel to Citibank, N.A.]

EXHIBIT E

FORM OF ISSUE PRICE CERTIFICATE

[\$Par Amount]

**California Housing Finance Agency
Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments)
2020 Issue N – Social Bonds**

The undersigned, on behalf of Citigroup Global Markets Inc. (“Citi”), hereby certifies, as set forth below with respect to the sale and issuance of the above-captioned obligations (the “Bonds”).

1. ***Sale of the General Rule Maturities.*** As of the date of this Certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. ***Initial Offering Price of the Hold-the-Offering-Price-Maturities.***

(a) The Underwriter offered the Hold-the-Offering-Price Maturities to the Public for purchase at the respective initial offering prices listed in Schedule A (the “Initial Offering Prices”) on or before the Sale Date. A copy of the pricing wire or equivalent communication for the Bonds is attached to this Certificate as Schedule B.

(b) As set forth in the Bond Purchase Agreement for the Bonds, the Underwriter has agreed in writing that, (i) for each Maturity of the Hold-the-Offering-Price Maturities, it would neither offer nor sell any of the unsold Bonds of such Maturity to any person at a price that is higher than the Initial Offering Price for such Maturity during the Holding Period for such Maturity (the “hold-the-offering-price rule”), and (ii) unsold Bonds of the Hold-the-Offering-Price Maturities shall be retained by the Underwriter. Pursuant to such agreement, the Underwriter has not offered or sold any unsold Bonds of any Maturity of the Hold-the-Offering-Price Maturities at a price that is higher than the respective Initial Offering Price for that Maturity of the Bonds during the Holding Period.

3. ***Defined Terms.***

(a) ***General Rule Maturities*** means those Maturities of the Bonds listed in Schedule A hereto as the “General Rule Maturities.”

(b) ***Hold-the-Offering-Price Maturities*** means those Maturities of the Bonds listed in Schedule A hereto as the “Hold-the-Offering-Price Maturities.”

(c) ***Holding Period*** means, with respect to a Hold-the-Offering-Price Maturity, the period starting on the Sale Date and ending on the earlier of (i) the close of the fifth business day after the Sale Date, or (ii) the date on which the Underwriter has sold at least 10% of such Hold-the-Offering-Price Maturity to the Public at prices that are no higher than the Initial Offering Price for such Hold-the-Offering-Price Maturity.

(d) *Issuer* means California Housing Finance Agency.

(e) *Maturity* means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(f) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party (as such terms are defined below) to an Underwriter.

(g) A purchaser of any of the Bonds is a *Related Party* to any Underwriter if the Underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other).

(h) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Bonds. The Sale Date of the Bonds is [Sale Date].

(h) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Citi's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer, in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

Dated: [Closing Date]

Citigroup Global Markets Inc., as Underwriter

By: _____

Name: _____

Schedule A
Sale Prices

General Rule Maturities

___ Maturities Listed Below

[Insert pricing table for General Rule Maturities]

Hold-the-Offering-Price Rule Maturities

___ Maturities Listed Below

[Insert pricing table for Hold-the-Offering-Price Rule Maturities]

Schedule B

Pricing Wire or Equivalent Communication

[Attached.]

EXHIBIT F

\$ _____*

**California Housing Finance Agency
Revenue Bonds
(San Francisco Supportive Housing – 833 Bryant Apartments)
2020 Issue N – Social Bonds**

RULE 15c2-12 CERTIFICATE

I, _____, hereby certify that I am the Director of Financing of the California Housing Finance Agency (the “Issuer”), and as such I am authorized to execute this Rule 15c2-12 Certificate on behalf of the Issuer.

I hereby further certify that there has been distributed to prospective purchasers of the above-captioned bonds (the “Bonds”) a Preliminary Official Statement, dated _____, 2020, relating to the Bonds (together with the appendices thereto, any documents incorporated therein by reference, any supplements, or amendments thereto and as disseminated, the “Preliminary Official Statement”), which the Issuer deems to be final with respect to the information under the captions “INTRODUCTION – The Issuer” and “NO LITIGATION - The Issuer” as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”), except for information permitted to be omitted therefrom by the Rule. The Issuer hereby approves of the use and distribution of the Preliminary Official Statement.

IN WITNESS WHEREOF, I hereto set my hand this __ day of _____ 2020.

CALIFORNIA HOUSING FINANCE AGENCY

By: _____
Name:
Title: Director of Financing

* Preliminary, subject to change.

\$ _____ *

**California Housing Finance Agency
Revenue Bonds
(San Francisco Supportive Housing – 833 Bryant Apartments)
2020 Issue N – Social Bonds**

RULE 15c2-12 CERTIFICATE

I, _____, hereby certify that I am the _____ of 833 Bryant, L.P., a California limited partnership (the “Borrower”), and as such I am authorized to execute this Rule 15c2-12 Certificate on behalf of the Borrower.

I hereby further certify that there has been distributed to prospective purchasers of the above-captioned bonds (the “Bonds”) a Preliminary Official Statement, dated _____, 2020, relating to the Bonds (together with the appendices thereto, any documents incorporated therein by reference, any supplements, or amendments thereto and as disseminated, the “Preliminary Official Statement”), which the Borrower deems to be final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”), except for information permitted to be omitted therefrom by the Rule. The Borrower hereby approves of the use and distribution of the Preliminary Official Statement.

IN WITNESS WHEREOF, I hereto set my hand this ___ day of _____ 2020.

833 BRYANT, L.P., a California limited partnership

By: 833 Bryant LLC, a California limited liability company, its general partner

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its sole member/manager

By: _____
Name: _____
Its: _____

* Preliminary, subject to change.

\$ _____ *

**California Housing Finance Agency
Revenue Bonds
(San Francisco Supportive Housing – 833 Bryant Apartments)
2020 Issue N – Social Bonds**

RULE 15c2-12 CERTIFICATE

I, Anna Van Degna, hereby certify that I am the Director, Office of Public Finance of the City and County of San Francisco (the “City”), and as such I am authorized to execute this Rule 15c2-12 Certificate on behalf of the City.

I hereby further certify that there has been distributed to prospective purchasers of the above-captioned bonds (the “Bonds”) a Preliminary Official Statement, dated _____, 2020, relating to the Bonds (together with the appendices thereto, any documents incorporated therein by reference, any supplements, or amendments thereto and as disseminated, the “Preliminary Official Statement”), which the City deems to be final with respect to the information set forth under the captions “INTRODUCTION – The City,” “RISK FACTORS – COVID-19,” “RISK FACTORS – City Long-Term Financial Challenges,” “RISK FACTORS – Certain Seismic Risks,” “RISK FACTORS – Climate Change, Risk of Sea Level Rise and Flooding Damage,” “RISK FACTORS – Other Events,” “RISK FACTORS – Cybersecurity,” “RISK FACTORS – Bankruptcy,” “NO LITIGATION – The City” and in Appendix A as of the date of the Preliminary Official Statement for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (the “Rule”), except for information permitted to be omitted therefrom by the Rule. The City hereby approves of the use and distribution of the Preliminary Official Statement.

IN WITNESS WHEREOF, I hereto set my hand this __ day of _____ 2020.

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Director, Office of Public Finance

* Preliminary, subject to change.

EXHIBIT G

[report(s) required by Section 1899.532 of Article 4 of Subchapter 4 of Chapter 4 of Division 2
of Title 2 of the California Code of Regulations]

EXHIBIT H

[Letter of Representations of City]

Letter of Representations of the City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
San Francisco, California 94102

July ____, 2020

California Housing Finance Agency, as issuer
Sacramento, California

Honorable Fiona Ma
State Treasurer
Sacramento, California

Citigroup Global Markets Inc., as underwriter
San Francisco, California

833 Bryant, L.P., as borrower
San Francisco, California

Re: California Housing Finance Agency Revenue Bonds
(San Francisco Supportive Housing – 833 Bryant Apartments)
2020 Issue N – Social Bonds

Ladies and Gentlemen:

This Letter of Representations (the “Letter”) is provided to the Citigroup Global Markets Inc., as underwriter (the “Underwriter”), the California Housing Finance Agency (the “Issuer”), the Honorable Fiona Ma, Treasurer of the State of California (the “Treasurer”), and 833 Bryant, L.P. (the “Borrower”), pursuant to the Bond Purchase Agreement, dated _____, 2020 (the “Purchase Agreement”), providing for the purchase of \$_____ aggregate principal amount of California Housing Finance Agency Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds (the “Bonds”). Capitalized terms used in this Letter and not otherwise defined herein shall have the respective meanings set forth in the Purchase Agreement or the Indenture of Trust, dated as of July 1, 2020 (the “Indenture”), by and between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”).

The Bonds are being issued by the Issuer to: (i) make a loan to the Borrower to finance and/or refinance a portion of the acquisition, construction and equipping of a 145 unit multifamily residential rental supportive affordable housing project located in the City and known as 833 Bryant Apartments (the “Project”), (ii) fund capitalized interest on the Bonds through the Lease Delivery Deadline, and (iii) pay costs of issuing the Bonds.

Section 1. The City represents and warrants to the Issuer, the Treasurer, the Borrower and the Underwriter that:

(a) as of the date of this Letter, the City has full right, power and authority to execute and deliver this Letter, the Commitment Letter, the City Continuing Disclosure Certificate, the Lease Agreement and the Sublease Agreement (collectively, the “City Documents”):

(b) as of the date of this Letter, all authorizations, approvals, licenses, consents and orders of any governmental authority or agency having jurisdiction of the matter that would constitute a condition precedent to, or the absence of which would materially and adversely affect, the performance by the City of its obligations under this Letter, the Commitment Letter, the City Continuing Disclosure Certificate or the Tax Certificate have been obtained;

(c) at the Closing Date, this Letter, the Commitment Letter, the Tax Certificate and the City Continuing Disclosure Certificate will constitute the legal, valid and binding obligations of the City in accordance with their respective terms;

(d) as of its date and the date hereof, the Preliminary Official Statement (excluding the information relating to DTC and its book-entry system, the Letter of Credit Provider and the Letter of Credit) with respect to information under the captions “INTRODUCTION – The City,” “RISK FACTORS – COVID-19,” “RISK FACTORS – City Long-Term Financial Challenges,” “RISK FACTORS – Certain Seismic Risks,” “RISK FACTORS – Climate Change, Risk of Sea Level Rise and Flooding Damage,” “RISK FACTORS – Other Events,” “RISK FACTORS – Cybersecurity,” “RISK FACTORS – Bankruptcy,” “NO LITIGATION – The City,” and in Appendix A (collectively, the “City Information”) does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(e) up to and including the time of the Closing, the Official Statement (excluding the information relating to DTC and its book-entry system, the Letter of Credit Provider and the Letter of Credit) with respect to the City Information does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(f) up to and including the time of the Closing, if the Official Statement is supplemented or amended pursuant to the Purchase Agreement, at the time of each supplement or amendment thereto and (unless subsequently supplemented or amended pursuant to the Purchase Agreement) the Official Statement (except as aforesaid) as so supplemented or amended will not with respect to the City Information contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(g) the City will comply with the terms of the Tax Certificate;

(h) any representation made in a certificate signed by an authorized officer of the City and delivered to the Issuer, the Treasurer, the Borrower or the Underwriter in connection with the issuance of the Bonds shall be deemed to be a representation of the City to the Issuer, the Treasurer, the Borrower and the Underwriter; and

(i) the City has taken all necessary actions required to approve the City Continuing Disclosure Certificate and Appendix A to the Official Statement. The City hereby authorizes the use of the Preliminary Official Statement and the Official Statement and the information contained therein by the Underwriter in connection with the public offering and the sale of the Bonds. The City consents to the use by the Underwriter prior to the date hereof of the Preliminary Official Statement in connection with the public offering of the Bonds.

Section 2. The execution and delivery of this Letter by the City shall constitute the City's approval of and consent to the Issuer's entering into, acceptance and execution of the Purchase Agreement and performance thereunder. The City agrees to deliver or cause to be delivered the documents, certificates and opinions contemplated to be delivered by the City or its officers to the Underwriter at or prior to Closing pursuant to the Purchase Agreement. The City further agrees to cooperate in the preparation of any amendment or supplement to the Preliminary Official Statement and the Official Statement in accordance with the Purchase Agreement and to provide any information regarding the City and its financial affairs requested by the Issuer or the Underwriter for inclusion in any such amendment or supplement.

Section 3. This Letter is made solely for the benefit of the Issuer, the Treasurer, the Borrower and the Underwriter.

Section 4. Any notice or other communication to be given to the City under this Letter may be given by delivering the same in writing to the City, at the address set forth above, Room 336, Attention: Mayor's Office of Public Finance, and any notice or other communication to be given to the Issuer or the Underwriter under this Letter may be given by delivering the same in writing for the Issuer to California Housing Finance Agency, 500 Capitol Mall, Suite 900, Sacramento, California 95814, Attention: _____, Legal Counsel; to the Underwriter to Citigroup Global Markets Inc., 1 Sansome Street, 27th Floor, San Francisco, Attention: Debra Saunders, Director.

Section 5. All of the representations, warranties and agreements of the City contained in this Letter shall remain operative and in full force and effect, regardless of: (i) any investigations made by or on behalf of any of the Underwriter; (ii) delivery of and payment for the Bonds, pursuant to the Purchase Agreement; and (iii) any termination of this Letter or the Purchase Agreement.

Section 6. If any provision of this Letter shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Letter.

Section 7. This Letter may be executed electronically and in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute the Letter by signing any such counterpart.

Section 8. This Letter shall be governed by and interpreted under the laws of the State of California.

Very truly yours,

CITY AND COUNTY OF SAN FRANCISCO

By: _____

Title: _____

Agreed to and Accepted by:

CALIFORNIA HOUSING FINANCE AGENCY

By _____

Title:

CITIGROUP GLOBAL MARKETS INC.,
as underwriter

By _____

Director

APPENDIX A

RECENT DEVELOPMENTS

The following information regarding certain recent developments in the finances and operations of the City supplements and amends the information set forth in Appendix A as of the date of this Official Statement. **Certain of the information provided below regarding the recent and ongoing COVID-19 Emergency (as defined below) is expected to have material adverse impacts on the projections and budget information provided in APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES,” which information in certain cases was prepared and released by the City prior to the COVID-19 Emergency.** Investors are advised to carefully consider the information presented below, together with other information presented in this Official Statement, in order to make an informed investment decision. Certain of the information provided below, and elsewhere in this Official Statement, involves forward-looking statements, which are based on current expectations and are not intended as representations of fact or guarantees of results. Any such forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected. See “CERTAIN RISK FACTORS – Public Health Emergencies.”

General

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

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

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

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

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

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

Modifications to Budget Calendar

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

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

March Joint Report Update

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

May Update Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Change in Two Year Deficit (1,069.8)

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

SOURCES – Revenue and Fund Balance:

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

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

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

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

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

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

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

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

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

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

USES – Salaries and Benefits

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

USES – Departmental Costs

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

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

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

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

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

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

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

Threat of Extended Recession

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

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

Impact of the State of California Budget on Local Finances

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

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

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

Impact of the Federal Government on Local Finances

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

CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES

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

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

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

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

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

The information contained in this Official Statement, including this Appendix A, speaks only as of its date, and the information herein is subject to change. Prospective investors are advised to read the entire Official Statement to obtain information essential to make an informed investment decision. As described in “RECENT DEVELOPMENT—COVID-19,” the COVID-19 pandemic is expected to materially adversely impact financial condition of the City’s General Fund.

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CITY GOVERNMENT

City Charter

San Francisco is constituted as a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California (the “State”) and is the only consolidated city and county in the State. In addition to its powers under its charter in respect of municipal affairs granted under the State Constitution, San Francisco generally can exercise the powers of both a city and a county under State law. On April 15, 1850, several months before California became a state, the original charter was granted by territorial government to the City. New City charters were adopted by the voters on May 26, 1898, effective January 8, 1900, and on March 26, 1931, effective January 8, 1932. In November 1995, the voters of the City approved the current charter, which went into effect in most respects on July 1, 1996 (the “Charter”).

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

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

Under its original charter, the City committed to a policy of municipal ownership of utilities. The Municipal Railway, when acquired from a private operator in 1912, was the first such city-owned public transit system in the nation. In 1914, the City obtained its municipal water system, including the Hetch Hetchy watershed near Yosemite. In 1927, the City dedicated Mill’s Field Municipal Airport at a site in what is now San Mateo County 14 miles south of downtown San Francisco, which would grow to become today’s San Francisco International Airport (the “Airport”). In 1969, the City acquired the Port of San Francisco (the “Port”) in trust from the State. Substantial expansions and improvements have been made to these enterprises since their original acquisition. SFO, the Port, the PUC (which now includes the Water Enterprise, the Wastewater Enterprise and the Hetch Hetchy Water and Power Project), the Municipal

Transportation Agency (“MTA”) (which operates the San Francisco Municipal Railway or “Muni” and the Department of Parking and Traffic (“DPT”), including the Parking Authority and its five public parking garages), and the City-owned hospitals (San Francisco General and Laguna Honda), are collectively referred to herein as the “enterprise fund departments,” as they are not integrated into the City’s General Fund operating budget. However, certain of the enterprise fund departments, including San Francisco General Hospital, Laguna Honda Hospital, and the MTA, receive annually significant General Fund transfers.

The Charter distributes governing authority among the Mayor, the Board of Supervisors, the various other elected officers, the City Controller and other appointed officers, and the boards and commissions that oversee the various City departments. The Mayor appoints most commissioners subject to a two-thirds vote of the Board of Supervisors, unless otherwise provided in the Charter. The Mayor appoints each department head from among persons nominated to the position by the appropriate commission and may remove department heads.

Mayor

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

Board of Supervisors

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

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO		
Board of Supervisors		
Name	First Elected or Appointed	Current Term Expires
Sandra Lee Fewer, <i>District 1</i>	2017	2021
Catherine Stefani, <i>District 2</i>	2018	2023
Aaron Peskin, <i>District 3</i>	2017	2021
Gordon Mar, <i>District 4</i>	2019	2023
Dean Preston, <i>District 5</i>	2019	2020
Matt Haney, <i>District 6</i>	2019	2023
Norman Yee, Board President, <i>District 7</i>	2017	2021
Rafael Mandelman, <i>District 8</i>	2018	2023
Hillary Ronen, <i>District 9</i>	2017	2021
Shamann Walton, <i>District 10</i>	2019	2023
Ahsha Safai, <i>District 11</i>	2017	2021

Other Elected and Appointed City Officers

The City Attorney represents the City in all legal proceedings in which the City has an interest. Dennis J. Herrera was re-elected to a four-year term as City Attorney in November 2019. Mr. Herrera was first elected City Attorney in December 2001. Before becoming City Attorney, Mr. Herrera had been a partner in a private law firm and had served in the Clinton Administration as Chief of Staff of the U.S. Maritime Administration. He also served as president of the San Francisco Police Commission and was a member of the San Francisco Public Transportation Commission.

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

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

The City Controller is responsible for timely accounting, disbursement, and other disposition of City moneys, certifies the accuracy of budgets, estimates the cost of ballot measures, provides payroll services for the City's employees, and, as the Auditor for the City, directs performance and financial audits of City activities. Benjamin Rosenfield was appointed to a ten-year term as Controller of the City by then-Mayor Newsom in March 2008 and was confirmed by the Board of Supervisors in accordance with the Charter. Mr. Rosenfield was reappointed by then-Mayor Mark Farrell to a new ten-year term as Controller in 2017, and his nomination was confirmed by the Board of Supervisors on May 1, 2018. Before becoming Controller, Mr. Rosenfield served as the Deputy City Administrator under former City Administrator Edwin Lee from 2005 to 2008. He was responsible for the preparation and monitoring of the City's ten-year capital plan, oversight of a number of internal service offices under the City Administrator and implementing the City's 311 non-emergency customer service center. From 2001 to 2005, Mr. Rosenfield worked as the Budget Director for then-Mayor Willie L. Brown, Jr. and then-Mayor Newsom. As Budget Director during that period, Mr. Rosenfield prepared the City's proposed budget for each fiscal year and worked on behalf of the Mayor to manage City spending during the course of each year. From 1997 to 2001, Mr. Rosenfield worked as an analyst in the Mayor's Budget Office and as a project manager in the Controller's Office.

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

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

CITY BUDGET

Overview

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

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

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

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

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TABLE A-2*

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

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

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

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

³ Over the past five years, the City has consolidated various departments to achieve operational efficiencies. This has resulted in changes in how departments were summarized in the service area groupings above for the time periods shown.

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

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

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

⁷ FY 2019-20 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the previous year's Final Revised Budget.

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

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

Budget Process

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

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

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

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

The Annual Appropriation Ordinance becomes effective with or without the Mayor's signature after 10 days; however, the Mayor has line-item veto authority over specific items in the budget. Additionally, in the event the Mayor were to disapprove the entire ordinance, the Charter directs the Mayor to promptly return the ordinance to the Board of Supervisors, accompanied by a statement indicating the reasons for disapproval and any recommendations which the Mayor may have. Any Annual Appropriation Ordinance so disapproved by the Mayor shall become effective only if, subsequent to its return, it is passed by a two-thirds vote of the Board of Supervisors.

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

Multi-Year Budgeting and Planning

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

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

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

Role of Controller in Budgetary Analysis and Projections

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

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

General Fund Results: Audited Financial Statements

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

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

TABLE A-3

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

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

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

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

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

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

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

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

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

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

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

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

Rainy Day Reserve

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

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

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

Budget Stabilization Reserve

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

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

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

General Reserve

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

Budget Savings Incentive Reserve

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

Salaries, Benefits and Litigation Reserves

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

Operating Cash Reserve

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

Table A-4, entitled "Audited Statement of Revenues, Expenditures and Changes in General Fund Balances," is extracted from information in the City's CAFR for the five most recent fiscal years. Prior years audited financial statements can be obtained from the City Controller's website. Information from the City Controller's website is not incorporated herein by reference. Excluded from this Statement of General Fund Revenues and Expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

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TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Audited Statement of Revenues, Expenditures and Changes in General Fund Fund Balances¹
Fiscal Years 2014-15 through 2018-19²
(000s)

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

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

² Fiscal year 2019-20 will be available upon release of the fiscal year 2019-20 CAFR.

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

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

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

Five-Year Financial Plan

The Five-Year Financial Plan (“Plan”) is required under Proposition A, a charter amendment approved by voters in November 2009. The Charter requires the City to forecast expenditures and revenues for the next five fiscal years, propose actions to balance revenues and expenditures during each year of the Plan, and discuss strategic goals and corresponding resources for City departments. Proposition A required that a Plan be adopted every two years. The City’s Administrative Code requires that by March 1 of each even-numbered year, the Mayor, Board of Supervisors Budget Analyst, and Controller submit an updated estimated summary budget for the remaining four years of the most recently adopted Plan.

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

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

The Original FY21-FY24 Plan projected growth in General Fund revenues over the forecast period of 6.9%, primarily composed of growth in local tax sources. The revenue growth was projected to be offset by projected expenditure increases of 17.2% over the same period, primarily composed of growth in employee wages and health care costs, citywide operating expenses, and Charter mandated baselines and reserves. The Original FY21-FY24 Plan projected growth in General Fund sources of \$423.6 million over the Original FY21-FY24 Plan period, and expenditure growth of \$1.05 billion. The composition of the projected shortfall is shown in Table A-5 below.

TABLE A-5*

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

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

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

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

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

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

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

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

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

Fiscal Year 2019-20 Six-Month Budget Status Report

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

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

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

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

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

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

Other Budget Updates

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

BUDGETARY RISKS

Material Adverse Impacts of the COVID-19 Emergency

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

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

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

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

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

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

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

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

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

Impact of the State of California Budget on Local Finances

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

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

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

Impact of Federal Government on Local Finances

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

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

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

THE SUCCESSOR AGENCY

Effect of the Dissolution Act

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

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

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

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

GENERAL FUND REVENUES

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

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

PROPERTY TAXATION

Property Taxation System – General

The City receives approximately one-third of its total General Fund operating revenues from local property taxes. Property tax revenues result from the application of the appropriate tax rate to the total assessed value of taxable property in the City. The City levies property taxes for general operating purposes as well as for the payment of voter-approved bonds. As a county under State law, the City also levies property taxes on behalf of all local agencies with overlapping jurisdiction within the boundaries of the City.

Local property taxation is the responsibility of various City officers. The Assessor computes the value of locally assessed taxable property. After the assessed roll is closed on June 30th, the City Controller issues a Certificate of Assessed Valuation in August which certifies the taxable assessed value for that fiscal year. The Controller also compiles a schedule of tax rates including the 1.0% tax authorized by Article XIII A of the State Constitution (and mandated by statute), tax surcharges needed to repay voter-approved general obligation bonds, and tax surcharges imposed by overlapping jurisdictions that have been authorized to levy taxes on property located in the City. The Board of Supervisors approves the schedule of tax rates each year by ordinance adopted no later than the last working day of September. The Treasurer and Tax Collector prepares and mails tax bills to taxpayers and collect the taxes on behalf of the City and other overlapping taxing agencies that levy taxes on taxable property located in the City. The Treasurer holds and invests City tax funds, including taxes collected for payment of general obligation bonds, and is charged with payment of principal and interest on such bonds when due. The State Board of Equalization assesses certain special classes of property, as described below. See “Taxation of State-Assessed Utility Property” below.

Assessed Valuations, Tax Rates and Tax Delinquencies

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

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

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

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor Agency to the San Francisco Redevelopment Agency (more commonly known OCII). Property tax revenues attributable to the growth in assessed value of taxable property (known as “tax increment”) within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations and a portion of administrative costs of the agency causing a loss of tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. The Successor Agency received \$158.6 million of property tax increment in fiscal year 2018-19 for recognized obligations, diverting about \$88.2 million that would have otherwise been apportioned to the City’s discretionary General Fund.

The percent collected of property tax (current year levies excluding supplemental) was 99.26% for fiscal year 2018-19. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder’s Office, numbered 56 for the six-month period July 1 to December 31, 2019. For the fiscal year 2018-19 a total of 86 trustee deeds were recorded compared to 111 for fiscal year 2017-18 and 92 for fiscal year 2016-17. There can be no assurances that the COVID-19 Emergency will not result in increased foreclosures in the City. See “RECENT DEVELOPMENTS.”

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TABLE A-6

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

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

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

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

³ The Total Tax Levy and Total Tax Collected through fiscal year 2018-19 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported to the State of California (available on the website of the California SCO). Total Tax Levy for fiscal year 2019-20 is based upon initial assessed valuations times the secured property tax rate to provide an estimate.

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

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

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

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

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

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

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

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

In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary General Fund appeals reserve fund for fiscal years 2013-14 through 2018-19 are listed in Table A-7 below.

TABLE A-7

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

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

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

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

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

There were 1,106 new applications filed during the six-month period of July 1 to December 31, 2019 and a total of 1,176 open applications as of December 31, 2019. As of June 30, 2019, the total number of open appeals before the AAB was 740, compared to 1,001 open AAB appeals as of June 30, 2018. As of June 30, 2019, there were 1,253 new applications filed during fiscal year 2018-19, compared to 1,636 new applications filed during the same period (June 30, 2018) of fiscal year 2017-18. Also, the difference between the current assessed value and the taxpayer’s opinion of values for all the open appeals is \$14.9 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all the taxpayer’s requests, a negative potential total property tax impact of about \$174.1 million would result. The General Fund’s portion of that potential \$174.1 million would be approximately \$83.2 million.

The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction in assessed valuation that the Assessor may ultimately grant. City revenue estimates take into account projected losses from pending and future assessment appeals that are based on historical results as to appeals.

Tax Levy and Collection

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City’s boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the BAAQMD and BART. The total tax levy for all taxing entities to begin fiscal year 2019-20 was \$3.3 billion, not including supplemental, escape and special assessments that may be assessed during the year. Of total property tax revenues (including supplemental and escape property taxes), the City budgeted to receive \$2.0 billion in the General Fund and \$235.1 million in special revenue funds designated for children’s programs, libraries and open space. SFUSD and SFCCD were estimated to receive approximately \$199.8 million and \$37.4 million, respectively, and the local ERAF was estimated to receive \$401.1 million (before adjusting for the vehicle license fees (“VLF”) backfill shift). The Successor Agency is estimated to receive approximately \$171.3 million. The remaining portion will be allocated to various other governmental bodies, various special funds, and general obligation bond debt service funds, and other taxing entities. Taxes levied to pay debt service for general obligation bonds issued by the City, SFUSD, SFCCD and BART may only be applied for that purpose. The City’s General Fund is allocated about 47.1% of total property tax revenue before adjusting for the VLF backfill shift and excess ERAF.

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

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

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

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

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

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

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

TABLE A-8

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

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

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

Assessed valuations of the aggregate ten largest assessment parcels in the City for the fiscal year beginning July 1, 2019 are shown in Table A-9. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the Office of the Assessor-Recorder.

TABLE A-9

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

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

¹ Represents the Total Assessed Valuation (TAV) as of the Basis of Levy, which excludes assessments processed during the fiscal year.

TAV includes land & improvements, personal property, and fixtures.

² The Basis of Levy is total assessed value less exemptions for which the state does not reimburse counties (e.g. those that apply to nonprofit organizations).

³ Nonprofit organization that is exempt from property taxes.

Source: Office of the Assessor-Recorder, City and County of San Francisco

Taxation of State-Assessed Utility Property

A portion of the City's total net assessed valuation consists of utility property subject to assessment by the State Board of Equalization. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions assessed as part of a "going concern" rather than as individual parcels of real or personal property. Unitary and certain other State-assessed property values are allocated to the counties by the State Board of Equalization, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the City itself) according to statutory formulae generally based on the distribution of taxes in the prior year. The fiscal year 2019-20 valuation of property assessed by the State Board of Equalization is \$3.7 billion.

OTHER CITY TAX REVENUES

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

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

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

Business Taxes

Through tax year 2014 businesses in the City were subject to payroll expense and business registration taxes. Proposition E approved by the voters in the November 2012 election changed business registration tax rates and introduced a gross receipts tax which phases in over a five-year period beginning January 1, 2014, replacing the current 1.5% tax on business payrolls over the same period. Overall, the ordinance increased the number and types of businesses in the City that pay business tax and registration fees from approximately 7,500 currently to 15,000. Current payroll tax exclusions will be converted into a gross receipts tax exclusion of the same size, terms and expiration dates.

The payroll expense tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. The 1.5% payroll tax rate in 2013 was adjusted to 1.35% in tax year 2014, 1.16% in tax year 2015, 0.829% in tax year 2016, 0.71% in tax year 2017, and 0.38% in tax year 2018. The gross receipts tax ordinance, like the current payroll expense tax, is imposed for the privilege of "engaging in business" in San Francisco. The gross receipts tax applies to businesses with \$1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. Proposition E also imposes a 1.4% tax on administrative office business activities measured by a company's total payroll expense within San Francisco in lieu of the Gross Receipts Tax and increases annual business registration fees to as much as \$35,000 for businesses with over \$200 million in gross receipts. Prior to Proposition E, business registration taxes varied from \$25 to \$500 per year per subject business based on the prior year computed

payroll tax liability. Proposition E increased the business registration tax rates to between \$75 and \$35,000 annually.

Business tax revenue in fiscal year 2018-19 was \$919.6 million (all funds), representing an increase of \$20.4 million (2.3%) from fiscal year 2017-18. Business tax revenue was budgeted at \$1,072.7 million in the fiscal year 2019-20 Original Budget which would represent an increase of \$153.2 million (16.7%) over fiscal year 2018-19 revenue. The vast majority of the City’s business tax is deposited in the General Fund; approximately \$2.0 million is allocated to the Neighborhood Beautification Fund. These figures do not assume gross receipts revenue related to either of the business tax measures approved by voters in 2018 as these are special purpose taxes deposited outside the General Fund.

TABLE A-10*

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

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

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

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

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

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

Transient Occupancy Tax (Hotel Tax)

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

TABLE A-11*

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

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

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

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

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

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

Real Property Transfer Tax

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

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

TABLE A-12*

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

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

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

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

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

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

Sales and Use Tax

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

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

TABLE A-13

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

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

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

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

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

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

TABLE A-14*

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

Fiscal Year ¹	Tax Rate	City Share	Revenue	Change	
2015-16	8.75%	0.75%	\$167,915	\$27,769	19.8%
2015-16 adj. ²	8.75%	1.00%	204,118	17,227	9.2%
2016-17	8.75%	1.00%	189,473	(14,645)	-8.7%
2017-18	8.50%	1.00%	192,946	3,473	1.8%
2018-19	8.50%	1.00%	213,625	20,679	10.7%
2019-20 <i>budgeted</i> ³	8.50%	1.00%	204,085	(9,540)	-4.5%

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

² The 2015-16 adjusted figures include the State's final payment to the counties for the lost 0.25% of sales tax, from July 1, 2015 through December 31, 2015. It also includes a true-up payment for April through June 2015.

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

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

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

Other Local Taxes

The City imposes a number of other general purpose taxes:

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

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

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

TABLE A-15*

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

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

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

INTERGOVERNMENTAL REVENUES

State Subventions Based on Taxes

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

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

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

TABLE A-16*

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

Notes

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

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

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

CITY GENERAL FUND PROGRAMS AND EXPENDITURES

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

General Fund Expenditures by Major Service Area

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

TABLE A-17*

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

*Total may not add due to rounding

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

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

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

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

Voter-Mandated Spending Requirements

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

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TABLE A-18*

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

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

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

EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

The cost of salaries and benefits for City employees represents slightly less than half of the City's expenditures, totaling \$5.6 billion in the fiscal year 2019-20 Original Budget (all funds), and \$5.8 billion in the fiscal year 2020-21 Original Budget. Looking only at the General Fund, the combined salary and benefits budget was \$2.6 billion in the fiscal year 2019-20 Original Budget and \$2.8 billion in the fiscal year 2020-21 Original Budget.

This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-retirement health and medical benefits. Employees of SF Unified School District ("SFUSD"), SFCCD and the San Francisco Superior Court, called Trial Court below, are not City employees.

Labor Relations

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

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

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

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

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

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

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

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TABLE A-19

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

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

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

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

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

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

History and Administration

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

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

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

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

Membership

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

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

TABLE A-20

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

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

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

Notes: Member counts exclude DROP participants. There are no active DROP members on or after July 1, 2016
Member counts are for the entire Retirement System and include non-City employees.

Funding Practices

Employer and employee (member) contributions are mandated by the Charter. Sponsoring employers are required to contribute 100% of the actuarially determined contribution approved by the Retirement Board. The Charter specifies that employer contributions consist of the normal cost (the present value of the benefits that SFERS expects to become payable in the future attributable to a current year's employment) plus an amortization of the unfunded liability over a period not to exceed 20 years. The Retirement Board sets the funding policy subject to the Charter requirements.

The Retirement Board adopts the economic and demographic assumptions used in the annual valuations. Demographic assumptions such as retirement, termination and disability rates are based upon periodic demographic studies performed by the consulting actuarial firm approximately every five years. Economic assumptions are reviewed each year by the Retirement Board after receiving an economic experience analysis from the consulting actuarial firm.

At the November 2018 Retirement Board meeting, the Board voted to lower the assumed long-term investment earnings assumption from 7.50% to 7.40%, maintain the long-term wage inflation assumption at 3.50%, and lower the long-term consumer price inflation assumption from 3.00% to 2.75%. These economic assumptions were first effective for the July 1, 2018 actuarial valuation and were approved again by the Board for the July 1, 2019 actuarial valuation at their July 2019 meeting. The Board had previously lowered the long-term wage inflation assumption from 3.75% to 3.50% at its November 2017 meeting effective for the July 1, 2017 actuarial valuation. In November 2015 the Board voted to update demographic assumptions, including mortality, after review of a new demographic assumptions study by the consulting actuarial firm.

While employee contribution rates are mandated by the Charter, sources of payment of employee contributions (i.e. City or employee) may be the subject of collective bargaining agreements with each

union or bargaining unit. Since July 1, 2011, substantially all employee groups have agreed through collective bargaining for employees to contribute all employee contributions through pre-tax payroll deductions.

Prospective purchasers of the City's debt obligations should carefully review and assess the assumptions regarding the performance of the Retirement System. Audited financials and actuarial reports may be found on the Retirement System's website, mysfers.org, under Publications. The information on such website is not incorporated herein by reference. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the City's debt obligations are cautioned that the information and assumptions speak only as of the respective dates contained in the underlying source documents and are therefore subject to change.

Employer Contribution History and Annual Valuations

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

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

TABLE A-21

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

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

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

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

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

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

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

Governmental Accounting Standards Board ("GASB") Disclosures

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

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

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

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

TABLE A-21A

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

Sources: SFERS fiscal year-end GASB 67/68 Reports as of each June 30.
Notes: Collective amounts include all employees (City and County, SFUSD, SFCCD, Superior Courts)

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

Asset Management

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

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

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

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

2011 Voter Approved Changes to the Retirement Plan

The levels of SFERS plan benefits are established under the Charter and approved directly by the voters, rather than through the collective bargaining process. Changes to retirement benefits require a voter-approved Charter amendment. As detailed below, the most recent changes to SFERS plan benefits have been intended to reduce pension costs associated with future City employees.

Voters of San Francisco approved Proposition C in November 2011 which provided the following:

1. New SFERS benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raise the minimum service retirement age for Miscellaneous members from 50 to 53; limit covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculate final compensation using highest three-year average compensation; and decrease vesting allowances for Miscellaneous members by lowering the City's funding for a portion of the vesting allowance from 100% to 50%;
2. Employees commencing employment on or after January 7, 2012 otherwise eligible for membership in CalPERS may become members of SFERS;
3. Cost-sharing provisions which increase or decrease employee contributions to SFERS on and after July 1, 2012 for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. For example, Miscellaneous employees hired on or after November 2, 1976 pay a Charter-mandated employee contribution rate of 7.5% before-cost-sharing. However, after cost-sharing those who earn between \$50,000 and \$100,000 per year pay a fluctuating rate in the range of 3.5% to 11.5 and those who earn \$100,000 or more per year pay a fluctuating rate in the range of 2.5% to 12.5%. Similar fluctuating employee contributions are also required from Safety employees; and
4. Effective July 1, 2012, no Supplemental COLA will be paid unless SFERS is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits - in any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

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

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

these retirees. After the SFERS Board adopted the Resolution, the Retirement System published an actuarial study on the cost to the Fund of payments to the pre-1996 retirees. The study reports that the two retroactive supplemental payments will trigger immediate payments of \$34 million, create additional liability for continuing payments of \$114 million, and cause a new unfunded liability of \$148 million. This liability does not include the Supplemental COLA payments that may be triggered in the future. Under the cost sharing formulas in Proposition C, the City and its employees will pay for these costs in the form of higher yearly contribution rates. The Controller has projected the future cost to the City and its employees to be \$260 million, with over \$200 million to be paid in the next five fiscal years. The City obtained a permanent injunction to prevent SFERS from making Supplemental COLA payments to these members who retired before November 6, 1996. The Retirement Board appealed the Superior Court's injunction; however, the injunction was affirmed by the Court of Appeal reserving the power to take action for the City's voters.

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

Impact on the Retirement System from Changes in the Economic Environment

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

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

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

Other Employee Retirement Benefits

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

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

Medical Benefits

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

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

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

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

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

Determination of Employer and Employee Contributions for Medical Benefits

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

For unions representing approximately 93.3% of City employees, rather than applying the “average contribution” to determine the amount the City is required to contribute for active employees, a percentage-based employee premium contribution formula was negotiated through collective bargaining. To the extent annual medical premiums exceed the contributions made by the City as required by the Charter and union agreements, such excess must be paid by SFHSS Beneficiaries or, if elected by the Health Service Board, from the assets of the Health Service Trust Fund. Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g., surviving spouses and surviving domestic partners of City retirees) (“Nonemployee City Beneficiaries”) are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The San Francisco Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under “– *Post-Employment Health Care Benefits.*”

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City Contribution for Retirees

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

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

Health Care Reform

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

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

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

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

- **Health Insurance Tax (“HIT”)**

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

- **Medical Device Excise Tax**

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

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

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

Employer Contributions for San Francisco Health Service System Benefits

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

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

Post-Employment Health Care Benefits

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

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

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

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

GASB 75 Reporting Requirements

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

City's Estimated Liability

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

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

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TABLE A-22

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

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

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

Total City Employee Benefits Costs

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

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

TABLE A-23

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

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

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

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

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

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

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

INVESTMENT OF CITY FUNDS

Investment Pool

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

Investment Policy

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

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

Investment Portfolio

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

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TABLE A-24

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

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

March Earned Income Yield: 1.786%

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

TABLE A-25

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

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

Weighted Average Maturity: 410 Days

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

Further Information

A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board of Supervisors monthly. The monthly reports and annual reports are available on the Treasurer's web page: www.sftreasurer.org. The monthly reports and annual reports are not incorporated by reference herein.

Additional information on the City's investments, investment policies, and risk exposure as of June 30, 2019 are described in the City's CAFR, Notes 2(c) and 5.

CAPITAL FINANCING AND BONDS

Capital Plan

In October 2005, the Board of Supervisors adopted, and the Mayor approved, Ordinance No. 216-05, which established a new capital planning process for the City. The legislation requires that the City develop and adopt a 10-year capital expenditure plan for City-owned facilities and infrastructure. It also created the Capital Planning Committee ("CPC") and the Capital Planning Program ("CPP"). The CPC, composed of other City finance and capital project officials, makes recommendations to the Mayor and Board of Supervisors on all of the City's capital expenditures. To help inform CPC recommendations, the CPP staff, under the direction of the City Administrator, review and prioritize funding needs; project and coordinate funding sources and uses; and provide policy analysis and reports on interagency capital planning.

The City Administrator, in conjunction with the CPC, is directed to develop and submit a 10-year capital plan every other fiscal year for approval by the Board of Supervisors. The Capital Plan is a fiscally constrained long-term finance strategy that prioritizes projects based on a set of funding principles. It provides an assessment of the City's infrastructure and other funding needs over 10 years, highlights investments required to meet these needs and recommends a plan of finance to fund these investments. Although the Capital Plan provides cost estimates and proposes methods to finance such costs, the document does not reflect any commitment by the Board of Supervisors to expend such amounts or to adopt any specific financing method. The Capital Plan is required to be updated and adopted biennially, along with the City's Five-Year Financial Plan and the Five-Year Information & Communication Technology Plan. The CPC is also charged with reviewing the annual capital budget submission and all long-term financing proposals and providing recommendations to the Board of Supervisors relating to the compliance of any such proposal or submission with the adopted Capital Plan.

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year. The fiscal year 2020-2029 Capital Plan was approved by the CPC on April 17, 2019 and was adopted by the Board of Supervisors on April 30, 2019. The Capital Plan contains \$39.1 billion in capital investments over the coming decade for all City departments, including \$5.1 billion in projects for General Fund-supported departments. The Capital Plan proposes \$2.2 billion for General Fund pay-as-you-go capital projects over the next 10 years. The amount for General Fund pay-as-you-go capital projects is assumed to grow to over \$200 million per year by fiscal year 2023-24. Major capital projects for General Fund-supported departments included in the Capital Plan consist of critical seismic projects and relocation of staff from seismically vulnerable facilities; upgrades to public health, police, and fire facilities; transportation and utility system improvements; improvements to homeless service sites; street and right-of-way improvements; the removal of barriers to accessibility; and park improvements, among other

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

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

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

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

Tax-Supported Debt Service – City General Obligation Bonds

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

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

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TABLE A-26

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

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

¹ This table includes the City's General Obligation Bonds shown in Table A-31 and does not include any overlapping debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

² Totals reflect rounding to nearest dollar.

³ Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all real and personal assessment district indebtedness or any redevelopment agency indebtedness.

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

Authorized but Unissued City GO Bonds

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

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

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

In June 2016, voters approved Proposition A ("2016 Public Health & Safety Proposition"), which authorized the issuance of up to \$350.0 million in general obligation bonds to protect public health and safety, improve community medical and mental health care services, earthquake safety and emergency medical response; to seismically improve, and modernize neighborhood fire stations and vital public health and homeless service sites; to construct a seismically safe and improved San Francisco Fire Department ambulance deployment facility; and to pay related costs. The City issued \$223.1 million over two series of the bonds in 2017 and 2018, leaving \$126.9 million authorized and unissued.

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

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

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

Refunding General Obligation Bonds

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

TABLE A-27

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

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

¹ Series 2004-R1 Bonds were refunded by the 2011-R1 Bonds in November 2011

² Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015.

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

Table A-28 below lists for each of the City’s voter-authorized general obligation bond programs the amount issued and outstanding, and the amount of remaining authorization for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued and does not refer to any particular series. As of May 15, 2020, the City had authorized and unissued general obligation bond authority of approximately \$2.2 billion.

TABLE A-28

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

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

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

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

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

General Fund Lease Obligations

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

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

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TABLE A-29

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

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

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

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

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

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

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

³ Totals reflect rounding to nearest dollar.

⁴ Excludes payments made to date in current fiscal year.

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

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

Voter-Approved Lease Revenue Bonds

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

In 1987, voters approved Proposition B, which authorizes the City to lease finance (without limitation as to maximum aggregate par amount) the construction of new parking facilities, including garages and surface lots, in eight of the City's neighborhoods. In July 2000, the City issued \$8.2 million in lease revenue bonds to finance the construction of the North Beach Parking Garage, which was opened in February 2002.

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

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

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

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

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

TABLE A-30

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

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

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

Board Authorized and Unissued Long-Term Certificates of Participation

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

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

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

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

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

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

Commercial Paper Program

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

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

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

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

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

Transbay Transit Center Interim Financing

In May 2016, the Board authorized and the Mayor approved the establishment of not-to-exceed \$260.0 million Lease Revenue Commercial Paper Certificates of Participation (“Short-Term Certificates”) to meet cash flow needs during the construction of phase one of the Transbay Transit Center (now known as the Salesforce Transit Center). The Short-Term Certificates are expected to be repaid in part from Transbay Transit Center CFD bond proceeds (secured by special taxes) and tax increment. It is anticipated that long-term debt will be issued to retire the Short-Term Certificates, and such long-term debt is also expected to be repaid from such sources.

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

Overlapping Debt

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

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

TABLE A-31

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

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

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

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

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

³ Reflects 2019-20 ratio.

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

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

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

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

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

Article XIII A of the California Constitution

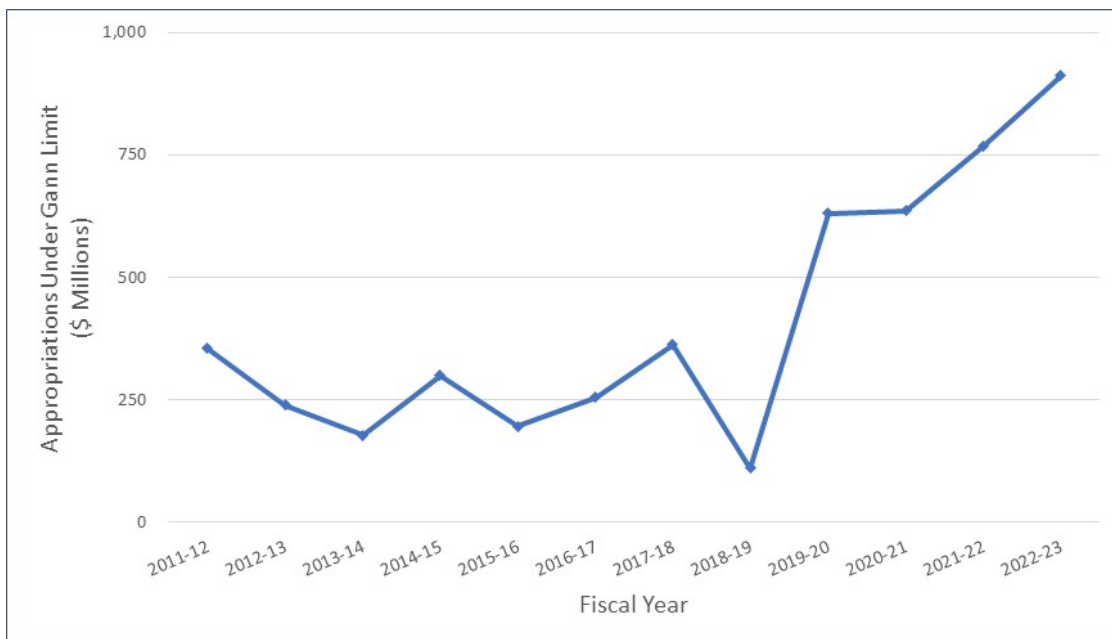
Article XIII A of the California Constitution, known as "Proposition 13," was approved by the California voters in June of 1978. It limits the amount of *ad valorem* tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when "purchased, newly constructed or a change in ownership has occurred" (as such terms are used in Article XIII A) after the 1975 assessment. Furthermore, all real property valuation may be increased or decreased to reflect the inflation rate, as shown by the CPI or comparable data, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on 1) indebtedness approved by the voters prior to July 1, 1978, 2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or 3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district voting on the proposition, but only if certain accountability measures are included in the proposition.

The California Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher or lower than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate persons with disabilities and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII.

Article XIII B of the California Constitution

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



Articles XIII C and XIII D of the California Constitution

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

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

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

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

Proposition 1A

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

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

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

Proposition 22

Proposition 22 (“Proposition 22”) which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State’s authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase a school and community college district’s share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. Proposition 22 prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies (but see “San Francisco Redevelopment Agency Dissolution” above). While Proposition 22 will not change overall State and local government costs or revenues by the express terms thereof, it will cause the State to adopt alternative actions to address its fiscal and policy objectives.

Due to the prohibition with respect to the State’s ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However, borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

Proposition 26

On November 2, 2010, the voters approved Proposition 26 (“Proposition 26”), revising certain provisions of Articles XIII and XIII of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes, requires local governments to obtain two-thirds voter approval for taxes levied by local governments, and requires the State to obtain the approval of two-thirds of both houses of the State Legislature to approve State laws that increase taxes. Furthermore, pursuant to Proposition 26, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require a two-thirds vote. In addition, for State-imposed charges, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII of the State Constitution to state that a “tax” means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law, including late payment fees, fees imposed under administrative citation ordinances, parking violations, etc.; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218. Fees, charges and payments that are made pursuant to a voluntary contract that are not “imposed by a local government” are not considered taxes and are not covered by Proposition 26.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of property owners.

Future Initiatives and Changes in Law

The laws and Constitutional provisions described above were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

On April 25, 2013, the California Supreme Court in *McWilliams v. City of Long Beach* (April 25, 2013, No. S202037), held that the claims provisions of the Government Claims Act (Government Code Section 900 *et. seq.*) govern local tax and fee refund actions (absent another State statute governing the issue), and that local ordinances were without effect. The effect of the *McWilliams* case is that local governments could face class actions over disputes involving taxes and fees. Such cases could expose local governments to significant refund claims in the future. The City cannot predict whether any such class claims will be filed against it in the future, the outcome of any such claim or its impact on the City.

LEGAL MATTERS AND RISK MANAGEMENT

Pending Litigation

There are a number of lawsuits and claims routinely pending against the City, including those summarized in Note 18 to the City's CAFR as of June 30, 2019. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not materially impair the ability of the City to pay debt service on its General Fund lease obligations or other debt obligations, nor have an adverse impact on City finances.

Millennium Tower is a 58-story luxury residential building completed in 2009 and located at 301 Mission Street in downtown San Francisco. On August 17, 2016, some owners of condominiums in Millennium Tower filed a lawsuit, San Francisco Superior Court No. 16-553758 ("Lehman Lawsuit") against TJPA and the individual members of the TJPA, including the City. The TJPA is responsible under State law for developing and operating the Salesforce Transit Center, which will be a new regional transit hub located near the Millennium Tower.

The TJPA began excavation and construction of the Salesforce Transit Center in 2010, after the Millennium Tower was completed. In brief, the Lehman Lawsuit claims that the construction of the Salesforce Transit Center harmed the Millennium Tower by causing it to settle into the soil more than planned and tilt toward the west/northwest, and the owners claim unspecified monetary damages for inverse condemnation and nuisance. The TJPA has asserted that the Millennium Tower was already sinking more than planned and tilting before the TJPA began construction of the Salesforce Transit Center and that the TJPA took precautionary efforts to avoid exacerbating the situation. In addition to the Lehman Lawsuit, several other lawsuits have been filed against the TJPA related to the subsidence and tilting of the Millennium Tower. In total, eight lawsuits have been filed against TJPA, and a total of four of those name the City.

In addition to the Lehman Lawsuit, the City is named as a defendant in a lawsuit filed by the owners of a single unit, the Montana Lawsuit, San Francisco Superior Court Case No. 17-558649, and in two lawsuits filed by owners of multiple units, the Ying Lawsuit (Case No. 17-559210) and the Turgeon Lawsuit (Case No. 18-564417). The Montana, Ying and Turgeon Lawsuits contain similar claims as the Lehman Lawsuit. In the Summer of 2019, the parties announced a tentative settlement of matters relating to the lawsuit. For the settlement to be effective, a number of events must occur, including approval of the settlement by all parties and the Court. These approvals could occur in early Summer 2020. While the City expects that all necessary events will occur for the settlement to become final and effective, no assurance can be given by the City that the settlement will be finalized. If the settlement becomes void, litigation may resume. If litigation were to resume, the City cannot now make any prediction as to the outcome of any such lawsuits, or whether the lawsuits, if determined adversely to the TJPA or the City, would have a material adverse impact on City finances.

Ongoing Investigations

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

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

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

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

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

Risk Retention Program

Citywide risk management is coordinated by the Risk Management Division which reports to the Office of the City Administrator. With certain exceptions, it is the general policy of the City not to purchase commercial liability insurance for the risks of losses to which it is exposed but rather to first evaluate self-insurance for such risks. The City believes that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing covenants and for other limited purposes. The City actuarially determines liability and workers'

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

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

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

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

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

CONTINUING DISCLOSURE CERTIFICATE

§ _____
CALIFORNIA HOUSING FINANCE AGENCY
REVENUE BONDS
(SAN FRANCISCO SUPPORTIVE HOUSING – 833 BRYANT APARTMENTS)
2020 ISSUE N – SOCIAL BONDS

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City and County of San Francisco (the “City”) in connection with the issuance and delivery by the California Housing Finance Agency (the “Issuer”) of the above-captioned revenue bonds (the “Bonds”). The Bonds are being issued pursuant to the Indenture of Trust, dated as of July 1, 2020 (the “Indenture”), between the Issuer and U.S. Bank National Association, as trustee. The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter (defined below) in complying with U.S. 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 Indenture, 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” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

“Dissemination Agent” means Goodwin Consulting Group, Inc., 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.

“Financial Obligation” means “financial obligation” as such term is defined in the Rule.

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

“Lease Agreement” means the Lease Agreement between the City and the Borrower (the “Lease Agreement”) to be executed and delivered by the City upon satisfaction of certain conditions on or before the Lease Delivery Deadline, as that term is defined in the Indenture.

“Listed Events” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means 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” means the original underwriter or purchaser of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means 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 275 days after the end of the City’s fiscal year (which currently ends on June 30), commencing with the report for fiscal year 2019-20, 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 5 days prior to such 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, in a timely manner, 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; and

(b) a summary of budgeted general fund revenues and appropriations.

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 Listed 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 Bonds:

- (1) Principal and interest payment delinquencies under the Lease;
- (2) Nonpayment related defaults under the Lease, if material;
- (3) Modifications to the rights of Bondholders under the Lease, if material;
- (4) Release, substitution, or sale of property securing repayment under the Lease, if material;
- (5) Bankruptcy, insolvency, receivership or similar event of the City;
- (6) Consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the City, 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;
- (7) Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and
- (8) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

(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 Lease Delivery Deadline, unless extended, if the Lease Agreement is not executed and delivered by the City or the legal defeasance, prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final Bond payment date of the Bonds, 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 Bonds or the type of business conducted;

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

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

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City 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 Bonds may take such actions as may be necessary and appropriate to cause the City to comply with its obligations under this Disclosure Certificate; provided that any such action may be instituted only in a federal or state court located in the City and County of San Francisco, State of California, and that the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate 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 Underwriter and Holders and Beneficial Owners from time to time of the Bonds, 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: _____, 2020

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: CALIFORNIA HOUSING FINANCE AGENCY REVENUE BONDS
(SAN FRANCISCO SUPPORTIVE HOUSING – 833 BRYANT APARTMENTS)
2020 ISSUE N – SOCIAL BONDS
Date of Delivery: _____, 2020

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-captioned Bonds 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: _____

PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2020

NEW ISSUE – BOOK-ENTRY ONLY

RATING: Moody's “__”

(See “RATING” herein.)

In the opinion of Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”) based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (as defined below) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a “substantial user” of the facilities financed or refinanced by the Bonds or by a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

\$ _____*

CALIFORNIA HOUSING FINANCE AGENCY
REVENUE BONDS

(SAN FRANCISCO SUPPORTIVE HOUSING – 833 BRYANT APARTMENTS)

2020 ISSUE N – SOCIAL BONDS

Dated: Date of Delivery**Due: April 1, as shown on the inside cover**

The \$ _____* California Housing Finance Agency Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds (the “Bonds”) will be issued under the provisions of an Indenture of Trust dated as of July 1, 2020 (the “Indenture”) between the California Housing Finance Agency (the “Issuer”) and U.S. Bank National Association, as trustee (the “Trustee”). Interest on the Bonds will be payable on April 1 and October 1 of each year, commencing [April 1, 2021]. The Bonds are being issued as fully registered bonds and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). The Bonds will be issued in denominations of \$5,000 and any integral multiple thereof. DTC will act as securities depository of the Bonds. Individual purchases of Bonds will be made in book-entry form only. Payments of principal of and interest on the Bonds are to be made to purchasers by DTC through DTC Participants. Purchasers will not receive physical delivery of the Bonds purchased by them. The Bonds are being issued by the Issuer to: (i) make a loan to 833 Bryant, L.P., a California limited partnership (the “Borrower”) to finance and/or refinance a portion of the acquisition, construction and equipping of a 145 unit multifamily residential rental supportive affordable housing project located in the City and County of San Francisco, California (the “City”) and known as 833 Bryant Apartments (the “Project”), (ii) fund capitalized interest on the Bonds through the date 30 days past the Lease Delivery Deadline, and (iii) pay costs of issuing the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” herein. The Issuer is not funding a reserve fund for the Bonds.

The Bonds are subject to extraordinary, mandatory and optional redemption prior to their stated maturities, as described herein. See “THE BONDS – Redemption” herein.

The Bonds are special limited obligations of the Issuer secured by the Trust Estate pledged to the Bonds under the Indenture. Payment of the principal of and interest on the Bonds will be made primarily from loan payments under the Loan Agreement. In fulfillment of its obligations under the Loan Agreement, the Borrower will assign to the Trustee all its right title and interest in and to the Lease Agreement between the City and the Borrower to be executed and delivered by the City upon satisfaction of certain conditions relating to the Project, as described herein. The City will be required under the Lease Agreement when executed and delivered to make Rent Payments from any source of legally available funds in an amount equal to 1.15 times the scheduled payments of principal of and interest on the Bonds.

From the delivery date of the Bonds until the execution, delivery and commencement of the Lease Agreement (as described herein), the Bonds will be secured by capitalized interest and an Irrevocable Standby Letter of Credit to be delivered by Citibank, N.A. in connection with the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE STANDBY LETTER OF CREDIT” herein.

The Bonds are limited obligations of the Issuer, payable solely from the funds and moneys pledged and assigned under the Indenture. None of the Issuer, the State of California, or any political subdivision thereof (except the Issuer, to the limited extent set forth in the Indenture) or the City shall in any event be liable for the payment of the principal of, premium (if any) or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever except as set forth herein, and none of the Bonds or any of the Issuer’s agreements or obligations shall be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of or a moral obligation of any of the foregoing within the meaning of any constitutional or statutory provision whatsoever. The Issuer has no taxing power.

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

The Bonds will be offered when, as and if issued, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Issuer, and certain other conditions. Certain legal matters will be passed on for the City by Hawkins Delafield & Wood LLP and Stradling Yocca Carlson and Rauth, A Professional Corporation, as Co-Disclosure Counsel to the City, for the Borrower by Gubb and Barshay LLP, for Citibank, N.A. as standby letter of credit provider by Robinson & Cole LLP and for the Underwriter by their counsel, Norton Rose Fulbright US LLP, Los Angeles, California. It is anticipated that the Bonds will be available for delivery through the book-entry facilities of DTC on or about July __, 2020.

Citigroup

Dated: _____, 2020

* Preliminary, subject to change.

\$ _____ *

**CALIFORNIA HOUSING FINANCE AGENCY
REVENUE BONDS
(SAN FRANCISCO SUPPORTIVE HOUSING – 833 BRYANT APARTMENTS)
2020 ISSUE N – SOCIAL BONDS**

MATURITY SCHEDULE

<u>Maturity</u> <u>(April 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u> <u>(Base No. _____)</u>
---	---	--	---------------------	---------------------	--

\$ _____ % Term Bonds due April 1, 20__ Yield: ____%; Price: _____
CUSIP†: _____

\$ _____ % Term Bonds due April 1, 20__ Yield: ____%; Price: _____
CUSIP†: _____

* Preliminary, subject to change.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Ratings on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of investors. None of the City, the Issuer or the Underwriter is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

GENERAL INFORMATION

Sources of Information. The information set forth herein has been obtained from the Issuer, the City and the Borrower and other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the 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 Issuer, the City, the Borrower or any other source, since the date hereof.

The information set forth herein relating to the Issuer under the headings “THE ISSUER” and “NO LITIGATION – The Issuer” has been obtained from the Issuer. The Issuer has not reviewed or approved any information in this Official Statement except the information relating to the Issuer under the foregoing headings. The Issuer assumes no responsibility for the accuracy or completeness of any other information in this Official Statement. The information herein is subject to change without notice, and neither the 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 Issuer or the Borrower since the date hereof. The Issuer has not and will not agree to provide any annual financial statements or other credit information of the Issuer, the City or the Borrower to investors on a periodic basis.

The City maintains a website with information pertaining to the City. However, the information presented therein is not part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds.

Use of Official Statement. This Official Statement is submitted in connection with the issuance and delivery of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. No dealer, broker, salesperson or other person has been authorized by the Issuer, the Borrower or the City to give any information or to make any representations in connection with the offer or sale of the Bonds 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 Issuer, the Borrower, the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access system.

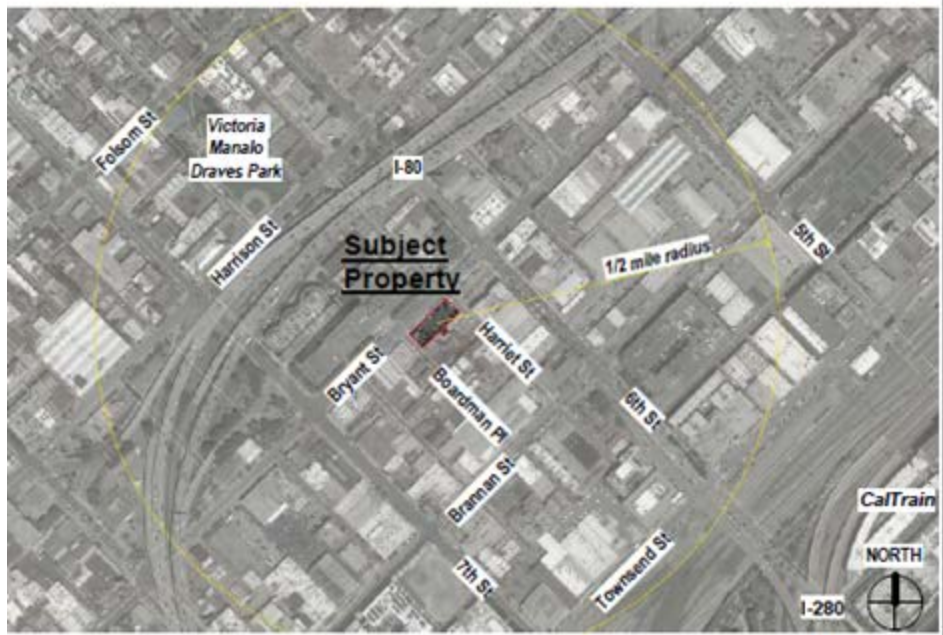
Involvement of Underwriter. The Underwriter has submitted the following statement for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Information Subject to Change. 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 Issuer, the Borrower or the City or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

Stabilization of Prices. The Underwriter may overallocate or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may reallocate any such discounts on sales to other dealers.

**CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “project,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as otherwise noted, none of the City, the Borrower or the Issuer plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.



AERIAL VIEW & VICINITY MAP



CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

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Members

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Tia Boatman Patterson
Fiona Ma
Keely Bosler
Dr. Vito Imbasciani
Doug McCauley
Lourdes M. Castro Ramírez

Executive Director

Tia Boatman Patterson

SPECIAL SERVICES

Bond Counsel and Agency Counsel

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Underwriter's Counsel

Norton Rose Fulbright US LLP
Los Angeles, California

Dissemination Agent

Goodwin Consulting Group, Inc.
Sacramento, California

Trustee

U.S. Bank National Association
Los Angeles, California

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OFFICIAL STATEMENT

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**CALIFORNIA HOUSING FINANCE AGENCY
REVENUE BONDS
(SAN FRANCISCO SUPPORTIVE HOUSING – 833 BRYANT APARTMENTS)
2020 ISSUE N – SOCIAL BONDS**

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement, which includes the cover page, the inside cover page and appendices hereto (the “Official Statement”) and the issuance and delivery of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

General

The \$ _____ * California Housing Finance Agency Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds (the “Bonds”) will be issued under the provisions of an Indenture of Trust dated as of July 1, 2020 (the “Indenture”) between the California Housing Finance Agency (the “Issuer”) and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in the Indenture.

Application of Proceeds

The Bonds are being issued by the Issuer to: (i) make a loan to 833 Bryant, L.P., a California limited partnership (the “Borrower”), to finance and/or refinance a portion of the acquisition, construction and equipping of a 145 unit residential permanent supportive housing project for members of the chronically homeless population located in the City and County of San Francisco, California (the “City”) and known as 833 Bryant Apartments (the “Project”), (ii) fund capitalized interest on the Bonds through the date 30 days past the Lease Delivery Deadline, as it may be extended, and (iii) pay costs of issuing the Bonds. See “THE PROJECT” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The Issuer

The information under this heading has been furnished by the Issuer, and has not been independently verified by the Trustee, the Borrower, the City or the Underwriter. None of the Trustee, the Borrower, the City or the Underwriter makes any representation whatsoever as to the accuracy, adequacy or completeness of such information.

The Issuer was created in 1975 by the Zenovich-Moscone-Chacon Housing and Home Finance Act as a public instrumentality and a political subdivision of the State of California (the “State”) with the purpose of working with the private sector to provide more affordable housing and exists within the

* Preliminary, subject to change.

Department of Housing and Community Development (“HCD”), which is part of the Business, Consumer Services and Housing Agency of the State. The Issuer is authorized to issue its bonds, notes and other obligations for a variety of purposes, including (1) making development loans, construction loans, mortgage loans and property improvement loans to qualified borrowers to finance housing developments and other residential structures; (2) purchasing such loans through qualified mortgage lenders; and (3) making loans to qualified mortgage lenders under terms and conditions requiring the proceeds thereof to be used for certain loans.

The Issuer has sold and delivered obligations other than the Bonds, which other obligations are and will be secured by instruments separate and apart from the Indenture and the Bonds. The holders of such obligations of the Issuer have no claim on the security for the Bonds, and the owners of the Bonds will have no claim on the security for such other obligations issued by the Issuer.

The Issuer has not reviewed any appraisal for the Project or any feasibility study or other financial analysis of the Project and has not undertaken to review or approve expenditures for the Project, to supervise any development or construction of the Project, or to obtain any financial statements of the Borrower.

The Issuer has not reviewed this Official Statement and is not responsible for any information contained herein, except for the information in this section and under the caption “NO LITIGATION – The Issuer” herein.

The City

General. Upon completion of the Project, the source of repayment for the Bonds is primarily Rent Payments under a Lease Agreement, as described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein. 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 is historically a major convention and tourist destination. The City’s population is approaching 900,000.

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 technology, retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising and higher education. The State Supreme Court is also based in San Francisco.

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

The City benefits from a highly skilled, educated and professional labor force. The San Francisco Unified School District (“SFUSD”), which is a separate legal entity from the City, operates 14 transitional kindergarten schools, 64 elementary schools serving grades transitional kindergarten (“TK”)-5, 8 schools serving grades TK-8, 13 middle schools serving grades 6-8, 15 high schools serving grades 9-12, 12 early education schools, and 14 active charter schools authorized by SFUSD. 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, is owned and operated by the City, and is the principal commercial service airport for the Bay Area and one of the nation’s principal gateways for Pacific Rim traffic. The City is also served by the Bay Area Rapid Transit District (“BART,” an 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 San Francisco Municipal Transportation Agency (“SFMTA”), 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.

Government. San Francisco is a city and county chartered pursuant to Article XI, Sections 3, 4, 5 and 6 of the Constitution of the State of California and is the only consolidated city and county in the State. Voters approved the City’s current Charter at the November 1995 election. The City is governed by a Board of Supervisors elected from 11 districts to serve 4-year terms, and a Mayor who serves as chief executive officer, elected citywide to a 4-year term. For significant recent developments relating to the City and in particular the operational and financial matters relating to the COVID-19 pandemic, see APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – Recent Developments” attached hereto.

COVID-19 Pandemic. The financial and operating data contained in this Official Statement, including Appendix A, are the latest available. In some cases such data is for periods before the economic and other impacts of the COVID-19 pandemic. Accordingly, such data is not necessarily indicative of the current financial condition or future prospects of the City and the Bay Area. The COVID-19 pandemic is expected to materially adversely impact the financial condition of the City’s General Fund. See “RISK FACTORS – COVID-19 Pandemic” herein and APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES– Recent Developments” attached hereto.

Additional Information. 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” attached hereto. See also APPENDIX C “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2019” attached hereto.

The Borrower

833 Bryant, L.P. (the “Borrower”) is a California limited partnership. 833 Bryant LLC, a California limited liability company, is the Borrower’s general partner and Mercy Housing Calwest (“Mercy Calwest”), a California nonprofit public benefit corporation, is the Borrower’s sole member/manager. Mercy Calwest is wholly controlled by Mercy Housing, Inc. (“Mercy Housing”), a national affordable housing nonprofit headquartered in Denver, Colorado. See “THE PROJECT – Development and Funding Partners – *The Borrower, Mercy Calwest and Mercy Housing*” herein.

The Project and Permanent Supportive Affordable Housing

The Project will consist of 145 residential units of supportive affordable housing and related improvements at 833 Bryant Street in the City. See “THE PROJECT” herein.

Homelessness remains a persistent and increasing challenge in San Francisco despite substantial investments in permanent supportive housing, rapid rehousing subsidies, and other interventions to end homelessness over the last 20 years. The 2019 biennial Point-In-Time (“PIT”) homeless count identified 8,035 people experiencing homelessness in the City, 64% of whom are unsheltered. Per PIT count data, the total homeless population increased by 28% between 2019 and the first count in 2005. The PIT count survey included data on duration of homelessness, age and health status trends that indicate an increase in need for permanent supportive housing units for chronically homeless adults and seniors. Per the 2019 count, approximately 57% of the total population is over the age of 41, over 69% had at least one disabling health condition, and for 65%, the duration of their current episode of homelessness was over one year. These data reflect the population of people living on the streets are growing older and sicker, further underscoring the need for targeted supportive housing units in the City.

In 2016, the City created the Department of Homelessness and Supportive Housing (“HSH”) with the aim of achieving a significant, sustained reduction in homelessness San Francisco. HSH’s mission is to prevent homelessness and to make homelessness rare, brief, and one-time through the provision of coordinated, compassionate, and high-quality services. In HSH’s 2019 Five-Year Strategic Framework Update, the department committed to prioritizing the highest need population for services and housing to reverse the trend in single adult homelessness shown in the 2019 PIT count and set a goal of reducing chronic homelessness in San Francisco by 50% by December 2022. The area in the City where the Project is located is home to 46% of the homeless population - the highest concentration in the City. The Project is ideally suited to create additional units to serve the chronically homeless population already living in the neighborhood near 833 Bryant Street.

Permanent Supportive Housing (“PSH”) is the most effective way to end homelessness for people who are chronically homeless. Someone who is chronically homeless has been homeless for a year or more and has at least one disabling condition that impacts their ability to find and maintain housing. In Fiscal Year 2018-2019 less than 2% of San Francisco residents housed in PSH were evicted. This demonstrates a high level of residential stability for tenants in PSH.

The COVID-19 pandemic has exacerbated the existing public health crisis of homelessness and represents a significant health risk for people experiencing homelessness. People living in public spaces or in congregate settings, have limited access to preventive measures like frequent hand-washing, social distancing, and rapid access to health care. People living unsheltered are also significantly more likely to have chronic health conditions, one of the most significant risk factors with coronavirus.

The global pandemic has increased the awareness that housing is essential to the health and well-being of the City's most vulnerable, unsheltered residents. Permanent supportive housing not only ends homelessness but protects vulnerable people from the spread of COVID-19 better than temporary shelter. As the City continues its response to the COVID-19 pandemic, San Francisco plans to continue its investments on evidence-based practices that permanently end homelessness, including support for new permanent supportive housing projects.

The Bonds

Interest on the Bonds will be payable on April 1 and October 1 of each year, commencing [April 1, 2021] (each an "Interest Payment Date"). Interest on the Bonds to the date of the execution and delivery of the Lease, or, if the Lease Agreement is not delivered, to the 30th day following the Lease Delivery Deadline will be funded from a portion of the proceeds of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein. The Bonds are being issued as fully registered bonds and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The Bonds will be issued in denominations of \$5,000 and any integral multiple thereof. DTC will act as securities depository of the Bonds. Individual purchases of Bonds will be made in book-entry form only. Payments of principal of and interest on the Bonds are to be made to purchasers by DTC through DTC Participants. Purchasers will not receive physical delivery of the Bonds purchased by them. See "THE BONDS" herein and APPENDIX G – "BOOK-ENTRY SYSTEM" attached hereto.

The Bonds are subject to optional, mandatory and extraordinary redemption prior to their stated maturities, as described herein. See "THE BONDS – Redemption" herein.

Designation as Social Bonds

The Issuer is designating the Bonds as "Social Bonds." The Issuer has determined that the Project to be financed with the proceeds of the Bonds is a "Social Project," based on the social benefits of addressing affordable housing within the City. The designation of the Bonds as Social Bonds is intended to generally comport with The Social Bond Principles promulgated by the International Capital Market Association ("ICMA"), updated as of June 2018. The term "Social Bonds" is neither defined in nor related to provisions in the Indenture. Owners of the Bonds do not have any security other than as provided in the Indenture and described herein, nor do Owners of the Bonds assume any specific project risk related to the Project funded thereby. "Social Projects" and "Social Bonds" are entirely self-designating labels lacking any objective guidelines or criteria. ICMA is a European-based entity with some members from the United States. The Issuer assumes no obligation to ensure that the Project financed with proceeds of the Bonds complies with any legal or other standards or principles that may relate to "Social Projects" or that the Bonds comply with any legal or other standards or principles that may relate to "Social Bonds." The designation of the Bonds as Social Bonds does not entitle the holders of such obligations to any special treatment under the Internal Revenue Code of 1986, as amended.

Security for the Bonds During Construction of the Project

The Bonds are special limited obligations of the Issuer secured by the Trust Estate pledged to the Bonds under the Indenture. Payment of the principal of and interest on the Bonds will be made primarily from loan payments under a Loan Agreement, dated as of July 1, 2020 (the "Loan Agreement"), by and between the Issuer and the Borrower. From the date of delivery of the Bonds to the initial purchaser thereof (the "Date of Delivery") until the execution, delivery and commencement of the Lease Agreement (expected in the summer 2021), the Bonds will be secured by capitalized interest and an Irrevocable Standby Letter of Credit to be delivered by Citibank, N.A. (the "Letter of Credit Provider") in connection

with the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE STANDBY LETTER OF CREDIT” herein and APPENDIX H – “INFORMATION REGARDING THE LETTER OF CREDIT PROVIDER” attached hereto.

The Bonds are further secured during the construction period for the Project and thereafter while the Bonds are outstanding by a Bond Promissory Note and First Leasehold Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing (“Leasehold Deed of Trust”) made by the Borrower in favor of the Issuer and assigned to the Trustee, as described herein. See “SOURCES OF SECURITY AND PAYMENT FOR THE BONDS” herein.

Security for the Bonds Following Construction of the Project

The Bonds are special limited obligations of the Issuer secured by the Trust Estate pledged to the Bonds under the Indenture. Payment of the principal of and interest on the Bonds will be made primarily from loan payments under the Loan Agreement. In fulfillment of its obligations under the Loan Agreement, the Borrower will assign to the Trustee all its right title and interest in and to the Lease Agreement between the City and the Borrower (the “Lease Agreement”) to be executed and delivered by the City upon satisfaction of certain conditions relating to Project, as described herein.

The City will be required under the Lease Agreement, when executed and delivered upon satisfaction of certain conditions relating to the Project, as described herein, to make Rent Payments each year from any source of legally available funds, in an amount sufficient to pay the annual principal of and interest on the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein and APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” attached hereto. The City’s obligation to make Rent Payments is subject to abatement, as described herein. The City has covenanted in the Lease Agreement to take such action as may be necessary to include and maintain all Rent Payments in its budget and to make the necessary appropriations therefor, subject to such abatement. See “SOURCES OF SECURITY AND PAYMENT FOR THE BONDS – Lease Agreement – *Abatement*” and “RISK FACTORS – *Abatement*” herein.

The Bonds are further secured by the Bond Promissory Note and the Leasehold Deed of Trust, as described herein. See “SOURCES OF SECURITY AND PAYMENT FOR THE BONDS – Leasehold Deed of Trust” herein.

In connection with the Project, the Borrower will enter into a Regulatory Agreement (defined herein), that sets forth certain income restrictions for residents of the apartment units. See “SOURCES OF SECURITY AND PAYMENT FOR THE BONDS – Regulatory Agreement” herein.

No Reserve Fund

The Issuer is not funding a reserve fund for the Bonds.

Limited Obligation

The Bonds are limited obligations of the Issuer, payable solely from the funds and moneys pledged and assigned under the Indenture. None of the Issuer, the State, or any political subdivision thereof (except the Issuer, to the limited extent set forth in the Indenture) or the City shall in any event be liable for the payment of the principal of, premium (if any) or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever except as set forth herein, and none of the Bonds or any of the Issuer’s agreements or obligations shall be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of or a moral obligation of any

of the foregoing within the meaning of any constitutional or statutory provision whatsoever. The Issuer has no taxing power.

Continuing Disclosure

The City and the Borrower have each covenanted for the benefit of the Bondholders to provide certain financial information and operating data relating to the City and the Borrower and notices of enumerated events under Rule 15c2-12 of the U.S. Securities and Exchange Commission. See “CONTINUING DISCLOSURE” herein and APPENDIX E – “FORMS OF CONTINUING DISCLOSURE CERTIFICATES” attached hereto.

Availability of Legal Documents

The summaries and references contained herein with respect to the Bonds, the Indenture, the Loan Agreement, the Ground Lease, the Lease Agreement, the Sublease Agreement, the Bond Promissory Note, the Leasehold Deed of Trust, the Regulatory Agreement, statutes, agreements and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the documents described herein are available from the Borrower at 1256 Market Street San Francisco, California 94102, Attention: Associate Director.

THE PROJECT

General

General Description of Project. The Project is a planned PSH development that will provide 145 studio units for chronically homeless individuals in the City. The site is in the central South of Market Area of the City between 6th and 7th Streets on 833 Bryant Street, which is across from the Hall of Justice. The site is central to public transit, grocery stores, and community parks. In addition to the housing units on the site there will also be located one manager’s unit, a small commercial storefront, community space for residents, and office space. Only the housing units are part of the Project to be financed with the proceeds of the Bonds. The overall residential square footage is approximately 61,800 square feet within 6 floors. The Project is designed to achieve Green Point Rating Silver level with an expected score of 107.

The Project is fully entitled and currently under construction. The Project is 35% complete and completion is scheduled the summer of 2021. The Borrower expects full occupancy of the Project by the end of that year. Currently there are no material project delays expected as a result of the COVID-19 pandemic or recent civil unrest. However, no assurance can be provided that future events will not materially delay the Project. See “RISK FACTORS” herein.

Innovative Modular Housing. The Borrower believes that the Project will be the City’s first 100% supportive affordable development built with modular housing from Factory_OS that will be assembled entirely off site at the Factory_OS facility in Vallejo, California. Modular construction is being used to assist in expediting the development process and provides significant cost savings over conventional construction. Construction for the Project consists of 1 floor of Type I construction, typically found in high-rise buildings with fire resistive and non-combustible materials, and 5 floors of wood construction.

Construction Contract. Cahill Contractors LLC (“Cahill”), a privately held limited liability company, is serving as the general contractor for the Project. See “– Key Project Team Members – Construction Contract” below. Cahill is performing work on the Project under an American Institute of

Architects (AIA) A102 guaranteed maximum price contract, where the basis of payment is the cost of the work plus a fee. The current maximum price under all change orders to date is \$38,887,217.

Environmental Review and Soils Removal. The Project and remainder of the site was exempt from CEQA under State law. A Phase I Environmental Site Assessment and Subsurface Investigation Report were prepared prior to the site’s purchase by SFHAF. Federal Class I soils (having slight limitations that restrict their use) and State Class II soils (having moderate limitations that restrict the choice of plants or that require moderate conservation practices) were found on the site. The needed level of safe removal and disposal of those soils has been reviewed and approved by the San Francisco Department of Public Health (“SFPDH”) pursuant to San Francisco Health Code Article 22A (the “Maher Ordinance”). SFPDH approved a site mitigation plan based on their review and the Borrower will be required to install a vapor barrier to mitigate release from volatile compounds.

Project Construction Status. Construction of the modular units began in January 2020 and is expected to be completed by August 28, 2021. As of the date of this Official Statement 11 of 87 modular volumes (which include 2 housing units and the corridor joining them, as well as the building’s stairwell, trash room, etc.) have been completed and are in storage on sites near the Factory_OS facility on Mare Island and work is ongoing with an additional 12 units in process. Factory_OS did experience a 20-30% reduction in factory floor workforce during the shelter-in-place orders. While units are underway at the factory subsurface infrastructure and underground utilities will be completed on site. On site construction for the Project began in March 2020. Construction (including modular unit production) is approximately 35% complete and a Temporary Certificate of Occupancy (“TCO”) for the overall project is expected by August 28, 2021. Cahill and Factory_OS have confirmed to the Borrower, that despite COVID-19 the Project is expected to be completed on schedule.

Project Cost. The total development cost for the overall project at 833 Bryant Street is approximately \$55 million, funded with a mix of philanthropic funds, Low Income Housing Tax Credits (“LIHTC”) and proceeds from the Bonds. Proceeds from the Bonds will only finance the residential units that comprise the Project. The following table sets forth the estimated sources and uses of funds for the overall project:

<u>833 Bryant Street - Pro Forma Budget*</u>	
<u>Sources of Funds</u>	<u>Amount</u>
Bond Proceeds	\$31,537,526
Homes for the Homeless Fund	1,230,313
Tax Credit Equity	<u>22,135,100</u>
Total	\$54,902,939
<u>Uses of Funds</u>	<u>Amount</u>
Acquisition Related Costs	\$ 1,257,929
Construction Hard Costs	38,887,217
Financing Costs, Fees, and Capitalized Interest	5,640,273
Developer Fee	1,700,000
Other Soft Costs	<u>7,417,520</u>
Total	\$54,902,939

* Preliminary, subject to change.

Development and Funding Partners

The Borrower, Mercy Calwest and Mercy Housing. 833 Bryant, L.P., the Borrower, is a California limited partnership. 833 Bryant LLC, a California limited liability company, is the Borrower's general partner and Mercy Housing Calwest ("Mercy Calwest"), a California nonprofit public benefit corporation, is the Borrower's sole member/manager. Mercy Calwest is wholly controlled by Mercy Housing, Inc. ("Mercy Housing"), a national affordable housing nonprofit headquartered in Denver, Colorado. Citibank, N.A., as tax credit investor, will have an equity interest in the overall project. To accomplish this, Citibank, N.A. will become a 99.99% limited partner owner of the Borrower on the Delivery Date. Mercy Housing will remain as the controlling member. Citibank, N.A.'s rights under the partnership agreement with the Borrower align with the City's right to remove Mercy Housing in the event of abatement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rental Abatement" herein.

Established by the Sisters of Mercy in 1981, and in operation in 41 states, Mercy Housing has experience developing, preserving, managing, and financing affordable housing, with regional offices currently in Atlanta, Chicago, Denver, San Francisco, and Seattle. Mercy Housing subsidiaries serve tens of thousands of people with low incomes, including families, seniors, veterans, people who have experienced homelessness, and people with disabilities. Mercy Housing has extensive experience developing permanent supportive, affordable housing using LIHTC and conducting all aspects of asset management required for tax credit financing.

California Housing Partnership Corporation. The California Housing Partnership Corporation was created by the California Legislature in 1988 as a private nonprofit organization with a public mission and is serving as the financial consultant to Mercy Housing on behalf of the Borrower in connection with the Project. The California Housing Partnership Corporation through LIHTC syndication, tax-exempt bond financing, and State and local affordable housing programs, has helped hundreds of nonprofit and local government partners leverage \$18 billion to create 70,000 affordable homes over the past 30 years in California.

The San Francisco Housing Accelerator Fund / The Homes for the Homeless Fund. The San Francisco Housing Accelerator Fund ("SFHAF") is a 501(c)(3) nonprofit organization established for the purpose of bringing innovative financial tools to affordable housing production and preservation. It is the sole member of its wholly owned subsidiary, the Homes for the Homeless Fund, which is a pool of \$50 million in flexible, private dollars funded through a philanthropic contribution from Tipping Point Community dedicated to producing more housing for chronically homeless individuals in the City. SFHAF and Tipping Point Community's purpose for the Homes for the Homeless Fund is to produce a supportive housing model that is more cost-effective and quicker than the norm, and 833 Bryant is its inaugural project. A second subsidiary of SFHAF, San Francisco Homes for the Homeless No. 1 LLC, a California limited liability company (also with SFHAF as its sole member), is the fee owner of the Project site (the "Landowner"). The Project site will be leased by the Landowner to the Borrower pursuant to the Ground Lease (described herein).

Key Project Team Members

Developer. Mercy Housing is serving as the developer for the Project. As described above, Mercy Housing has experience developing, preserving, managing, and financing affordable housing throughout the country. Mercy Housing has developed over 50 multifamily (with the majority being mixed use) properties in San Francisco over the past 35 years. Mercy Housing's experience includes many unique

projects, combining the HUD 202 program with tax credits and creating independent living housing opportunities for elders living in long-term care facilities. Mercy Housing's most senior housing development staff comprised of Barbara Gualco, Ramie Dare, Sharon Christen and Tim Dunn have over 80 combined years of affordable housing development experience in San Francisco. Sharon Christen (833 Bryant's project manager) led the Mission Creek Senior Community development, which was the first affordable senior development in San Francisco that worked with the City to refer frail, homeless seniors exiting long-term care and the development of Bill Sorro Community (named one of the 10 best San Francisco buildings of the 2000 decade by the San Francisco Chronicle).

Doug Shoemaker, President, leads Mercy Housing California ("MHC"), the largest regional affiliate of Mercy Housing, Inc. Mr. Shoemaker has been with MHC since 2011 and is responsible for overseeing all aspects of MHC's work in the State. Prior to joining Mercy Housing, he served as the Director of the San Francisco Mayor's Office of Housing and Community Development under Mayors Gavin Newsom and Edwin Lee. During his 25 years in the affordable housing field, Mr. Shoemaker has participated in the entitlement of over 10,000 homes as either a developer or a key public agency negotiator on development agreements. During his time at Mercy Housing, the organization has increased its development pipeline to include over 40 projects and 4,000 units in active development with a total investment cost of over \$2 billion.

Barbara Gualco, Regional Director of Development, serves as MHC's Director of Real Estate Development. Barbara has over 30 years of experience in affordable housing development and has been with MHC since its founding. Ms. Gualco has directly worked on or supervised the majority of the San Francisco Bay Area portfolio of Mercy Housing projects. She is particularly adept at structuring complex deals serving special needs populations. With the support of two Associate Directors, Ms. Gualco is currently supervising the development of 20 projects in the San Francisco Bay Area.

Sharon Christen, Associate Director of Permanent Supportive Housing, has more than 20 years of affordable housing experience, mostly for projects in San Francisco, specifically in the South of Market neighborhood, serving homeless adults and seniors. Ms. Christen's past projects include Hotel Isabel, Howard Street Senior Housing, Mission Creek Senior Community, Hotel Essex, Edith Witt Senior Community, Vera Hale Senior Housing, and Bill Sorro Community. These projects all include a supportive or formerly homeless component and represent nearly 800 units of new construction and acquisition/rehabilitation

Construction Contractor. Cahill Contractors LLC is a majority family-owned general contractor with a portfolio that includes multi-family residential, education, hospitality, and other commercial construction. With offices in San Francisco and Oakland, Cahill works throughout the Bay Area. Now in its fourth generation of family leadership, Cahill and its predecessor entities have been building lasting relationships and quality structures with integrity since 1911. In addition to its substantial experience in affordable housing construction, Cahill completed its first modular project in 2015 and is currently working on several modular affordable housing projects around the Bay Area. Cahill's affordable housing experience in the San Francisco Bay Area includes: Coliseum Connections (Modular, 110 units, completed in 2019), Parcel O (Type V over I, 112 units, completed in 2019), Eddy & Taylor Family Apartments (Type I, 113 units, completed in 2019), Rene Cazenave Apartments (Type I, 120 units, completed in 2013), Drs. Julian & Raye Richardson Apartments (Type V over I, 120 units, completed in 2011).

Construction Manager. Regent Construction Management ("RCM"), led by Chris Rivera, is located in the City and primarily provides construction management services for publicly funded affordable, multifamily mixed use Type I, III, and V construction developments, primarily in San Francisco. Since RCM's inception in 2007, the firm has worked with Mercy Housing. Prior to forming

RCM, Mr. Rivera worked at Cahill Contractors, Inc. for 11 years as a senior project manager, working on civic projects (including the San Francisco Jewish Community Center and the San Francisco Arch Diocesan Offices) in addition to affordable housing. Mr. Rivera has worked with Mercy Housing on several mixed use, publicly funded, affordable housing developments.

Architect. David Baker Architects, Inc. (“DBA”) has extensive Bay Area affordable housing expertise, having completed more than 75 multifamily developments including more than 13,000 homes, with more than 7,500 of those being affordable homes built as multifamily housing Type I, III, and V construction. They are the local experts in modular housing design and construction, having completed design on four modular developments and through principal David Baker’s work with Factory_OS as design architect early in the factory’s development.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are summarized as follows.

Sources:	
Principal Amount	\$
[Net] Premium (Discount)	
Total Sources	\$
 Uses:	
Project Fund	\$
Capitalized Interest Account ⁽¹⁾	
Costs of Issuance Fund ⁽²⁾	
[Fees Fund]	
Total Uses	\$

⁽¹⁾ Represents capitalized interest accruing on the Bonds through Lease Delivery Deadline.

⁽²⁾ Costs of Issuance include Underwriter’s discount, fees and expenses for Bond Counsel, Underwriter’s Counsel, and Trustee, printing expenses, ratings fees and other costs related to the issuance of the Bonds.

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DEBT SERVICE REQUIREMENTS

The following table shows the annual debt service requirements on the Bonds, assuming no extraordinary or optional redemptions.

Fiscal Year Ending (June 30)	Principal	Interest	Total
2020	\$	\$	\$
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2050			
TOTAL	\$	\$	\$

⁽¹⁾ Represents capitalized interest accruing on the Bonds through the Lease Delivery Deadline.

THE BONDS

General

The Bonds will be dated the date of their delivery and mature on April 1 in the years and in the amounts shown on the inside cover page of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30 day months and will be payable in arrears on each Interest Payment Date. The principal of and interest on the Bonds shall be payable in lawful money of the United States of America upon surrender at the Principal Corporate Trust Office. So long as the registered owner of the Bonds is Cede & Co., payment of principal and redemption shall be made without presentment.

The principal of and interest on the Bonds shall be payable in lawful money of the United States of America. The principal of the Bonds shall be payable at the corporate trust operations office of the Trustee in San Francisco, California, or at the duly designated office of any successor Trustee or paying agents appointed under the Indenture. Payment of interest on any Bond shall be made to such person who is the Holder thereof on the Record Date and shall be paid by wire, or by check or draft mailed to such person who is the Holder on the Record Date at his address as it appears on the registration books of the Issuer maintained by the Trustee or at such other address as is furnished to the Trustee in writing by such Holder. "Record Date" means the fifteenth day of the calendar month next preceding the calendar month in which occurs an Interest Payment Date.

Book-Entry Only

The Bonds are being issued as fully registered bonds and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The Bonds will be issued in denominations of \$5,000 and any integral multiple thereof. DTC will act as securities depository of the Bonds. Individual purchases of Bonds will be made in book-entry form only. Payments of principal of and interest on the Bonds are to be made to purchasers by DTC through DTC Participants. Purchasers will not receive physical delivery of the Bonds purchased by them. APPENDIX G – "BOOK-ENTRY SYSTEM" attached hereto.

Redemption*

Optional Redemption. The Bonds maturing on or after April 1, 2031, are subject to redemption prior to their respective stated maturity, at the option of the Issuer upon the direction of the Borrower, from any source of available funds, as a whole or in part on any date specified by the Borrower on or after April 1, 2030 at a redemption price equal to the principal amount of Bonds called for redemption, together with interest accrued thereon if, any, to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The \$_____ Term Bond maturing on April 1, 20__, is also subject to mandatory sinking fund redemption prior to their stated maturity, from amounts on deposit in the Bond Fund, in part, by lot, at a redemption price equal to the principal amount thereof, together with accrued interest thereon, if any, to the date fixed for redemption, without premium:

Mandatory Sinking Fund Redemption Date (April 1)	Principal Amount To be Redeemed
_____	_____
	\$

* Preliminary, subject to change.

†

† Final maturity.

Extraordinary Mandatory Redemption – Extraordinary Event Proceeds Fund (Insurance, Condemnation). The Bonds are subject to mandatory redemption prior to their stated maturity, from amounts on deposit in the Extraordinary Event Proceeds Fund as a result of fire or other casualty, or sale of the Project or related equipment pursuant to the terms of the Lease Agreement and applied to such purpose, in whole or in part on any date on or after October 1, 2022, at a redemption price equal to the principal amount of Bonds called for redemption, together with interest accrued thereon if, any, to the date fixed for redemption, plus Applicable Premium.

Extraordinary Mandatory Redemption from Failure to Deliver Lease. The Bonds are subject to mandatory redemption in whole prior to their stated maturity, on the 30th day following the Lease Delivery Deadline upon failure by the Trustee to receive delivery of the Lease Delivery Notice on or prior to the Lease Delivery Deadline, at a redemption price equal to the principal amount of Bonds called for redemption, together with interest accrued thereon if, any, to the date fixed for redemption, plus Applicable Premium (as defined in the Indenture), on the earliest date for which notice of redemption can reasonably be given in accordance with the Indenture. See “APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” attached hereto.

“Lease Delivery Notice” means a written notice from the Borrower and the City to the Trustee, substantially in the form attached to the Indenture, providing notice that (i) the Lease Agreement attached to the notice is a true, correct and complete copy of the same, (ii) the Lease Agreement conforms in all material respects to the form of Lease Agreement appended to the Indenture, (iii) the effective date of the Lease Agreement is as of the date provided in the notice, and (iv) the Lease Agreement is in full effect.

“Lease Delivery Deadline” means September 1, 2022, or such later date upon Borrower’s provision to the Trustee for deposit into the Capitalized Interest Account an amount sufficient for the funds in the Capitalized Interest Account to pay all interest due on the Bonds through the thirtieth day following the extended Lease Delivery Deadline (or if such thirtieth day is not a Business Day, to the next Business Day). The Lease Delivery Deadline may be extended upon Borrower’s provision to the Trustee for deposit into the Capitalized Interest Account under the Indenture an amount sufficient for the funds in the Capitalized Interest Account to pay all interest due on the Bonds through the thirtieth day following the extended Lease Delivery Deadline (or if such thirtieth day is not a Business Day, to the next Business Day) together with an amendment to the Letter of Credit extending the expiration date to the Letter of Credit to a date not less than [45 days] following the extended Lease Delivery Deadline.

Partial Redemption. Upon surrender of any Bond for redemption in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to the holder thereof a new Bond or Bonds of the same series and the same maturity, of Authorized Denominations, in an aggregate principal amount equal to the unredeemed portion of the Bond surrendered; provided, however, that while a Book Entry System is in effect, the Bonds held by the Securities Depository need not be surrendered for a partial redemption.

Notice of Redemption. The Trustee shall send notice of each redemption to each Bondholder by first class mail (i) in the case of optional or mandatory sinking fund redemption, no more than 60 days and at least 20 days before each redemption and, (ii) in the case of a mandatory redemption pursuant to the Indenture, at least 20 days before each redemption. Each redemption notice shall identify the Bonds

or portions thereof to be redeemed and shall state (i) the date of the said notice, (ii) the original date of execution and delivery of the Bonds to be redeemed, (iii) the rate of interest borne by the Bonds to be redeemed, (iv) the date of maturity of the Bonds, (v) the numbers and CUSIP numbers of the Bonds to be redeemed, (vi) the type of redemption and the redemption date (and, if accrued interest will not be paid on the redemption date, the date it shall be paid), (vii) the redemption price, (viii) that the Bonds called for redemption must be surrendered to the Trustee at its designated corporate trust office to collect the redemption price, (ix) the address at which the Bonds must be surrendered, (x) that interest on the Bonds called for redemption ceases to accrue on the redemption date provided sufficient funds for the redemption are on deposit with the Trustee on the redemption date, and (xi) such additional descriptive information identifying the Bonds to be redeemed as may be deemed appropriate by the Trustee to effect the redemption. Such redemption notices may state that no representation is made as to the accuracy or correctness of the CUSIP numbers printed therein or on the Bonds. A copy of each notice of redemption also shall be sent by the Trustee to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website ("EMMA") in such form as required by EMMA.

Conditional Notice. Any redemption notice delivered pursuant to the Indenture may specify that redemption of the Bonds on the proposed redemption date is conditioned upon receipt by the Trustee of sufficient funds on such date to effect such redemption, or upon such other conditions as may be specified in the notice. If at the time the Trustee gives notice of optional redemption pursuant to the Indenture there shall not have been deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice may (and upon the direction of the Borrower, shall) state that it is conditional, that is, subject to the deposit of the redemption moneys with the Trustee on or prior to the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

Selection of Bonds for Redemption. Except in the case of a redemption from extraordinary event proceeds, whenever provision is made in the Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Trustee shall select the Bonds to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot; provided, however that in such instances as provided for herein where the Borrower is to specify the amount or maturities of Bonds to be redeemed the Trustee shall redeem Bonds in accordance with any such specification (or, if the Borrower fails to so specify, as required under such provision).

With respect to redemption from amounts on deposit in the Extraordinary Event Proceeds Fund, if less than all of the Bonds are called for redemption the Trustee shall redeem Bonds of each maturity and credit each sinking fund payment as nearly as possible to *pro rata* in \$5,000 increments. If less than all of the Bonds of any given maturity are called for redemption, the portions of such Bonds of a given maturity to be redeemed shall be determined by lot in \$5,000 increments.

Purchase of Bonds in Lieu of Redemption

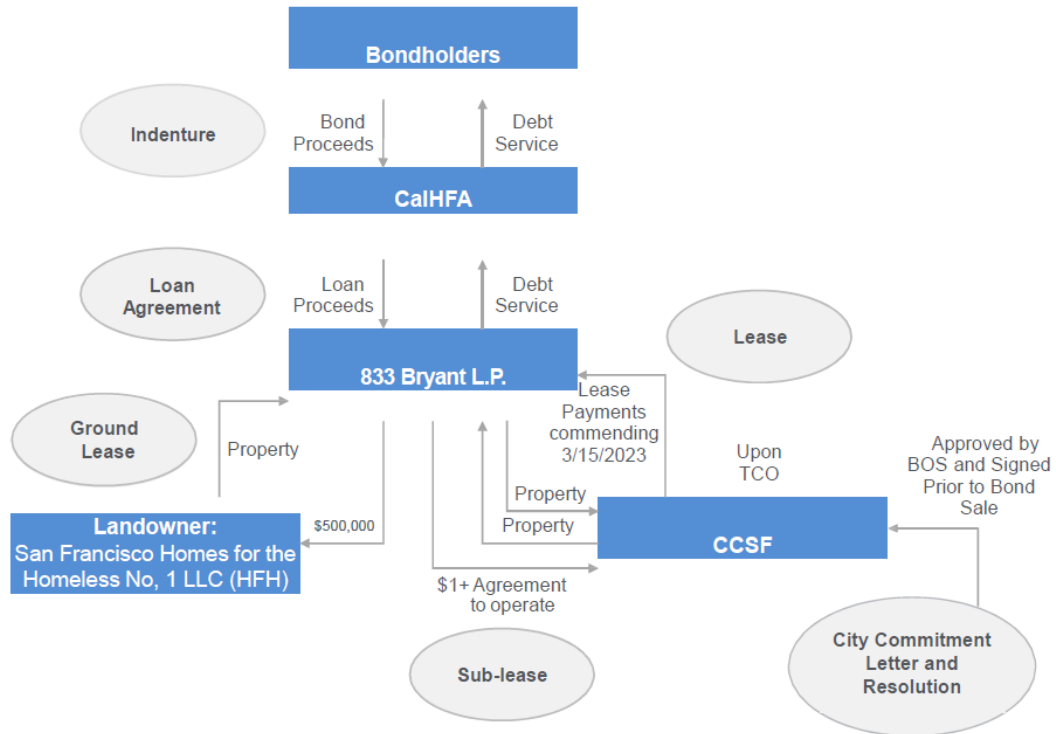
If the Bonds are subject to extraordinary mandatory redemption under the Indenture as described under the caption "THE BONDS – Redemption – *Extraordinary Mandatory Redemption from Failure to Deliver Lease*" herein, the Bonds may be purchased by the Trustee (for the account of the Borrower or the Letter of Credit Provider or their respective designee, as directed by such party) on the date that would be the redemption date. Such date will be treated as a mandatory tender date for purposes of the Indenture, at the direction of the Letter of Credit Provider or the Borrower, with the prior written consent of the Letter of Credit Provider (which direction shall specify that such purchase is pursuant to this Section and shall be given no later than 5:00 p.m., New York City time two Business Days prior) on such redemption date, at a purchase price equal to the redemption price which would have been applicable to such Bonds on the redemption date. If the Trustee is so directed to purchase Bonds in lieu of redemption, no notice to the holders of the Bonds to be so purchased (other than the notice of redemption otherwise required

hereunder) will be required, and the Trustee will be authorized to apply to such purpose the funds which would have been used to pay the redemption price for such Bonds if such Bonds had been redeemed rather than purchased. APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” attached hereto.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are special limited obligations of the Issuer secured by the Trust Estate pledged to the Bonds under the Indenture. Payment of the principal of and interest on the Bonds will be made primarily from loan payments under the Loan Agreement. In fulfillment of its obligations under the Loan Agreement, the Borrower will assign to the Trustee all its right title and interest in and to the Lease Agreement between the City and the Borrower to be executed and delivered by the City as further described below. The following diagram provides a broad overview of the financing structure relating to the Bonds:



The City will be required under the Lease Agreement when executed and delivered to make Rent Payments from any source of legally available funds in an amount equal to 1.15 times the scheduled payments of principal of and interest on the Bonds. The City expects to execute and deliver the Lease Agreement and the Sublease Agreement by and between the Borrower and the City (the “Sublease Agreement”) in August 2021, upon satisfaction of certain conditions relating to Project, as described below. The City will covenant in the Lease Agreement to take such action as may be necessary to include and maintain all Rent Payments in its budget and to make the necessary appropriations therefor, subject to such abatement. See “RISK FACTORS – Abatement” herein.

Limited Obligation

The Bonds are limited obligations of the Issuer, payable solely from the funds and moneys pledged and assigned under the Indenture. None of the Issuer, the State, or any political subdivision thereof (except the Issuer, to the limited extent set forth in the Indenture) or the City shall in any event be liable for the payment of the principal of, premium (if any) or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever except as set forth herein, and none of the Bonds or any of the Issuer's agreements or obligations shall be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of or a moral obligation of any of the foregoing within the meaning of any constitutional or statutory provision whatsoever. The Issuer has no taxing power.

No Additional Parity or Subordinate Indebtedness

The Issuer may not issue additional indebtedness payable from the Trust Estate on parity with or subordinate to the Bonds.

Flow of Funds from Revenue Fund Under Indenture

The Trustee shall deposit into the Revenue Fund (i) all Rent Payments received by the Trustee pursuant to the Lease Agreement; (ii) any other amounts received from the Borrower and designated by the Borrower in writing for deposit into the Revenue Fund; and (iii) all investment earnings, except as otherwise expressly provided herein. Two Business Days prior to each Bond Payment Date the Trustee shall make the following transfers in the following order of priority:

- (a) to the Fees Fund, an amount equal to the Trustee Fee, the Issuer Fee, and the Rebate Analyst Fee;
- (b) to the Bond Fund, an amount equal to the interest due on the Bonds on the next Bond Payment Date (subject to pro rata adjustment for deposits prior to the first Bond Payment Date);
- (c) to the Bond Fund, an amount equal to the principal and mandatory sinking payments due on the Bonds on the next Bond Payment Date; and
- (d) to the Rebate Fund, the amount, if any, the Trustee is to deposit therein pursuant to the Indenture;

Two Business Days prior to each October 1 Bond Payment Date the Trustee shall make the following transfers in the following order of priority:

- (a) to the Bond Fund, an amount equal to the interest due on the Bonds on the next Bond Payment Date; and
- (b) to the Rebate Fund, the amount, if any, the Trustee is to deposit therein pursuant to the Indenture.

No deposit required for the Funds referenced above need be made if the amount on deposit in the applicable Fund and available for the purposes set forth in the Indenture is sufficient to pay the obligations payable from such Fund in a timely manner.

Prior to the Lease Delivery Notice, all investment earnings received by the Trustee shall be deposited in the Project Fund. Following the Lease Delivery Notice, all investment earnings received by the Trustee shall be deposited in the Revenue Fund.

Standby Letter of Credit During Construction Period

From the Date of Delivery until Lease Delivery Notice, the Bonds will be secured by capitalized interest funded from Bond proceeds and an Irrevocable Standby Letter of Credit to be delivered by the Letter of Credit Provider in an amount equal to \$_____ in connection with the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “THE STANDBY LETTER OF CREDIT” herein.

Loan Agreement

Payment of the principal of and interest on the Bonds will be made primarily from loan payments under the Loan Agreement. In fulfillment of its obligations under the Loan Agreement, the Borrower will assign to the Trustee all its right title and interest in and to the Lease Agreement between the City and the Borrower to be executed and delivered by the City upon satisfaction of certain conditions relating to Project, as described herein.

Lease-Leaseback; Annual Appropriation

Ground Lease. San Francisco Homes for the Homeless No. 1 LLC, a California limited liability company, the Landowner, has entered into that Ground Lease, dated March 1, 2020 for an initial term of 57 years (with one allowable extension term of 42 years) with the Borrower. As long as the Bonds are outstanding under the Indenture, the Ground Lease will not terminate. The Ground Lease provides that the Borrower may enter into a lease-leaseback arrangement with the City for the purpose of financing the Project.

City Commitment. On June 26, 2020, the Board of Supervisors of the City approved Resolution No. __ (the “Commitment Resolution”), authorizing the City to execute a commitment letter to enter into the Lease Agreement and Sublease Agreement, contingent only on the Borrower’s satisfaction of conditions precedent as follows: (i) Borrower’s securing a Temporary Certificate of Occupancy from the City’s Department of Building Inspection for the Project and other improvements on the site; (ii) the Director of the City’s Department of Homelessness and Supportive Housing’s (“HSH’s”) determination that placement of tenants is ready to commence through referrals by HSH through the City’s Coordinated Entry System; and (iii) the Director of HSH’s determination that the annual rent has been adjusted to reflect the Project’s financing in an amount not to exceed \$2,014,800 per year.

On _____, 2020 the City executed and delivered the commitment letter to the Borrower. The City expects to execute and deliver the Lease Agreement and the Sublease Agreement in August 2021. However, if the conditions described in the Commitment Resolution are not satisfied by Lease Delivery Deadline, as the same may be extended in accordance with the Indenture, the Trustee shall draw on the Letter of Credit and the Bonds shall be subject to a full mandatory redemption in the amount outstanding plus premium. See “THE BONDS – Redemption – *Extraordinary Mandatory Redemption from Failure to Deliver Lease*” herein.

Lease Agreement; Assignment of Rent Payments. The Borrower and the City have agreed on the form of the Lease Agreement, which has been approved in form by the Board of Supervisors of the City. Under the Lease Agreement, the City covenants to take such action as may be necessary to include each Rent Payment in its annual budget and to make the necessary appropriations for each annual Rent

Payment, subject to abatement. See “– Covenant to Budget and Appropriate” below. The Borrower will assign under the Lease Agreement all of its right, title and interest in Rent Payments necessary to pay debt service then due and payable under the Bonds and related fees to the Issuer to secure the Borrower’s obligations under the Loan Agreement and the Issuer will assign all of its right, title and interest in such payments to the Trustee to secure the Bonds, and the City will acknowledge such assignments. Accordingly, so long as any Bonds are outstanding, the City will make such payments (in an amount equal to any debt service payments then due and payable under the Bonds) by remitting such amounts directly to the Trustee.

City Covenant to Budget and Appropriate. The City covenants in the Lease Agreement to take such action as may be necessary to include each Rent Payment in its annual budget and to make the necessary appropriations for each annual Rent Payment, subject to abatement as provided in the Lease Agreement; provided, however, the City’s obligation to make the Rent 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 requirement to include the Rent 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. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rental Abatement” herein.

Sublease Agreement

General. The Borrower and the City have agreed on the form of the Sublease Agreement. When executed and delivered, the Borrower will pay the City as rent for the Property the sum of \$500,000 for this triple net lease. At no expense to the City, the Borrower will, among other things, repair and maintain the Property, be solely responsible for furnishing any utilities or services that the Borrower may need for its use of the Property, and be solely responsible for repairing any damage caused by fire, earthquake or other casualty. See “– Insurance” below and APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – Sublease Agreement” attached hereto.

Operating and Tenant Services Subsidy Agreements. Pursuant to agreements to be executed and delivered by the City on or before the Lease Delivery Deadline, the City expects to provide an annual operating subsidy to the Borrower to support the increased operating costs and tenant services costs associated with providing long-term supportive housing services to chronically homeless individuals in the City. The City’s provision of such contracts is standard for its approximately 8,500 units of permanent supportive housing, and it sets contract values according to applicable levels of acuity, operating and staffing cost actuals, and benchmarks established through successfully operating, comparable projects. The Project compares favorably with recent PSH projects and master lease housing in San Francisco. For comparable City projects, operating costs average \$900 per unit per month and supportive services cost average \$550 per unit per month. On an annual basis, the City estimates operating and services costs of \$17,400 per unit before accounting for offset for tenant rental contributions, which are capped at 30% of tenant income. According to the City, the Project is within the range of typical PSH operating and services costs.

Under the Sublease Agreement, among other things, the Borrower covenants that if the City is making the full operating subsidy payments and the full tenant services subsidy payments as provided, the Borrower will provide or cause to be provided long-term supportive housing services to chronically homeless individuals. If the City is not making such payments in full, the Borrower will make the Property available for occupancy by low and moderate income persons at an affordability level determined by the Borrower and the City under the then applicable operating subsidy agreement, but at a minimum with residential rents and/or other available subsidy to cover operating expenses and achieve a 1.15 debt service coverage ratio. In such an event, the Borrower’s ability to serve households

experiencing homelessness will be reduced proportionately to the reduction in operating and tenant services subsidy payments provided by the City. Units that are no longer supported by City subsidy payments will transition over time to occupancy by low-income households. As described above, the new rent levels for units that transition from homeless to low-income housing would be established so that Project cash flow achieves a 1.15 debt service coverage ratio, which equates to a rent affordable to households earning approximately 45% of area median income (“AMI”) for San Francisco, as defined by the California Tax Credit Allocation Committee. The maximum rent for units transitioning to low-income housing would be 60% of AMI. Such adjusted rent levels would fully support operating payments for the Project.

Leasehold Deed of Trust

The Bonds are further secured by the Bond Promissory Note and the Leasehold Deed of Trust. See “RISK FACTORS – Limitations Relating to the Leasehold Deed of Trust” herein.

Regulatory Agreement

In connection with the development of 833 Bryant Street, a Regulatory Agreement and Declaration of Restrictive Covenants, dated as of July 1, 2020 (the “Regulatory Agreement”), by and among the Issuer, the Trustee and the Borrower will be delivered. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS” attached hereto.

Insurance

Prior to Project Completion. Under the Ground Lease the Borrower is required to maintain during construction of the Project property and/or builder’s risk insurance, special form coverage, excluding earthquake and flood, for 100% of the replacement value of all completed improvements and property in the case, custody and control of the Borrower or its contractor, including coverage in transit and storage off-site; the cost of debris removal and demolition as may be reasonably necessary by such covered perils, resulting damage and any applicable law, ordinance or regulation; start up, testing and machinery breakdown including electrical arcing, copy of the applicable endorsement to the Builder’s Risk policy, if the Builder’s Risk policy is issued on a declared-project basis; and with a deductible not to exceed \$50,000 each loss. The policy cannot provide for any deduction for depreciation.

After Project Completion. Following delivery of the Lese Delivery Notice, the Borrower will provide the following insurance coverages:

(i) Commercial general liability insurance with limits not less than One Million Dollars (\$1,000,000) combined single limit per occurrence and Two Million Dollars (\$2,000,000) annual aggregate limit for bodily injury and property damage, including coverage for contractual liability; personal injury; fire damage legal liability; advertisers’ liability; owners’ and contractors’ protective liability; products and completed operations; broad form property damage; and explosion, collapse and underground (XCU).

(ii) Umbrella Liability coverage in amount of not less than Ten Million Dollars (\$10,000,000).

(iii) Commercial Automobile Liability insurance, with limits not less than One Million Dollars (\$1,000,000) each occurrence, combined single limit for bodily injury and property damage, including owned, hired and non-owned auto coverage, as applicable

(iv) Worker's Compensation Insurance with Employer's Liability limits not less than One Million Dollars (\$1,000,000) each accident, if applicable.

(v) Business automobile liability insurance with limits not less than One Million Dollars (\$1,000,000) each occurrence combined single limit for bodily injury and property damage, including owned and non-owned and hired vehicles, as applicable, if the Borrower uses automobiles in connection with its use of the Property.

(vi) Rental interruption insurance ("Rental Interruption Insurance") covering an abatement of the City's obligation to make the Rent Payments as a result of a loss, total or partial, covered by the Casualty Insurance impairing the Borrower's ability to operate its business at the Property in an amount equal to the annual Rent Payments for a period of at least one (1) year (for two (2) years if available on the open market from reputable insurance companies at a reasonable cost, as determined by the Borrower). Rental Interruption Insurance shall name the Trustee as a beneficiary.

(vii) Licensed professionals (i.e., architects, engineers, certified public accountants, etc.) will provide professional liability insurance with limits not less than \$1,000,000 each claim with respect to negligent acts, errors, or omissions in connection with professional services to be provided to the Property.

(viii) (A) Property insurance, excluding earthquake and flood, in the amount no less than one hundred percent (100%) of the replacement value of all completed improvements and property in the care, custody and control of the Borrower or its contractor. For rehabilitation/construction projects that are unoccupied by residential or commercial tenants, tenants must obtain property insurance by the date that the project receives a certificate of substantial completion; and (B) boiler and machinery insurance, comprehensive form, covering damage to, loss or destruction of machinery and equipment located on the Development that is used by Borrower for heating, ventilating, air-conditioning, power generation and similar purposes, in an amount not less than one hundred percent (100%) of the actual replacement value of such machinery and equipment with a deductible not to exceed Twenty Five Thousand Dollars (\$25,000) each loss.

(ix) Other insurance as is generally required by commercial owners of buildings similar in size, character, age, and location as the Property, as may change from time to time, and insurance that is required pursuant to the Ground Lease.

Each insurance policy required above under the Sublease Agreement will be issued by an insurance company licensed in the State of California and with a general policyholders' rating of "A-" or better and a financial size ranking of "Class VIII" or higher in the most recent edition of Best's Insurance Guide. See, however, "RISK FACTORS – Risk of Uninsured Loss" herein.

Rental Abatement

Under the Lease Agreement, when executed and delivered, during any period during which an Abatement Event has occurred and is continuing, Rent Payments due thereunder will be abated proportionately to the impact of such Abatement Event on the City's beneficial use of the Property. The City waives all rights to terminate the Lease Agreement by virtue of any such interference and it will continue in full force and effect.

“Abatement Event” means the occurrence and continuation of any of the following:

(a) If the City is making the full operating subsidy payments as provided in the Operating Subsidy Agreement and the full tenant services subsidy payments as provided in the Tenant Services Subsidy Agreement, the Partnership shall fail, for a period of six months during which time the City shall have been using its best efforts to compel such compliance (exercising its remedies under the Sublease), to substantially comply with its obligation to provide or cause to be provided long-term supportive housing services to chronically homeless individuals as provided in the Operating Subsidy Agreement and the Tenant Services Subsidy Agreement.

(b) If the City is not making the full operating subsidy payments as provided in the Operating Subsidy Agreement or the full tenant services subsidy payments as provided in the Tenant Services Subsidy Agreement, the Partnership shall fail to make the Property available for occupancy by low and moderate income persons at an affordability level determined by the parties under the Operating Subsidy Agreement, but at a minimum with residential rents and/or other available subsidy to cover operating expenses and achieve a 1.15 debt service coverage ratio.

(c) By reason of condemnation or material damage to or destruction of the Property, neither the Partnership nor the City has beneficial use and occupancy of the Property.

STANDBY LETTER OF CREDIT

General

The Trustee is directed in the Indenture to accept and hold the Letter of Credit. If the Trustee does not receive a Lease Delivery Notice on or before the Lease Delivery Deadline, the Trustee will draw on the Letter of Credit, and apply the proceeds of such draw to redeem the Bonds pursuant to the Indenture. See “THE BONDS – Redemption – *Extraordinary Mandatory Redemption from Failure to Deliver Lease*” herein. If the Trustee receives a Lease Delivery Notice on or prior to the Lease Delivery Deadline, the Trustee shall cancel and release the Letter of Credit, undrawn, to the Letter of Credit Provider.

Description of Letter of Credit

The Letter of Credit shall be issued and delivered on the Delivery Date and expire on [October 15, 2022], unless such date is extended in accordance with the Letter of Credit’s terms (the “Expiration Date”). The Letter of Credit will have an initial term of [24] months and can be extended to [November 1, 2023] subject to certain conditions.

Drafts properly presented to the Letter of Credit Provider no later than 10:00 a.m. Eastern time on any Business Day shall be honored on the Second Business Days after the date of presentation, by payment in accordance with the Trustee’s payment instructions that accompany the draft. Drafts presented after 10:00 a.m. Eastern time will be honored on the third Business Day. “Business Day” under the Letter of Credit means any day on which banking institutions located in New York are not required or authorized by law or executive order to close.

RISK FACTORS

Purchase of the Bonds will constitute an investment subject to certain risks, including the risk of nonpayment of principal and interest. Before purchasing any of the Bonds, prospective investors should carefully consider, among other things, the risk factors described below. However, the following is not meant to be an exhaustive listing of all the risks associated with the purchase of the Bonds. Moreover, the order of presentation of the risk factors does not necessarily reflect the order of their importance.

Limited Obligation

The Bonds are limited obligations of the Issuer, payable solely from the funds and moneys pledged and assigned under the Indenture. None of the Issuer, the State, or any political subdivision thereof (except the Issuer, to the limited extent set forth in the Indenture) or the City shall in any event be liable for the payment of the principal of, premium (if any) or interest on the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever except as set forth herein, and none of the Bonds or any of the Issuer's agreements or obligations shall be construed to constitute an indebtedness of or a pledge of the faith and credit of or a loan of the credit of or a moral obligation of any of the foregoing within the meaning of any constitutional or statutory provision whatsoever. The Issuer has no taxing power.

Limited Recourse on Default Under Lease Agreement

If the City defaults on its obligations to make Rental Payments under the Lease Agreement with respect to the Property or any portion thereof, the Trustee may have limited recourse. **In the event of a default, there is no remedy of acceleration of the total Rental Payments due over the term of the Lease Agreement.** The City will only be liable for Rental Payments on an annual basis under the Lease Agreement, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against public entities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Abatement

Under the Lease Agreement, during any period during which an Abatement Event has occurred and is continuing, Rent Payments due thereunder will be abated proportionately to the impact of such Abatement Event on the City's beneficial use of the Property. In the Lease Agreement, the City waives all rights to terminate the Lease Agreement by virtue of any such interference and it will continue in full force and effect. As described herein under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Rental Abatement," the specific Abatement Events in the Lease Agreement are limited.

Also, it is not possible to predict the circumstances under which such an abatement of 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 Property is substantially higher or lower than its value at the time of execution and delivery of the Bond. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Bonds.

Project Construction Delay

Project development may be subject to unexpected delays, disruptions and changes. For example, real estate development may be adversely affected by changes in general economic conditions, including those related to the COVID-19 pandemic, unexpected increases in development costs and by other factors. Further, real estate development may be adversely affected by future governmental policies, including governmental policies to restrict or control development or related to the COVID-19 pandemic. If the projected development of the Project is halted or delayed beyond the capitalized interest available to pay debt service on the Bonds the Letter of Credit would be drawn in full in connection with a mandatory redemption as described herein. See “THE BONDS – Redemption – *Extraordinary Mandatory Redemption from Failure to Deliver Lease*” herein.

Letter of Credit

If a financial institution, such as the Letter of Credit Provider, is placed into receivership, the receiver generally will have broad powers with respect to the disposition of the assets and liabilities of such financial institution. A receiver may, depending on the circumstances and the scope of its legal authority, repudiate letters of credit issued by the failed financial institution while discharging its powers as receiver. No assurance can be given that if the Letter of Credit Provider were ever to enter receivership that the Letter of Credit would not be subject to repudiation by the Letter of Credit Provider’s receiver.

Limitations Relating to the Leasehold Deed of Trust

The security afforded by the Leasehold Deed of Trust is limited. There can be no assurance that the lien of the Leasehold Deed of Trust could be foreclosed or otherwise realized upon at a time or in an amount sufficient to make full and timely payment of principal of and interest on the Bonds.

Foreclosure. There are two methods of foreclosing on a deed of trust under State law, by nonjudicial sale and by judicial sale. Foreclosure under a deed of trust may be accomplished by a nonjudicial trustee’s sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor and to certain other parties discernable from the real property records. The trustee then must wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the trustee’s proposed sale date and giving a notice of sale (in a form mandated by State statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee’s sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior to the trustee’s sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust and to certain other parties discernable from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period, cure any monetary default by paying the entire amount of the debt then due under the terms of the deed of trust and the obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys’ and trustee’s fees. Following a nonjudicial sale, neither the trustor nor any junior lien holder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor.

Should foreclosure under a deed of trust be sought in the form of a judicial foreclosure, it is generally subject to most of the delays and expenses of other lawsuits, and sometimes requires up to several years to complete. The primary advantage of a judicial foreclosure is that the beneficiary is entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successors in interest may redeem the property for a period of one year (or a period of only three months if the proceeds of sale are sufficient to satisfy the debt, plus interest and costs). In addition, to assure collection of any rents assigned as additional collateral under the Leasehold Deed of Trust, the Trustee would likely need to seek the appointment by a court of a receiver for the Facilities.

Antideficiency Legislation and Certain Other Limitations on Lenders. The State has four principal statutory prohibitions limiting the remedies of a beneficiary under a deed of trust. Two such prohibitions limit the beneficiary's right to obtain a deficiency judgment, one being based on the method of foreclosure and the other on the type of debt secured. Under the former, a deficiency judgment is ordinarily barred when the foreclosure is accomplished by means of a nonjudicial trustee's sale, except for limited exceptions not applicable to the Leasehold Deed of Trust. Under the latter, a deficiency judgment is barred where a foreclosed deed of trust secures certain purchase money obligations. A State law, commonly known as the "one form of action" rule, requires the beneficiary to exhaust the security under a deed of trust by foreclosure before bringing a personal action against the trustor on the indebtedness. If a court were to hold that this rule were applicable to the Leasehold Deed of Trust, and the trustee under the Leasehold Deed of Trust or the Bondholders were to file suit or take other actions (including set off) to collect the debt secured by the Leasehold Deed of Trust without seeking to enforce their remedies under the Leasehold Deed of Trust, they might be precluded from thereafter proceeding under the Leasehold Deed of Trust. State law also limits any deficiency judgment obtained by a beneficiary following a judicial sale to the excess of the outstanding debt above the fair market value of the property at the time of sale. This prevents a beneficiary from obtaining a large deficiency judgment against the debtor as the result of low bids at a judicial sale. Statutory provisions (such as the federal bankruptcy laws) may have the effect of delaying enforcement of the lien of the Leasehold Deed of Trust in the event of a default by the Borrower.

Risk of Uninsured Loss

The Borrower covenants under the Ground Lease and the Sublease Agreement to maintain certain insurance policies on the Property. The City is not required to carry any insurance with respect to the Project. Such policies do not cover all types of risk. For example, the Borrower is not required to maintain earthquake insurance with respect to the Project. In the case of a circumstance not covered by insurance, an abatement of Rental Payments could occur and could continue indefinitely. In cases where the casualty is covered by insurance, there can be no assurance that the insurance carriers will in all events be able or willing to make payments under their respective policies should a claim be made. Further, there can be no assurances that amounts received as proceeds from insurance or from condemnation of the Property will be sufficient to repair or replace the Property or to redeem the Bonds.

No Limitation on Incurring Additional Obligations

Neither the Lease Agreement nor the Indenture contains any limitations on the ability of the City to enter into other obligations that may constitute additional claims against its General Fund revenues. To the extent that the City incurs additional obligations, the funds available to make Rental Payments may be decreased. The City is currently liable on many other obligations payable from General Fund revenues. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES" and APPENDIX C "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE

CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2019” attached hereto.

COVID-19

In recent years, public health authorities have warned of threats posed by outbreaks of disease and other public health threats. On February 11, 2020 the WHO announced the official name for the outbreak of COVID-19, an upper respiratory tract illness. COVID-19 has since spread across the globe. The spread of COVID-19 is having significant adverse health and financial impacts throughout the world, including the City. See APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – Recent Developments” attached hereto. The WHO has declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the Mayor of the City, the Governor of the State and the President of the United States.

The COVID-19 outbreak is ongoing, and its duration and severity and economic effects are uncertain in many respects. Uncertain too are the actions that may be taken by federal and State governmental authorities to contain or mitigate the effects of the outbreak. The ultimate impact of COVID-19 on the City’s operations and finances is not fully known, and it may be some time before the full adverse impact of the COVID-19 outbreak is known. The City has undertaken modifications to its standard budget approval process calendar and has been and plans to issue periodic updates on the Controller’s website. The COVID-19 outbreak is expected to have material adverse impacts on the projections and budget information provided in APPENDIX A – “CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES” attached hereto. Further, there could be future COVID-19 outbreaks or other public health emergencies that could have material adverse effects on the City’s operations and finances.

City Long-Term Financial Challenges

The following discussion highlights certain long-term challenges facing the City and is not meant to be an exhaustive discussion of challenges facing the City (see, for example, “Seismic Risks” and “Climate Change, Risk of Sea Level Rise and Flooding Damage” below). 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. **In particular, a new, significant challenge faced by the City is the COVID-19 Emergency.** [add cross reference to appropriate sections of Appendix A]

Significant capital investments are proposed in the City’s adopted 10-year capital plan. The City’s most recent adopted 10-year capital plan sets forth \$39.1 billion of capital needs for all City departments. However, identified funding resources are below those necessary to maintain and enhance the City’s physical infrastructure. As a result, over \$4.9 billion in capital needs are deferred from the capital plan’s 10-year horizon. More than half of these unfunded needs relate to the City’s transportation and waterfront infrastructure, where capital investment has lagged for decades.

In addition, the City faces long-term challenges with respect to the management of pension and post-employment retirement obligations. The City has taken major 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 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.

Further, while the City has adopted a number of measures to better position its operating budget for future economic downturns, these measures may not be sufficient. Economic stabilization reserves have grown significantly during the last five fiscal years. The maximum combined value of the City's Rainy Day Reserve and Budget Stabilization Reserve is 10% of General Fund revenues. Under the City's current policy, once the 10% threshold is reached, excess amounts are deposited into a non-recurring expenditure reserve that may be appropriated for capital expenditures, prepayment of future debts or liabilities, or other non-recurring expenditures. Notwithstanding the foregoing, the City expects that meeting the 10% adopted target level of reserves will not eliminate the need to cut expenditures in a recession to balance the City's budget. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES – City Budget" attached hereto.

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" attached hereto.

Certain Seismic Risks

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

California Earthquake Probabilities Study. In March 2015, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (U.S.G.S.), the California Geological Survey, and the Southern California Earthquake Center) reported that there is a 72% chance that one or more quakes of about magnitude 6.7 (the magnitude of the 1994 Northridge earthquake) or larger will occur in the San Francisco Bay Area before the year 2045. In addition, the U.S.G.S. released a report in April 2017 entitled The HayWired Earthquake Scenario, which estimates that property damage and direct business disruption losses from a magnitude 7.0 earthquake on the Hayward Fault would be more than \$82 billion (in 2016 dollars). Most of the losses are expected to be attributable to shaking damage, liquefaction, and landslides (in that order). Eighty percent of shaking damage is expected to be caused by the magnitude 7.0 mainshock, with the rest of the damage resulting from aftershocks occurring over a 2-year period thereafter. Such earthquakes could 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.

Vulnerability Study of the Northern Waterfront Seawall. In early 2016, the Port Commission of the City commissioned an earthquake vulnerability study of the Northern Waterfront Seawall. The three-mile Seawall was constructed over 100 years ago and sits on reclaimed land, rendering it vulnerable to seismic risk. The Seawall provides flood and wave protection to downtown San Francisco, and stabilizes hundreds of acres of filled land. Preliminary findings of the study indicate that a strong earthquake may cause most of the Seawall to settle and move outward toward the Bay, which would significantly increase earthquake damage and disruption along the waterfront. The Port Commission estimates that seismic retrofitting of the Seawall could cost as much as \$3 billion, with another \$2 billion or more needed to prepare the Seawall for rising sea levels. The study estimates that approximately \$1.6 billion in Port assets and \$2.1 billion of rents, business income, and wages are at risk from major damage to the Seawall. The Bonds will be issued for the purpose of funding, in part, repairs and improvements to the Embarcadero Seawall and Embarcadero infrastructure and utilities for earthquake and flood safety. See “– Climate Change, Risk of Sea Level Rise and Flooding Damage” below.

Geotechnical Issues at Project Site. The primary geotechnical concerns at the Project site include (i) the presence of up to 6 feet of undocumented fill across the site, some of which contains rubble and debris, (ii) relatively shallow groundwater table, (iii) the presence of granular soil susceptible to liquefaction below the groundwater table, (iv) potential liquefaction-induced ground settlement damages to building foundations and underground utilities during a major earthquake, and (v) the presence of moderately strong, moderately to highly compressible Bay Mud layer up to about 20 feet thick. A geotechnical engineer was engaged to observe ground improvement, grading, and foundation installation during construction of the Project in order to confirm conditions and may make changes in recommendations, if deemed necessary based on unforeseen conditions. The geotechnical report prepared for the Project was reviewed and approved by the City’s Department of Building Inspection.

Climate Change, Risk of Sea Level Rise and Flooding Damage

Numerous scientific studies on global climate change show that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common, and extreme weather events will become more frequent as a result of increasing global temperatures attributable to atmospheric pollution.

The Fourth National Climate Assessment, published by the U.S. Global Change Research Program in November 2018 (“NCA4”), finds that more frequent and intense extreme weather and climate-related events, as well as changes in average climate conditions, are expected to continue to damage infrastructure, ecosystems and social systems over the next 25 to 100 years. NCA4 states that rising temperatures, sea level rise, and changes in extreme events are expected to increasingly disrupt and damage critical infrastructure and property and regional economies and industries that depend on natural resources and favorable climate conditions. Disruptions could include more frequent and longer-lasting power outages, fuel shortages and service disruptions. NCA4 states that the continued increase in the frequency and extent of high-tide flooding due to sea level rise threatens coastal public infrastructure. NCA4 also states that expected increases in the severity and frequency of heavy precipitation events will affect inland infrastructure, including access to roads, the viability of bridges and the safety of pipelines.

Sea levels will continue to rise in the future due to the increasing temperature of the oceans causing thermal expansion and growing ocean volume from glaciers and ice caps melting into the ocean. Between 1854 and 2016, sea level rose about nine inches according to the tidal gauge at Fort Point, underneath the Golden Gate Bridge. Weather and tidal patterns, including 100-year or more storms and king tides, may exacerbate the effects of climate related sea level rise. Coastal areas like San Francisco are at risk of substantial flood damage over time, affecting private development and public infrastructure, including roads, utilities, emergency services, schools, and parks. As a result, the City could lose

considerable tax revenues and many residents, businesses, and governmental operations along the waterfront could be displaced, and the City could be required to mitigate these effects at a potentially material cost.

Adapting to sea level rise is a key component of the City's policies. The City and its enterprise departments have been preparing for future sea level rise for many years and have issued a number of public reports. For example, in March 2016, the City released a report entitled "Sea Level Rise Action Plan," identifying geographic zones at risk of sea level rise and providing a framework for adaptation strategies to confront these risks. That study shows an upper range of end-of-century projections for permanent sea level rise, including the effects of temporary flooding due to a 100-year storm, of up to 108 inches above the 2015 average high tide. To implement this Plan, the Mayor's Sea Level Rise Coordinating Committee, co-chaired by the Planning Department and Office of Resilience and Capital Planning, joined the Port, Public Utilities Commission and other public agencies is moving several initiatives forward. This includes a Citywide Sea Level Rise Vulnerability and Consequences Assessment to identify and evaluate sea level rise impacts across the City and in various neighborhoods that was released in February 2020.

In April 2017, the Working Group of the California Ocean Protection Council Science Advisory Team (in collaboration with several state agencies, including the California Natural Resource Agency, the Governor's Office of Planning and Research, and the California Energy Commission) published a report, that was formally adopted in March 2018, entitled "Rising Seas in California: An Update on Sea Level Rise Science" (the "Sea Level Rise Report") to provide a new synthesis of the state of science regarding sea level rise. The Sea Level Rise Report provides the basis for State guidance to state and local agencies for incorporating sea level rise into design, planning, permitting, construction, investment and other decisions. Among many findings, the Sea Level Rise Report indicates that the effects of sea level rise are already being felt in coastal California with more extensive coastal flooding during storms, exacerbated tidal flooding, and increased coastal erosion. In addition, the report notes that the rate of ice sheet loss from Greenland and Antarctic ice sheets poses a particular risk of sea level rise for the California coastline. The City has incorporated the projections from the 2018 report into its Guidance for Incorporating Sea Level Rise Guidance into Capital Planning. The Guidance requires that City projects over \$5 million consider mitigation and/or adaptation measures.

In March 2020, a consortium of State and local agencies, led by the Bay Area Conservation and Development Commission, released a detailed study entitled, "Adapting to Rising Tides Bay Area: Regional Sea Level Rise Vulnerability and Adaptation Study," on how sea level rise could alter the Bay Area. The study states that a 48-inch increase in the bay's water level in coming decades could cause more than 100,000 Bay Area jobs to be relocated, nearly 30,000 lower-income residents to be displaced, and 68,000 acres of ecologically valuable shoreline habitat to be lost. The study further argues that without a far-sighted, nine county response, the region's economic and transportation systems could be undermined along with the environment. Runways at SFO could largely be under water.

Portions of the San Francisco Bay Area, including the City, are built on fill that was placed over saturated silty clay known as "Bay Mud." This Bay Mud is soft and compressible, and the consolidation of the Bay Mud under the weight of the existing fill is ongoing. A report issued in March 2018 by researchers at UC Berkeley and the University of Arizona suggests that flooding risk from climate change could be exacerbated in the San Francisco Bay Area due to the sinking or settling of the ground surface, known as subsidence. The study claims that the risk of subsidence is more significant for certain parts of the City built on fill.

Projections of the effects of global climate change on the City are complex and depend on many factors that are outside the City's control. The various scientific studies that forecast climate change and

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

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.

Other Events

Seismic events, wildfires, tsunamis, and other natural or man-made events may adversely impact persons and property within San Francisco, and damage City infrastructure and adversely impact the City's ability to provide municipal services. For example, in August 2013, a massive wildfire in Tuolumne County and the Stanislaus National Forest burned over 257,135 acres (the "Rim Fire"), which area included portions of the City's Hetch Hetchy Project.

The Hetch Hetchy Project is comprised of dams (including O'Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir which supplies 85% of San Francisco's drinking water), hydroelectric generation and transmission facilities and water transmission facilities. SFPUC is currently conducting an overall conditions assessment of all dams in its system. 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. Certain portions of the Hetch Hetchy Project such as Mountain Tunnel, an 18.9-mile water conveyance facility, are old and deteriorating, and outages at critical points of the project could disrupt water delivery to significant portions of the region and/or cause significant costs and liabilities to the City. Further, many areas of California suffered from wildfires in recent years, including the Kincade Fire in late 2019 that burned approximately 78,000 acres in Sonoma County, California and the Camp Fire in late 2018 that burned over 153,300 acres in Butte County, California.

In September 2010, a PG&E high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. PG&E owns, operates and maintains numerous gas transmission and distribution pipelines throughout the City.

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

Cybersecurity

The City, like many other large public and private entities, relies on a large and complex technology environment to conduct its operations, and faces multiple cybersecurity threats including, but not limited to, hacking, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, “Systems Technology”). As a recipient and provider of personal, private, or sensitive information, the City has been the subject of cybersecurity incidents that have resulted in or could have resulted in adverse consequences to the City’s Systems Technology and that required a response action to mitigate the consequences. For example, in November 2016, the San Francisco Metropolitan Transportation Agency (the “SFMTA”) was subject to a ransomware attack which disrupted some of the SFMTA’s internal computer systems. Although the attack neither interrupted Muni train services nor compromised customer privacy or transaction information, SFMTA took the precaution of turning off the ticket machines and fare gates in the Muni Metro subway stations from Friday, November 25 until the morning of Sunday, November 27.

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

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

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

Bankruptcy

In addition to the limitation on remedies contained in the Indenture, the rights and remedies provided in the Indenture, the Ground Lease, the Lease Agreement and the Sublease Agreement may be limited by and are subject to the provisions of federal bankruptcy laws and to other laws or equitable principles that may affect the enforcement of creditors’ rights.

The City is a governmental unit and therefore cannot be the subject of an involuntary case under the United States Bankruptcy Code (the “Bankruptcy Code”). However, the City is a municipality and therefore may seek voluntary protection from its creditors pursuant to Chapter 9 of the Bankruptcy Code

for purposes of adjusting its debts. If the City were to become a debtor under the Bankruptcy Code, the City would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 case. Among the adverse effects of such a bankruptcy might be: (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 that were derived by the Lease Agreement; (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 Bondholders; and (iv) the possibility of the adoption of a plan (a “Plan”) for the adjustment of the City’s debt without the consent of the Trustee or all of the Bondholders, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Bondholders if the Bankruptcy Court finds that the Plan is “fair and equitable” and in the best interests of creditors.

In addition, the City could either reject the Lease Agreement or assume the Lease Agreement despite any provision of the Lease Agreement 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 Bondholders, would have a pre-petition unsecured claim that may be substantially limited in amount and this claim would be treated in a manner under a Plan over the objections of the Trustee or Bondholders. 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 to a third party, regardless of the terms of the transaction documents. If the City rejects the Lease Agreement, the Trustee, on behalf of the Bondholders of the Bonds, would have a pre-petition unsecured claim and this claim would be treated in a manner under a Plan over the objections of the Trustee or Bondholders. Moreover, such rejection may terminate the Lease Agreement and the obligations of the City to make payments thereunder.

The various opinions of counsel will be qualified to the extent the enforceability of the Lease Agreement may be limited by applicable bankruptcy, insolvency, debt adjustment, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors’ rights generally or as to the availability of any particular remedy. No opinion is being delivered by Bond Counsel relating to the treatment of the Lease Agreement or any related matter in a City bankruptcy proceeding.

Loss of Tax Exemption

To maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, the Issuer, the Borrower and the City will covenant to comply with each applicable requirement of Section 103 and Sections 141 and 150 of the Internal Revenue Code of 1986, as amended. The interest on the Bonds could become includable gross income for purposes of federal income taxation retroactive to the date of issuance of the Bonds as a result of acts or omissions of the Issuer, the Borrower and/or the City in violation of this or other covenants in the Indenture, the Loan Agreement and/or the Lease Agreement. The Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Indenture.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal

Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Issuer, the Borrower and the City have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial

Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Issuer, the Borrower or the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Issuer, the Borrower, the City have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the Borrower, the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Issuer, the Borrower, the City and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Issuer, the Borrower or the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Issuer, the Borrower, the City or the Beneficial Owners to incur significant expense.

CONTINUING DISCLOSURE

The Issuer has determined that no financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Bonds and the Issuer will not provide any such information.

The City has covenanted for the benefit of the Bondholders to provide certain financial information and operating data relating to the City (the “City Annual Report”) not later than 275 days after the end of the City’s fiscal year (which currently ends on June 30), commencing with the report for fiscal year 2019-20, and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the initial purchaser of the Bonds in complying with Rule 15c2-12 of the U.S. Securities and Exchange Commission (the “Rule”). The City Annual Report and notices of enumerated events will be filed by the City with the Electronic Municipal Market Access system (“EMMA”) of the Municipal Securities Rulemaking Board (“MSRB”). The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX E – “FORM OF CONTINUING DISCLOSURE CERTIFICATES” attached hereto.

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.

The Borrower has covenanted for the benefit of the Bondholders to provide certain financial information and operating data relating to the Borrower and the Project (the “Borrower Annual Report”) not later than ___ days after the end of the Borrower’s fiscal year (which currently ends on December 31), commencing with the report for fiscal year 2019-20, and to provide notices of the occurrence of certain enumerated events. These covenants have been made in order to assist the initial purchaser of the Bonds in complying with the Rule. The Borrower’s Annual Report and notices of enumerated events will be filed by the City with EMMA of the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX E – “FORM OF CONTINUING DISCLOSURE CERTIFICATES” attached hereto.

RATING

Moody’s Investors Service (“Moody’s”) has assigned a rating of “___” to the Bonds. Such rating reflects only the views of Moody’s and any desired explanation of the significance of such rating should be obtained from Moody’s. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance any such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely, if in the judgment of Moody’s, circumstances so warrant. Any downward revision or withdrawal of a rating by Moody’s may have an adverse effect on the market price of the Bonds.

NO LITIGATION

The Issuer

To the best knowledge of the Issuer, 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 against the Issuer, seeking to restrain or enjoin the sale or issuance of the Bonds, or in any way contesting or affecting any proceedings of the Issuer taken concerning the sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, in any way contesting the validity or enforceability of the Indenture, the Loan Agreement, the Regulatory Agreement, the Lease Agreement or the Bond Purchase Agreement, or the existence or powers of the Issuer relating to the sale of the Bonds.

The City

To the knowledge of the City, 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 against the City, seeking to restrain or enjoin the sale or issuance of the Bonds, or in any way contesting or affecting any proceedings of the City taken concerning the sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, in any way contesting the validity or enforceability of the Ground Lease, the Regulatory Agreement, the Lease Agreement, the Sublease Agreement, the Indenture, the Loan Agreement or the Bond Purchase Agreement, the Bonds or the existence or powers of the Issuer relating to the sale of the Bonds.

The Borrower

There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any judicial or administrative court or governmental agency or body, state, federal or other, pending or, to the best knowledge of the Borrower, threatened in writing against the Borrower, affecting the existence of the Borrower, involving the Project or seeking to restrain or enjoin the issuance, sale, execution or delivery of the Ground Lease, the Regulatory Agreement, the Lease Agreement, the Sublease Agreement, the Indenture, the Loan Agreement or the Bond Purchase Agreement, the Bonds or the financing of the Project, or in any way contesting or affecting as to the Borrower, or the execution and delivery of any of the foregoing documents, or the application of any moneys or security provided for the payment of the Bonds, or in any way contesting or challenging the completeness or accuracy of the preliminary or final Official Statement or any supplement or amendment thereto, or the powers of the Borrower or its authority with respect to the consummation of the transactions contemplated hereby or by the foregoing documents, or challenging the exclusion of interest on the Bonds from gross income for Federal income tax purposes.

RELATIONSHIPS AMONG PARTIES

Citibank, N.A. and Citigroup Global Markets Inc. are entities under the holding company Citigroup Inc.

UNDERWRITING

Citigroup Global Markets Inc. (the “Underwriter”) has agreed, subject to certain customary conditions precedent to closing, to purchase the Bonds from the Issuer a price equal to \$_____, which represents the principal amount of the Bonds of \$_____, plus an original issue premium of \$_____, and less an underwriting discount of \$_____.

[retail distribution agreement description to come]

The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices, and such dealers may re-allow any such discounts on sales to other dealers.

LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Issuer. A complete copy of the proposed form of opinion of Bond Counsel is attached as Appendix F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed on for the City by Hawkins Delafield & Wood LLP and Stradling Yocca Carlson and Rauth, A Professional Corporation, as Co-Disclosure Counsel to the City, for the Borrower by Gubb and Barshay LLP, for Citibank, N.A. as standby letter of credit provider by Robinson & Cole LLP and for the Underwriter by their counsel, Norton Rose Fulbright US LLP, Los Angeles, California.

This Official Statement has been duly authorized, executed and delivered by the Issuer and the Borrower.

CALIFORNIA HOUSING FINANCE AGENCY

By: _____
Name:
Title: Director of Financing

833 BRYANT, L.P., a California limited partnership

By: 833 Bryant LLC, a California limited liability company, its general partner

By: Mercy Housing Calwest, a California nonprofit public benefit corporation, its sole member/manager

By: _____
Name: _____
Its: _____

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO – ORGANIZATION AND FINANCES

APPENDIX B

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING CITY REVENUES AND EXPENDITURES

Property Tax Rate Limitations – Article XIII A

Article XIII A of the California Constitution limits the amount of any *ad valorem* tax on real property to one percent of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. 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 have occurred after the 1975 assessment.” The full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the “full cash value” base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the “full cash value” base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the City and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls, with tax rates expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Appropriations Limitations – Article XIII B

An initiative to amend the State Constitution entitled “Limitation of Government Appropriations” was approved on September 6, 1979 thereby adding Article XIII B to the State Constitution (“Article XIII B”). Under Article XIII B, the State and each local governmental entity has an annual “appropriations limit” and is not permitted to spend certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriations of moneys that are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the

amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

“Appropriations subject to limitation” are authorizations to spend “proceeds of taxes,” which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service,” but “proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds.

Not included in the Article XIII B limit are appropriations for the debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government and appropriations for qualified capital outlay projects. The appropriations limit may also be exceeded in certain cases of emergency.

The appropriations limit for the City in each year is based on the City’s limit for the prior year, adjusted annually for changes in the cost of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City’s option, either (1) the percentage change in State per capita personal income, or (2) the percentage change in the local assessment roll on nonresidential property. Either test is likely to be greater than the change in the cost of living index, which was used prior to Proposition 111.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by a City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years. As originally enacted in 1979, the City’s appropriations limit was based on 1978-79 authorizations to expend proceeds of taxes and was adjusted annually to reflect changes in cost of living and population (using different definitions, which were modified by Proposition 111). Starting with Fiscal Year 1990-91, the City’s appropriations limit was recalculated by taking the actual Fiscal Year 1986-87 limit, and applying the annual adjustments as if Proposition 111 had been in effect.

Articles XIII C and XIII D of California Constitution – Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California constitution, which contains a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C requires that all new local taxes or increases in existing local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the City require a majority vote and taxes for specific purposes, even if deposited in the City’s General Fund, require a two-thirds vote. The voter-approval requirements of Proposition 218 reduce the flexibility of the City to raise revenues for the General Fund, and no assurance can be given that the City will be able to impose, extend or increase such taxes in the future to meet any increased expenditure requirements.

Article XIII D contains provisions relating to how local agencies may levy and maintain “assessments” for municipal services and programs. “Assessment” is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. Article XIII D also contains several provisions affecting “property-related fees” and “charges,” defined for purposes of Article XIII D

to mean “any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” All new and existing property-related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property-related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property-related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Fees for electrical and gas service are explicitly exempted from the definition of “property-related” under Article XIID. Property-related fees or charges for services other than sewer, water and refuse collection services may not be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. In addition to the provisions described above, Proposition 218 removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge.

Proposition 218 continues to be interpreted by California courts. The State Supreme Court’s 2006 decision in *Bighorn-Desert View Water Agency* found that metered charges for consumption of water by a public agency fell within the “property-related” fees subject to Proposition 218. Fees for sewer and refuse collection could also be found to be within the definition of property-related fees. If such charges are property-related charges, rate increases would be subject to notice, hearing and majority protest, but not prior voter approval, and rates and charges could be reduced by referendum.

Proposition 1A

Proposition 1A (SCA 4), proposed by the Legislature in connection with the 2004-05 Budget Act 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. By adding Section 25.5 to Article XIII of the State Constitution, Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any Fiscal Year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature.

Proposition 1A provides, however, that 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 of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

By amending Section 15 of Article XI of the State Constitution, Proposition 1A also provides that if the State reduces the Vehicle License Fee rate currently in effect, which is 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, by amending Section 6 of Article XIII B of the State Constitution, Proposition 1A required the State, beginning on July 1, 2005, to suspend State mandates affecting cities, counties and special districts, schools or

community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

Proposition 22

On November 2, 2010, voters in the State approved Proposition 22. Proposition 22, known as the “Local Taxpayer, Public Safety, and Transportation Protection Act of 2010,” eliminates or reduces the State’s authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for state-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

Proposition 26

On November 2, 2010, voters in the State also approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. The City does not expect the provisions of Proposition 26 to materially and adversely affect its ability to pay Rental Payments when due.

Proposition 30

The passage of the Governor’s November Tax Initiative (“Proposition 30”) placed on the November 2012 ballot results in an increase in the State sales tax by a quarter-cent for four years and, for seven years, raising taxes on individuals after their first \$250,000 in income and on couples after their first \$500,000 in earnings. These increased tax rates will affect approximately 1 percent of California personal income tax filers and will be in effect starting in the 2012 tax year, ending at the conclusion of the 2018 tax year. The quarter-cent sales-tax component expired on December 31, 2016. The passage of the Tax Extension to Fund Education and Healthcare (“Proposition 55”) in November 2016 extends the income tax increase on high-income taxpayers for an additional 12 years through 2030. The LAO estimates that, as a result of Proposition 55, increased state tax revenues of about \$4 billion to \$9 billion annually from fiscal years 2019 through 2030 depending on the economy and stock market.

Future Initiatives

Article XIII A, Article XIII B and the other Propositions referenced above were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other State or local initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

APPENDIX C

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE CITY AND COUNTY OF SAN FRANCISCO
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATES

APPENDIX F

FORM OF BOND COUNSEL OPINION

Upon issuance of the Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds in substantially the following form:

[Closing Date]

California Housing Finance Agency
Sacramento, California

California Housing Finance Agency
Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments)
2020 Issue N – Social Bonds
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Housing Finance Agency (the “Issuer”) in connection with the issuance of its Revenue Bonds (San Francisco Supportive Housing – 833 Bryant Apartments) 2020 Issue N – Social Bonds in the aggregate principal amount of \$_____ (the “Bonds”). The Bonds are issued pursuant to the provisions of Division 31, Parts 1 through 4 of the California Health and Safety Code, as amended, and an Indenture of Trust, dated as of July 1, 2020 (the “Indenture”), by and between the Issuer and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Regulatory Agreement, the Tax Certificate, opinions of counsel to the Issuer, 833 Bryant, L.P., a California limited partnership (the “Borrower”), the Trustee and others, certificates of the Issuer, the Trustee, the Borrower and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as

originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement, the Regulatory Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement, the Regulatory Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium 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 the State of California (the "State"). We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of any disclosures relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute the valid and binding limited obligations of the Issuer, payable solely from the Trust Estate.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of, premium, if any, and interest on the Bonds, of the Trust Estate, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.
3. The Bonds do not constitute a debt or liability of the Issuer, the State or any political subdivision thereof, or a pledge of the faith and credit of the State or any such political subdivision, other than the Issuer to the extent provided in the Indenture.
4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"), except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a "substantial user" of the facilities financed or refinanced by the Bonds or by a "related person" to a "substantial user" within the meaning of Section 147(a) of the Code. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

Interest on the Bonds is exempt from State personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX G

BOOK-ENTRY SYSTEM

The following description of DTC and its book-entry system has been provided by DTC and has not been verified for accuracy or completeness by the Authority, the Corporation or the County, and none of the Authority, the Corporation or the County shall have any liability with respect thereto. None of the Authority, the Corporation or the County shall have any responsibility or liability for any aspects of the records maintained by DTC relating to or payments made on account of beneficial ownership, or for maintaining, supervising, or reviewing any records maintained by DTC relating to beneficial ownership, of interests in the Bonds.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds 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 Bond will be issued for each annual maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited through the facilities of DTC.

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 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has an S&P Global Ratings rating of “AA+.” The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on this website is not incorporated herein by reference.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“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 Bonds 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 Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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.

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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as prepayments, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit 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.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds 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 Authority or the 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, the Trustee, or the Authority, 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 Authority or the 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.

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

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

APPENDIX H

INFORMATION REGARDING THE LETTER OF CREDIT PROVIDER



SAN FRANCISCO PLANNING DEPARTMENT

General Plan Referral

Date: April 1, 2020

Case No. 2020-002568GPR
Lease and sublease of 833 Bryant Street by the SF Housing Accelerator Fund

Block/Lot No.: 3779/133

Project Sponsor: Josh Keene – (415) 554-9859
joshua.keene@sfgov.org
Real Estate Division
25 Van Ness Ave., Suite 400
San Francisco, CA 94102

Staff Contact: Lisa Chen – (415) 575-9124
lisa.chen@sfgov.org

Recommendation: Finding the proposed lease and sublease of 833 Bryant Street, on balance, **in conformity** with the General Plan.

Recommended *Rich Hillis*
By: Rich Hillis (Apr 17, 2020)
Rich Hillis, Director of Planning

1650 Mission St.
Suite 400
San Francisco,
CA 94103-2479

Reception:
415.558.6378

Fax:
415.558.6409

Planning
Information:
415.558.6377

PROJECT DESCRIPTION

The City is proposing to lease the property at 833 Bryant Street, which is currently a surface parking lot controlled by the SF Housing Accelerator Fund. The property would be developed by the SF Housing Accelerator fund into a mixed-use project with 145 new units of permanent supportive housing, along with commercial space and ancillary program space (the “Project”). The development would be leased to the City; the City would subsequently sublease the property to Mercy Housing as the Operator of the site, through the City’s Department of Homelessness and Supportive Housing (“HSH”).

ENVIRONMENTAL REVIEW

Project approved under California Senate Bill 35; considered a ministerial approval and is not subject to CEQA.

GENERAL PLAN COMPLIANCE AND BASIS FOR RECOMMENDATION

As described below, the proposed lease and sublease of 833 Bryant Street is consistent with the Eight Priority Policies of Planning Code Section 101.1 and is, on balance, in conformity with the Objectives and Policies of the General Plan.

Note: General Plan Objectives are shown in **BOLD UPPER CASE** font; Policies are in **Bold** font; staff comments are in *italic* font.

HOUSING ELEMENT

OBJECTIVE 1, IDENTIFY AND MAKE AVAILABLE FOR DEVELOPMENT ADEQUATE SITES TO MEET THE CITY'S HOUSING NEEDS, ESPECIALLY PERMANENTLY AFFORDABLE HOUSING.

POLICY 1.3

Work proactively to identify and secure opportunity sites for permanently affordable housing.

Comment: The proposed Project would secure the 833 Bryant Street site for permanently affordable housing.

POLICY 1.10

Support new housing projects, especially affordable housing, where households can easily rely on public transportation, walking and bicycling for the majority of daily trips.

Comment: The Project to be constructed on this property would be easily accessible to major MUNI and bicycle routes, and would enable households to rely on walking, public transportation and bicycling for most trips.

OBJECTIVE 4, FOSTER A HOUSING STOCK THAT MEETS THE NEEDS OF ALL RESIDENTS ACROSS LIFECYCLES.

POLICY 4.4

Encourage sufficient and suitable rental housing opportunities, emphasizing permanently affordable rental units wherever possible.

Comment: The Project would secure this site for permanently affordable housing, addressing an unmet housing need in San Francisco.

POLICY 4.5

Ensure that new permanently affordable housing is located in all of the city's neighborhoods, and encourage integrated neighborhoods, with a diversity of unit types provided at a range of income levels.

Comment: The Project would secure this site for permanently affordable housing in an existing mixed-use neighborhood close to amenities like parks, schools and high-frequency transit.

OBJECTIVE 7, SECURE FUNDING AND RESOURCES FOR PERMANENTLY AFFORDABLE HOUSING, INCLUDING INNOVATIVE PROGRAMS THAT ARE NOT SOLELY RELIANT ON TRADITIONAL MECHANISMS OR CAPITAL.

POLICY 7.5

Encourage the production of affordable housing through process and zoning accommodations, and prioritize affordable housing in the review and approval processes.

Comment: The Project is facilitated by the San Francisco Housing Accelerator Fund, an innovative funding mechanism that was created to expedite the production of affordable housing. The Project is also eligible to take advantage of recently passed legislation encouraging production of affordable housing, including the Affordable Housing Bonus Program, SB35, and Planning Code Section 315.

OBJECTIVE 8, BUILD PUBLIC AND PRIVATE SECTOR CAPACITY TO SUPPORT, FACILITATE, PROVIDE AND MAINTAIN AFFORDABLE HOUSING.

POLICY 8.1

Support the production and management of permanently affordable housing.

Comment: The Project would secure this site for permanently affordable housing.

PROPOSITION M FINDINGS – PLANNING CODE SECTION 101.1

Planning Code Section 101.1 establishes Eight Priority Policies and requires review of discretionary approvals and permits for consistency with said policies. The Project, the lease and sublease of the property at 833 Bryant Street, is found to be consistent with the Eight Priority Policies as set forth in Planning Code Section 101.1 for the following reasons:

Eight Priority Policies Findings

The subject Project is found to be consistent with the Eight Priority Policies of Planning Code Section 101.1 in that:

1. That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced.

The site is currently vacant. The proposed Project would include retail spaces on the ground floor, which could provide future opportunities for neighborhood-serving retail uses and employment.

2. That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods.

The site contains no existing housing. The construction of a 100% affordable housing project on the site is likely to enhance the cultural and economic diversity of the neighborhood.

3. That the City's supply of affordable housing be preserved and enhanced.

The Project would allow the construction of permanently affordable housing, enhancing the City's supply of affordable housing.

4. That commuter traffic not impede MUNI transit service or overburden our streets or neighborhood parking.

The Project would not result in commuter traffic impeding MUNI's transit service, overburdening the streets or altering current neighborhood parking.

5. That a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for residential employment and ownership in these sectors be enhanced.

The Project would not adversely affect the City's economic base or future opportunities for employment and/or ownership. The future affordable housing project on the site will increase opportunities for residential employment in our industrial and service sectors by offering permanently affordable housing units for low-income households and families.

6. That the City achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake.

The Project would not adversely affect achieving the greatest possible preparedness against injury and loss of life in an earthquake. The affordable housing project to be constructed on the site would be required to meet all applicable building code seismic standards.

7. That landmarks and historic buildings be preserved.

This Project would not adversely affect any landmarks or buildings of historic significance.

8. That our parks and open space and their access to sunlight and vistas be protected from development.

The acquisition of the site would not adversely affect any parks or open space. The affordable housing project to be constructed on the site would undergo all applicable review to ensure it doesn't create a negative impact to sunlight and vistas to our parks and open space.

RECOMMENDATION:

Finding the lease and sublease of 833 Bryant Street, on balance, in-conformity with the General Plan

GPR - 833 Bryant St.

Final Audit Report

2020-04-17

Created:	2020-04-16
By:	Deborah Sanders (deborah.sanders@sfgov.org)
Status:	Signed
Transaction ID:	CBJCHBCAABAABvs5GFkuT15NmEDRM2n_AZc6TULT6zMc

"GPR - 833 Bryant St." History

-  Document created by Deborah Sanders (deborah.sanders@sfgov.org)
2020-04-16 - 11:34:16 PM GMT- IP address: 108.91.112.80
-  Document emailed to Rich Hillis (rich.hillis@sfgov.org) for signature
2020-04-16 - 11:35:04 PM GMT
-  Email viewed by Rich Hillis (rich.hillis@sfgov.org)
2020-04-17 - 0:26:56 AM GMT- IP address: 71.202.122.82
-  Document e-signed by Rich Hillis (rich.hillis@sfgov.org)
Signature Date: 2020-04-17 - 1:53:43 PM GMT - Time Source: server- IP address: 108.91.112.80
-  Signed document emailed to Deborah Sanders (deborah.sanders@sfgov.org) and Rich Hillis (rich.hillis@sfgov.org)
2020-04-17 - 1:53:43 PM GMT



DEPARTMENT OF
HOMELESSNESS AND
SUPPORTIVE HOUSING

To: Honorable Members, Board of Supervisors

**From: Abigail Stewart-Kahn, Department of Homelessness and Supportive Housing
Gigi Whitley, Department of Homelessness and Supportive Housing**

Date: June 9, 2020

Subject: Resolution approving a building Lease Agreement and Sublease Agreement each by and between the City and 833 Bryant, L.P.

The Department of Homelessness and Supportive Housing (“HSH”) respectfully requests that the Board of Supervisors (the “Board”) review and approve the Lease Agreement and Sublease Agreement for the 833 Bryant Project (“Project”). The Project is a unique public-private partnership, leveraging philanthropy, state tax credits, and tax-exempt debt, to deliver 145 units of newly constructed Permanent Supportive Housing (PSH) for formerly homeless individuals, plus one manager unit, at a critically needed time. The City’s commitment to funding the Lease Agreement allows for the project to move forward in construction and secure the needed financing.

Funding for the estimated costs associated with the commencement of a lease and operating for this Project was included in HSH’s FY 2019-20 and FY 2020-21 budget, proposed by the Mayor and approved by the Board of Supervisors. At the time, the project was anticipated to commence in May 2021, the Project is now well under construction and an updated completion date of August 2021 is reflected in the agreements brought forward to the Board for review. Due to the structuring of the financing, although the Lease would commence in August of 2021, the first payment from the City would not be due until Spring 2023.

STATEMENT OF NEED

833 Bryant offers the City an efficient, and cost-effective project to provide additional permanent exits from homelessness. As part of HSH’s Five-Year Strategic Framework, the Department has set a goal to reduce chronic homelessness by 50%. To meet this goal, the City needs to continue to invest in permanent supportive housing projects such as 833 Bryant. All tenants will be referred to the Project for occupancy through the City’s Coordinated Entry System.

Despite substantial investments in permanent supportive housing, rapid rehousing subsidies, and other interventions to end homelessness over the last 20 years, homelessness remains a persistent challenge in San Francisco. The 2019 biennial Point-In-Time (“PIT”) homeless count identified 8,035 people experiencing homelessness in the city; 64% of whom are unsheltered. The PIT count survey included data on duration of homelessness, age, and health status trends that indicate an increase in need for permanent supportive housing units for chronically homeless adults and seniors. Per the 2019 count, approximately 57% of the total population is over the age of 41, over 69% had at least one disabling health condition, and for 65%, the duration of their current episode of homelessness was over one year. These data reflect the population of people living on the streets are growing older and sicker, further underscoring the need for PSH in the City.

In HSH's 2019 Five-Year Strategic Framework Update, the Department committed to prioritizing the highest need population for services and housing to reverse the trend in single adult homelessness shown in the 2019 PIT count. District 6, where the Project is located, is home to 46% of the homeless population—the highest concentration in the City. The Project is ideally suited to create additional units to serve the chronically homeless population already living in the neighborhood near 833 Bryant Street.

Permanent supportive housing is the most effective way to end homelessness for people who are chronically homeless, meaning they have been homeless for a year or more and have at least one disabling condition that impacts their ability to find and maintain housing. In Fiscal Year 2018-2019, less than 2% of San Francisco residents housed in permanent supportive housing were evicted. This demonstrates a high level of residential stability for tenants in permanent supportive housing.

The COVID-19 crisis has exacerbated the existing public health crisis of homelessness. The COVID-19 pandemic represents a significant health risk for people experiencing homelessness. People living in public spaces or in congregate settings, have limited access to preventive measures like frequent handwashing, social distancing, and rapid access to health care. People living unsheltered are also far more likely to have chronic health conditions, one of the most significant risk factors with coronavirus. In addition to the increased health risk associated with homelessness, the City and County of San Francisco also anticipates seeing an increase in need for homeless services in the economic fallout from the pandemic.

The global pandemic has increased the awareness that housing is essential to the health and well-being of all people, and especially the City's most vulnerable residents. Permanent housing not only ends homelessness for its residents but will ultimately protect them from the spread of COVID-19 better than temporary shelter. As the City continues its response to the COVID-19 pandemic, it will require continued investments in evidence-based practices that permanently end homelessness, like permanent supportive housing.

SUMMARY

The proposed Resolution approves a building Lease Agreement and Sublease Agreement between the City and 833 Bryant, LP for a currently under construction 145-unit plus one manager unit building for the intended use as permanent supportive housing for formerly homeless individuals. The effective dates of the Lease and Sublease's will be when the building has received a temporary certificate of occupancy from the Department of Building Inspection (anticipated August 2021).

The Project's construction is being financed with philanthropic grants and loans, tax credits, and tax-exempt bonds ("Bonds"). The California Housing Finance Agency ("CHFA"), a state agency, will be the issuer for the Bonds, the proceeds of which will pay for a portion of the Project construction costs. The City's obligation to make lease payments under the Lease will serve as security for the Bonds. Like other lease structures supporting the execution and delivery of City certificates of participation ("COPs"), the payments under the Lease are subject to abatement in the event the facility is not available for use in the event of destruction or another calamity. The Bonds are anticipated to be sold in July 2020 and the City's obligation to make lease payments under the Lease allows for favorable financing rates, assuming a "Aa2" rating from Moody's which is one notch below the City's typical COP credit rating of "Aa1" and two notches below the City's General Obligation Bond rating of "Aaa". The Lease requires annual lease payments by the City for 30 years at a not to exceed amount of \$2,014,800, or \$1,150 per unit per month. Capitalized Interest funds are used for the first 24 months of debt service payments, resulting in

the first needed lease payment from the City in April 2023. Similar to some of the City's outstanding COPs, the Lease allows for an extension up to 10 years beyond on the 30-year term of the financing. Should the sale of the tax-exempt Bonds (anticipated in July 2020) result in more favorable future debt service costs than the not-to-exceed amounts, the City will benefit through reduced lease payments.

As part of the financing and operating structure, the City has agreed to sublease the property back to the Mercy Housing (or another professional property management company reasonably acceptable to the City) at an annual cost of \$1 to operate the building and manage the supportive services contract for residents. The Lease and Sublease have 30-year terms in alignment with the length of the tax-exempt Bonds structure. The landowner, Homes for the Homeless Fund No. 1, LLC, will enter into a conveyance agreement with the City for a term of 99 years, which will give the City the exclusive right to purchase the land for \$1 starting at the end of the 30-year Lease and Sublease terms.

The Resolution authorizes the Director of Property and Director of HSH to make amendments to the Lease Agreement and Sublease Agreement, as needed and that they determine are in the best interests of the City without materially increasing the City's obligations or liabilities. The Resolution also authorizes the City, through the Office of the Controller, to provide information necessary for the Bond sale and to complete relevant documents, such as the Preliminary Official Statement and Official Statement, as well as a Continuing Disclosure Certificate.

PROJECT DETAIL

833 Bryant is a unique permanent supportive housing project for San Francisco. The Project is a partnership between the San Francisco Housing Accelerator Fund, Mercy Housing, Inc. and the City and County of San Francisco.

The San Francisco Housing Accelerator Fund ("SFHAF") is a 501(c)(3) nonprofit organization established for the purpose of bringing innovative financial tools to affordable housing production and preservation. It is the sole member of its wholly owned subsidiary, the Homes for the Homeless Fund No. 1, LLC, which is a pool of \$50 million in flexible private dollars funded through a philanthropic contribution from Tipping Point Community dedicated to producing more housing for chronically homeless individuals in the City. SFHAF and Tipping Point Community's purpose for the Homes for the Homeless Fund is to produce a supportive housing model that is more cost-effective and faster to open than the City's current models, and 833 Bryant is its inaugural project. SFHAF acquired the land and has entered into a ground lease with Mercy Housing, Inc ("Mercy Housing") to develop the property.

Mercy Housing has experience developing, preserving, managing, and financing affordable housing. Mercy Housing subsidiaries serve tens of thousands of people with low incomes, including families, seniors, veterans, people who have experienced homelessness, and people with disabilities. Mercy Housing has extensive experience developing permanent supportive, affordable housing using Low Income Housing Tax Credits ("LIHTC") and conducting all aspects of asset management required for tax credit financing. Mercy Housing is the sole member/manager of 833 Bryant, L.P., which is the borrower of the tax-exempt bonds and the owner of the completed building.

The City and County of San Francisco, through the Department of Real Estate and the Department of Homelessness and Supportive Housing, intends to enter into a master lease with 833 Bryant, L.P. and sublease back to Mercy Housing (or another professional property management company reasonably

acceptable to the City) to operate the property as a site for permanent supportive housing for formerly homeless individuals.

The Project’s total development cost of approximately \$55 million is being funded with a combination of philanthropic capital, low-income housing federal tax credits, and tax-exempt bonds. There were no City upfront funds used to support the construction currently underway. 833 Bryant will be the City’s first 100% permanent supportive housing development built with modular housing, from Factory_OS, which operates in Vallejo, California under a 100% union contract. Through this innovative structure, 833 Bryant is delivering housing at approximately \$400,000 per unit. The Homes for the Homeless Fund, through philanthropic funding provided by Tipping Point Community, covered the Project’s \$8.2 million land cost. The total development timeline for 833 Bryant will be under three years, much faster than the typical timeline for publicly funded developments.

The Project also compares favorably to master lease contracts the City has previously entered into for permanent supportive housing units with private landlords on the open market. The lease contract for 833 Bryant is fixed at an amount not-to-exceed \$1,150 per unit per month, without any escalation provisions. As mentioned above, the Homes for the Homeless Fund intends to enter into a conveyance agreement with the City which will allow it to purchase the land beginning at the end of the initial 30-year lease term the City for \$1 and the building will be permanently affordable.

Below please find the Project’s sources and uses budget:

PERMANENT SOURCES OF FUNDS	VALUE
Tax-Exempt Bond Proceeds	\$31,537,526
Homes for the Homeless Fund	1,230,313
Tax Credit Equity	22,135,100
TOTAL SOURCES OF FUNDS	\$54,902,939

USES OF FUNDS	VALUE
Acquisition-related Costs	\$1,257,929
Construction Hard Costs	38,887,217
Financing Costs, Fees, and Capitalized Interest	5,640,273
Developer Fee	1,700,000
Other Soft Costs	7,417,520
TOTAL DEVELOPMENT COSTS	\$54,902,939

The Project will require three long-term funding contracts from the City: the (i) Lease, (ii) an operating subsidy contract, and (iii) a services contract. These contracts will cover the cost debt service on the tax-exempt Bonds, operations, and supportive services. The operations and supportive services contracts will be entered into by HSH closer to the anticipated commencement of the City’s obligations under the Lease. For comparable City projects, operating costs average \$900 per unit per month and supportive services cost average \$550 per unit per month. On an annual basis, the City estimates operating and services costs of \$17,400 per unit before accounting for offset for tenant rental contributions, which are

capped at 30% of tenant income. The 833 Bryant projects falls well within the range of typical PSH operating and services costs.

ANTICIPATED FINANCING TIMELINE

The Resolution is expected to be introduced at the Board of Supervisors meeting on Tuesday, June 9, 2020, and the forms of the related financing documents—including the Lease Agreement, Sublease, General Plan Referral and the Commitment Letter. Additionally, forms of the Preliminary Official Statement, the Continuing Disclosure Certificate and the Bond Purchase Agreement, as further described in Attachment 1—will be submitted to the Board at that time.

<u>Milestones</u>	<u>Anticipated Dates</u>
• Introduction of Resolution	June 9, 2020
• Budget & Finance Committee Hearing	June 24, 2020
• Board Considers Approval of Resolution	June 30, 2020
• Sale and Closing of the Bonds	July 2020
• Estimated Project Completion Date	August 2021

The consideration of this matter by the Board is greatly appreciated. Please contact Gigi Whitley (gigi.whitley@sfgov.org), Emily Cohen (Emily.Cohen@sfgov.org), or Abigail Stewart-Kahn (abigail.stewart-kahn@sfgov.org).

ATTACHMENT 1

The legislation is expected to be introduced at the Board of Supervisors meeting on June 9. In addition to the Lease and Sublease, the Resolution authorizes the Controller, in consultation with the City Attorney, to provide information for inclusion in the Preliminary Official Statement and Official Statement and to enter into a Continuing Disclosure Certificate in connection with the issuance of bonds by CHFA. Forms of the related financing documents have been submitted including the Preliminary Official Statement (including the City's Appendix A which will contain customary budget, finance and operating information), the Continuing Disclosure Certificate and the Bond Purchase Contract.

Official Statement: The Official Statement provides information for prospective investors in connection with the public offering by CHFA, the issuer of the Bonds. The Official Statement describes the Bonds, including sources and uses of funds; security for the Bonds; risk factors; and tax and other legal matters, among other information. Since repayment of the Bonds is largely dependent upon the City's lease payments under the Lease, the Official Statement will also include the City's Appendix A (which includes the most recent financial and operating data of the City) and Comprehensive Annual Financial Report.

The **Preliminary Official Statement** will be distributed to prospective investors prior to the sale of the Bonds and within seven days of the public offering, the Final Official Statement (adding certain sale results including the offering prices, interest rates, selling compensation, principal amounts, and aggregate principal amounts) will be distributed to the initial purchasers of the Bonds.

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

The proposed resolution authorizes the use and distribution of the Official Statement by the underwriters with respect to the Bonds. For purposes of the Securities and Exchange Act of 1934, the Controller will certify, on behalf of the City, that the Preliminary and Final Official Statements are final as of their dates.

The proposed resolution delegates to the Controller to finalize and revise the Official Statement, including the Appendix A, to, among other things, include the most recent City financial information or other material information relevant to investors, and to otherwise make corrections and clarifications needed so that such offering document complies with federal securities laws.

Continuing Disclosure Certificate: The City (and Mercy Housing) will covenant to provide certain financial information relating to the City not later than 275 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 an annual report for investors, as well as the ongoing requirement to provide notice of material events. These covenants have been made in order to assist initial purchasers of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Bond Purchase Contract/Method of Sale: As noted earlier, the Bonds will be issued by CHFA. Given the public/private partnership structure, a negotiated sale is planned in connection with this transaction, which is consistent with the City's debt policy. Citigroup was selected by SFHAF and Mercy Housing following a competitive process, which included a Request for Proposals. The Bond Purchase Contract details the terms, covenants, and conditions for the sale of the Bonds through selected underwriter, as well as agreements regarding expenses, closing conditions and disclosure documents.

From: [Peacock, Rebecca \(MYR\)](#)
To: [BOS Legislation, \(BOS\)](#)
Cc: [Kittler, Sophia \(MYR\)](#); [Cohen, Emily \(HOM\)](#); [Pereira Tully, Marisa \(CON\)](#); [Whitley, Gigi \(HOM\)](#)
Subject: Mayor -- [Resolution] -- [Lease Agreement and Sublease Agreement to provide Permanent Supportive Housing-- 833 Bryant, L.P. -- 833 Bryant Street -- Annual Rent Not to Exceed \$2,014,800]
Date: Tuesday, June 9, 2020 4:04:33 PM
Attachments: [Reso_833 Bryant.zip](#)

Attached for introduction to the Board of Supervisors is a **resolution approving a building Lease Agreement and Sublease Agreement each by and between the City and 833 Bryant, L.P., a California limited partnership as the developer and housing provider (“Housing Provider”) to provide permanent supportive housing units for chronically homeless households in San Francisco (as referred through the City’s Coordinated Entry System) through the lease and concurrent sublease of a building consisting of 145 units, one manager’s unit, approximately 650 square feet of commercial space, and ancillary program space located at 833 Bryant Street, for an initial 30-year term, with an extension of up to 10 years in the event of the occurrence of certain rent abatement events, subject to Housing Provider’s satisfaction in the event of the occurrence of certain conditions described below, including securing a temporary certificate of occupancy (“TCO”) from the San Francisco Department of Building Inspection, at a not-to-exceed rent of \$2,014,800 annually; authorizing the execution of a Continuing Disclosure Certificate with respect to any bonds issued by the Housing Provider; finding the proposed transaction is in conformance with the General Plan, and the eight priority policies of Planning Code Section 101.1; and adopting California Environmental Quality Act findings.**

Please let me know if you have any questions.

Rebecca Peacock ([she/they](#))
(415) 554-6982 | Rebecca.Peacock@sfgov.org
Office of Mayor London N. Breed
City & County of San Francisco

Rebecca Peacock ([they/she](#))
(415) 554-6982 | Rebecca.Peacock@sfgov.org
Office of Mayor London N. Breed
City & County of San Francisco



San Francisco Ethics Commission

25 Van Ness Avenue, Suite 220, San Francisco, CA 94102

Phone: 415.252.3100 . Fax: 415.252.3112

ethics.commission@sfgov.org . www.sfethics.org

Received On:

File #: 200615

Bid/RFP #:

Notification of Contract Approval

SFEC Form 126(f)4

(S.F. Campaign and Governmental Conduct Code § 1.126(f)4)

A Public Document

Each City elective officer who approves a contract that has a total anticipated or actual value of \$100,000 or more must file this form with the Ethics Commission within five business days of approval by: (a) the City elective officer, (b) any board on which the City elective officer serves, or (c) the board of any state agency on which an appointee of the City elective officer serves. For more information, see: <https://sfethics.org/compliance/city-officers/contract-approval-city-officers>

1. FILING INFORMATION

TYPE OF FILING	DATE OF ORIGINAL FILING (for amendment only)
Original	
AMENDMENT DESCRIPTION – Explain reason for amendment	

2. CITY ELECTIVE OFFICE OR BOARD

OFFICE OR BOARD	NAME OF CITY ELECTIVE OFFICER
Board of Supervisors	Members

3. FILER'S CONTACT

NAME OF FILER'S CONTACT	TELEPHONE NUMBER
Angela Calvillo	415-554-5184
FULL DEPARTMENT NAME	EMAIL
office of the clerk of the Board	Board.of.Supervisors@sfgov.org

4. CONTRACTING DEPARTMENT CONTACT

NAME OF DEPARTMENTAL CONTACT	DEPARTMENT CONTACT TELEPHONE NUMBER
Emily Cohen	415-307-3584
FULL DEPARTMENT NAME	DEPARTMENT CONTACT EMAIL
HOM Dept.of Homelessness & Supportive Housi	Emily.Cohen@sfgov.org

5. CONTRACTOR	
NAME OF CONTRACTOR 833 Bryant, L.P.	TELEPHONE NUMBER 415-355-7100
STREET ADDRESS (including City, State and Zip Code) 1256 Market Street, San Francisco, CA 94102	EMAIL schristen@mercyhousing.org

6. CONTRACT		
DATE CONTRACT WAS APPROVED BY THE CITY ELECTIVE OFFICER(S)	ORIGINAL BID/RFP NUMBER	FILE NUMBER (If applicable) 200615
DESCRIPTION OF AMOUNT OF CONTRACT \$2,014,800		
NATURE OF THE CONTRACT (Please describe) A building Lease Agreement and Sublease Agreement each by and between the City and 833 Bryant, L.P., a California limited partnership as the developer and housing provider to provide permanent supportive housing units for chronically homeless households in San Francisco through the lease and concurrent sublease of a building consisting of 145 units, one manager's unit, approximately 650 square feet of commercial space, and ancillary program space located at 833 Bryant Street, for an initial 30-year term, with an extension of up to 10 years in the event of the occurrence of certain rent abatement events, subject to Housing Provider's satisfaction in the event of the occurrence of certain conditions described below, including securing a temporary certificate of occupancy from the San Francisco Department of Building Inspection, at a not-to-exceed rent of \$2,014,800 annually.		

7. COMMENTS

8. CONTRACT APPROVAL	
This contract was approved by:	
<input type="checkbox"/>	THE CITY ELECTIVE OFFICER(S) IDENTIFIED ON THIS FORM
<input checked="" type="checkbox"/>	A BOARD ON WHICH THE CITY ELECTIVE OFFICER(S) SERVES Board of Supervisors
<input type="checkbox"/>	THE BOARD OF A STATE AGENCY ON WHICH AN APPOINTEE OF THE CITY ELECTIVE OFFICER(S) IDENTIFIED ON THIS FORM SITS

9. AFFILIATES AND SUBCONTRACTORS

List the names of (A) members of the contractor's board of directors; (B) the contractor's principal officers, including chief executive officer, chief financial officer, chief operating officer, or other persons with similar titles; (C) any individual or entity who has an ownership interest of 10 percent or more in the contractor; and (D) any subcontractor listed in the bid or contract.

#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
1	South of Market Mercy Hous		Shareholder
2	NA		Subcontractor
3	Gualco	Barbara	Board of Directors
4	Shoemaker	Doug	CEO
5	Rosenblum	Joe	Board of Directors
6	Clayton	Melissa	Board of Directors
7	Spears	Steve	CFO
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9. AFFILIATES AND SUBCONTRACTORS

List the names of (A) members of the contractor’s board of directors; (B) the contractor’s principal officers, including chief executive officer, chief financial officer, chief operating officer, or other persons with similar titles; (C) any individual or entity who has an ownership interest of 10 percent or more in the contractor; and (D) any subcontractor listed in the bid or contract.

#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
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27			
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9. AFFILIATES AND SUBCONTRACTORS

List the names of (A) members of the contractor’s board of directors; (B) the contractor’s principal officers, including chief executive officer, chief financial officer, chief operating officer, or other persons with similar titles; (C) any individual or entity who has an ownership interest of 10 percent or more in the contractor; and (D) any subcontractor listed in the bid or contract.

#	LAST NAME/ENTITY/SUBCONTRACTOR	FIRST NAME	TYPE
39			
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50			
<input type="checkbox"/>	Check this box if you need to include additional names. Please submit a separate form with complete information. Select "Supplemental" for filing type.		

10. VERIFICATION

I have used all reasonable diligence in preparing this statement. I have reviewed this statement and to the best of my knowledge the information I have provided here is true and complete.

I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

<p>SIGNATURE OF CITY ELECTIVE OFFICER OR BOARD SECRETARY OR CLERK</p> <p>BOS Clerk of the Board</p>	<p>DATE SIGNED</p>
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DEPARTMENT OF
HOMELESSNESS AND
SUPPORTIVE HOUSING

833 Bryant Project

Budget and Finance Committee

June 24th, 2020



833 Bryant - Legislation

2

- Resolution to:
 - Enter into a Lease Agreement for 145 units of permanent supportive housing (PSH), not to exceed \$2,014,800 a year for the term of 30 years;
 - Enter into a Sublease Agreement with Mercy Housing to operate the building with tenant placement through Coordinated Entry;
 - Authorize the Controller's Office, through the Office of Public Finance, to provide information necessary for the Bond sale and to complete relevant documents, such as the Preliminary Official Statement and Official Statement, as well as a Continuing Disclosure Certificate.



833 Bryant – Project

3



- Unique public-private partnership, leveraging philanthropy, state tax credits, and tax-exempt debt
- 145 units of newly constructed Permanent Supportive Housing (PSH) for formerly homeless individuals, plus one manager unit



833 Bryant – Permanent Supportive Housing

4

- The City's 2019 PIT Count found 8,035 people experiencing homelessness in San Francisco, 64% of whom are unsheltered.
- The PIT Count documented the aging and increasing infirmity of this population further underscoring the need for targeted supportive housing units in the City.
- District 6, where the Project is located, had the highest concentration of homelessness based on PIT count, and a need for additional permanent affordable housing.
- HSH funds approximately 8,000 units of PSH for adults, families, and transitional aged youth (TAY) for residents exiting chronic homelessness.



833 Bryant – Permanent Supportive Housing

5

- 833 Bryant's per unit lease costs are comparable to recent privately leased hotels for PSH.
 - Lease costs not to exceed \$1,150 per unit per month throughout lease term
 - Project offers permanent affordability to the City, compared to privately leased hotels that can fluctuate based on market conditions and escalate annually
 - Delivers new construction with in-unit bathrooms and kitchens, rather than older as-is buildings with shared bathrooms.
 - Leverage City's credit backing for better financing



833 Bryant – Permanent Supportive Housing

6

- 833 Bryant also comparable to MOHCD-funded PSH projects and delivers newly constructed units at a faster pace
 - Total development cost: Approx. \$385,000 per unit
 - Total development timeline: Less than 3 years
- 833 Bryant Project Benefits:
 - 30-year term without escalating lease costs
 - Option to own the land, ensures permanent affordability
 - Delivers new, high-quality housing units



833 Bryant – Project Details

7

- 145 studio units: approximately 260 square feet each with full bath and basic kitchenette
- Includes on-site manager's unit
- 24/7 clerk space for residential entry
- Other amenities (community room, laundry room, lounge, landscaped courtyard)





833 Bryant – Project Details

8

Homes for the Homeless Fund: \$50 million grant from Tipping Point Community seeded fund managed by the San Francisco Housing Accelerator Fund (HAF)

- 833 Bryant is inaugural project
- HAF providing the land (\$8.2m) and bridge funding to allow the project to begin construction; No City funding is supporting project until construction completed
- Project includes purchase option for the City to buy the land for one dollar (\$1) at the end of lease term.



833 Bryant – Project Details

9

Mercy Housing: Developer, building owner, and future operator the property

- Has ground lease with Homes for the Homeless Fund
- Recipient of tax credits and private activity bond allocation
- Through California Housing Finance Agency (CalHFA), issuing tax-exempt debt to partially fund the construction

Additional Project Details:

- City covenants to pay lease, allows for use of City's credit rating and lower borrowing costs
- Operating and services agreements will be finalized closer to occupancy in FY20-21
- No City funds will be put into this project until after construction is completed
- First lease payment will not be due until spring 2023



833 Bryant – Real Estate Agreements

10

HOMES FOR THE HOMELESS
(Land Owner)

Ground Leases the **LAND** to

MERCY HOUSING
(Developer/Constructs Improvements)

MERCY HOUSING will
(Owner of Improvements)

Lease the future **BUILDING** to

CITY
(145 Units of Permanent Supportive Housing)

CITY will concurrently
(Tenant at the Building)

Sublease **Operations** back to

MERCY HOUSING
(Operator and Service Provider)

<http://hsh.sfgov.org>



833 Bryant – Summary of Real Estate Items

11

PROPOSED LEASE AGREEMENT (Mercy Housing leases supportive housing building to HSH)

- Building is approximately 61,800 sq. ft., consisting of 145 Permanent Supportive Housing Units
- Initial Term is 30 years (plus options to conditionally extend an additional 10 years)
- Base Rent will not exceed \$2,014,00 per year (fixed throughout the term)
- Base Rent to be finalized upon issuance of bonds and calculation of debt service

PROPOSED SUBLEASE AGREEMENT (City subleases back to Mercy Housing)

- City will sublease the building back to Mercy Housing as PSH operator
- City will retain tenanted placement authority through HSH's Coordinated Entry System

FUTURE CONVEYANCE AGREEMENT (City acquires Land from Homes for the Homeless)

- City has option to later buy the Land (approx. 15,500 sq. ft. parcel) for \$1.00
- Any acquisition by City would be subject to future BOS approval



833 Bryant – Anticipated Project Budget

Sources of Funds	Amount*
Bond Financing Proceeds	\$31,537,526
Homes for the Homeless Perm Loan	1,230,313
Tax Credit Equity	22,135,100
Total	\$54,902,939
Uses of Funds	Amount
Acquisition-related Costs	1,257,929
Construction Hard Costs	38,887,217
Financing Costs, Fees, and Capitalized Interest	5,640,273
Developer Fee	1,700,000
Other Soft Costs	7,417,520
Total	\$54,902,939

- City’s lease contribution not to exceed \$2,014,800 a year through the proposed lease (not including services & operations)
- Lease payments will support future debt service on the tax-exempt bonds
- This does not include the cost of land which is being funded philanthropically

*Estimated, final amounts subject to bond market conditions at the time of the sale



833 Bryant – Anticipated Financing Timeline

13

- Week of July 6 - Post Preliminary Official Statement and Investor Presentation
- Mid July - Bond Pricing
- Week of July 27- Bond Closing