

File No. 150468

Committee Item No. 1

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee (Special) Date May 6, 2015

Board of Supervisors Meeting

Date _____

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Completed by: Linda Wong Date May 1, 2015
Completed by: Linda Wong Date _____

1 [Refunding Certificates of Participation, Series 2015-R1 - City Office Buildings - Multiple
2 Properties Project - Not to Exceed \$188,700,000]

3 **Resolution approving the form of an Official Statement in preliminary and final form;**
4 **approving the form of a Continuing Disclosure Certificate; authorizing City officials to**
5 **take necessary actions in connection with the authorization, sale execution, and**
6 **delivery of the Refunding Certificates of Participation Series 2015-R1 (City Office**
7 **Buildings - Multiple Properties Project), in an amount not to exceed \$188,700,000, as**
8 **defined herein; and ratifying previous actions taken in connection therewith, as defined**
9 **herein.**

10
11 WHEREAS, The Board of Supervisors of the City and County of San Francisco (the
12 "Board of Supervisors" or the "Board") desires to provide for the refinancing, in whole or in
13 part, of the City and County of San Francisco Certificates of Participation, Series 2007A (City
14 Office Buildings –Multiple Properties Project) (the "2007 Certificates"), the proceeds of which
15 financed various capital improvement projects of the City (collectively, the "Project"), with
16 proceeds from the sale of certificates of participation to be designated as the City and County
17 of San Francisco Refunding Certificates of Participation, Series 2015-R1 (City Office Buildings
18 – Multiple Properties Project) (the "Refunding Certificates") which have previously been
19 authorized by the Board pursuant to Resolution No. 299-13 of the Board, adopted by the
20 Board of Supervisors on July 30, 2013 and approved by the Mayor on August 7, 2013 (the
21 "Authorizing Resolution") with such designation as deemed appropriate by the Director of
22 Public Finance of the City or her designee (the "Director of Public Finance"); and

23 WHEREAS, Pursuant to the Authorizing Resolution, the Board authorized the
24 execution and delivery of not to exceed \$236,000,000 of refunding certificates of participation;
25 and

1 WHEREAS, Pursuant to the Authorizing Resolution, on May 1, 2014, the City executed
2 and delivered a total of \$47,220,000 of its Certificates of Participation, comprised of
3 \$13,615,000 of its Refunding Certificates of Participation Series 2014-R1 (San Francisco
4 Courthouse Project) and \$33,605,000 of its Refunding Certificates of Participation Series
5 2014-R2 (Juvenile Hall Project) (collectively, the "2014 Certificates"); and

6 WHEREAS, In order to take advantage of favorable interest rates, the City has
7 determined to cause Refunding Certificates to be executed and delivered in an amount that
8 does not exceed the remaining authorization of \$188,780,000 under the Authorizing
9 Resolution; and

10 WHEREAS, Pursuant to the Authorizing Resolution, (i) the interest rates on the
11 Refunding Certificates shall not exceed twelve percent (12%) per annum, (ii) the execution
12 and delivery of the Certificates shall produce at least three percent (3%) present value
13 savings, (iii) the term of the Lease Agreement shall not be extended beyond its current term
14 and (iv) the maximum Base Rental scheduled to be paid under the Lease Agreement for the
15 Refunding Certificates combined with the maximum Base Rental to be paid under the lease
16 agreements for the 2014 Certificates shall not exceed \$18,042,000 in any fiscal year; and

17 WHEREAS, The Refunding Certificates will be payable from rental payments paid by
18 the City for the use and occupancy of certain land and facilities subject to the Lease
19 Agreement with respect to the Refunding Certificates approved in the Authorizing Resolution;
20 and

21 WHEREAS, This Board has been presented with the form of certain documents
22 referred to herein relating to the Refunding Certificates, and the Board has examined and is
23 approving each document and desires to authorize and direct the execution of such
24 documents and the consummation of such refinancing; now, therefore, be it

25 RESOLVED, By the People of the City and County of San Francisco, as follows:

1 SECTION 1. Recitals. The Board hereby finds and determines that all of the recitals
2 herein are true correct.

3 SECTION 2. Defined Terms. Capitalized terms not otherwise defined in this
4 Resolution shall have the meanings ascribed thereto in the Authorizing Resolution.

5 SECTION 3. File Documents. The documents referenced herein and presented to
6 this Board are on file with the Clerk of the Board or her designee (collectively, the "Clerk") in
7 File No. 150468.

8 SECTION 4. Approval of the Official Statement in Preliminary and Final Form. The
9 form of an official statement relating to the Refunding Certificates (the "Official Statement"), as
10 presented to this Board, a copy of which is on file in preliminary form with the Clerk, is hereby
11 approved. The Controller of the City or his designee (the "Controller") is hereby authorized to
12 approve the preliminary Official Statement in substantially said form, with such changes,
13 additions, modifications (including but not limited to the inclusion of the most current City
14 financial information) or deletions as such officer may approve upon consultation with the City
15 Attorney, and to deem the preliminary Official Statement final for purposes of the Rule 15c2-
16 12 of the Securities and Exchange Act of 1934, as amended, to execute a certificate to that
17 effect, and to cause the preliminary Official Statement to be delivered, in printed or electronic
18 form, to potential purchasers of the Refunding Certificates, such approval to be conclusively
19 evidenced by the delivery of said deemed-final certificate. The Controller is hereby further
20 authorized and directed to sign and deliver the Official Statement in final form to purchasers of
21 the Refunding Certificates.

22 SECTION 5. Approval of the Continuing Disclosure Certificate. The form of a
23 Continuing Disclosure Certificate of the City relating to the Refunding Certificates, as
24 presented to the Board, a copy of which is on file with the Clerk, is hereby approved. The
25 Controller is hereby authorized to execute the Continuing Disclosure Certificate, with such

1 changes, additions, modifications or deletions as the Controller may approve upon
2 consultation with the City Attorney; such approval to be conclusively evidenced by the
3 execution and delivery of the Continuing Disclosure Certificate.

4 SECTION 6. General Authority. The Mayor of the City or his designee (the "Mayor"),
5 the City Attorney, the Controller, the City Administrator, the Director of Public Finance, the
6 Clerk and other officers of the City and their duly authorized deputies and agents are hereby
7 authorized and directed, jointly and severally, to take such actions and to execute and deliver
8 such certificates, agreements, requests or other documents as they may deem necessary or
9 desirable to accomplish the proposed financing through the execution and delivery of the
10 Refunding Certificates, to enter into the documents authorized hereby and by the Authorizing
11 Resolution, to encumber such properties (as identified in the Authorizing Resolution) or to
12 cause the release thereof as necessary or advisable to facilitate the execution and delivery of
13 the Refunding Certificates, to obtain reserve surety policies, bond insurance or other credit
14 enhancements with respect to the refinancing of the 2007 Certificates, to obtain title
15 insurance, clear any encumbrances to title, execute any conveyances and reconveyances,
16 survey property and carry out other title work and otherwise carry out the purposes of this
17 Resolution and the Authorizing Resolution.

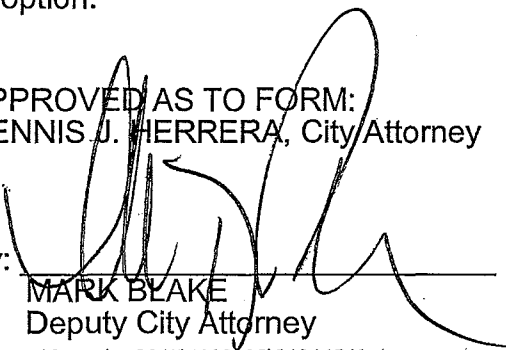
18 SECTION 7. Modifications, Changes and Additions. The Mayor, or the Controller and
19 the Director of Public Finance each are hereby authorized to approve and make such
20 modifications, changes or additions to the documents authorized hereby, upon consultation
21 with the City Attorney, as may be necessary or desirable in the interests of the City, and which
22 changes do not materially increase the obligations of the City under said documents as
23 presented to this Board. The Mayor's, Controller's or Director of Public Finance's approval of
24 such modifications, changes or additions shall be conclusively evidenced by the execution
25 and delivery by the Mayor of said documents and, as applicable, by the execution and

1 delivery by the Controller of the Purchase Contract for the Refunding Certificates; provided
2 the Director of the Office of Public Finance shall cause such amended or modified documents
3 (showing marked changes, if any) to be filed with the Clerk of the Board within 30 days of the
4 closing of transaction authorized hereby.

5 SECTION 8. Ratification of Prior Actions. All prior actions authorized and directed by
6 this Resolution and the Authorizing Resolution with respect to the Refunding Certificates
7 consistent with the terms of this Resolution and the documents submitted and heretofore
8 taken are hereby ratified, approved and confirmed by this Board.

9 SECTION 9. Effective Date. This resolution should take effect immediately upon
10 adoption.

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

13
14 By: 
15 MARK BLAKE
16 Deputy City Attorney

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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER


Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

Nadia Sesay
Director
Office of Public Finance

MEMORANDUM

TO: Honorable Members, Board of Supervisors

FROM: Nadia Sesay, Director of Public Finance 

SUBJECT: Resolution Approving the Form and Authorizing the Distribution of the Official Statement Among Other Matters in Connection with the Upcoming Sale of the City and County of San Francisco Refunding Certificates of Participation (City Office Buildings – Multiple Properties Project), Series 2015-R1

DATE: May 5, 2015

This memorandum, together with the accompanying attachment, is being submitted to your office in connection with the execution and delivery of the above-captioned obligations to ensure that the City complies with its obligations under federal securities laws (as further discussed).

Federal securities laws impose on the City the obligation to ensure that its offering documents are accurate and complete in all material respects. This obligation applies to the individual members of the governing bodies approving the disclosure documents as well as City staff charged with preparing the documents.

We are attaching the revised Official Statement for your approval prior to its publication. We would like to respectfully request consideration of the resolution at the May 13, 2015 Budget and Finance Committee meeting.

Background

In 2013, the Board approved Resolution No. 299-13 for the issuance of one or more series of City and County of San Francisco Refunding Certificates of Participation [Series 2003 (Juvenile Hall Replacement Project), Series 2004-R1 (San Francisco Courthouse Project), and Series 2007A (City Office Buildings – Multiple Properties Project)], in an amount not to exceed \$236,000,000. In April 2014, the City successfully refunded Certificates of Participation Series 2003 and Series 2004-R1 (“2014 Refunding”). Currently, the Certificates of Participation (City Office Buildings – Multiple Properties Project) Series 2007A are currently refundable, and market conditions provide for savings with the sale of City and

County of San Francisco Refunding Certificates of Participation (City Office Buildings – Multiple Properties Project), Series 2015-R1 (the “Refunding Certificates”). The City-owned office building located at 1 South Van Ness Avenue (the “Leased Asset”) may serve as the leased asset for the transaction. The Resolution imposes, among others, the following terms and conditions:

- i) the refunding bonds must achieve 3% net present value savings;
- ii) the true interest cost of the refunding bonds must not exceed 12%;
- iii) the term of any Lease Agreement shall not be extended beyond its current term.

Current Plan of Finance

As of April 2015, the City anticipates issuing \$140,675,000 in Refunding Certificates that together with other monies would refund \$139,704,923 of outstanding 2007A COPs.

Based on current market conditions, the transaction is estimated to result in aggregate savings to the City of about \$8,435,619 on a gross basis. On a net present value basis, OPF estimates the debt service savings to be approximately \$7,083,952 or 5.04% of the outstanding par amount of the 2007A COPs to be refunded.

OPF will continue to monitor market conditions and have reserved the right to amend the par amount of the Refunding Certificates up to the day before the sale, so long as the net present value savings achieved by the refunding is at least 3% of refunded par.

Table 1 below outlines anticipated sources and uses for the Refunding Certificates.

Table 1: Anticipated Sources and Uses from the Refunding Certificates

<u>Estimated Sources</u>	<u>Amount</u>
Par Amount	\$ 140,610,463
Other Sources of Funds	\$ 8,917,559
Prior Reserve Fund	8,917,559
Total Estimated Sources	\$ 149,528,022
<u>Estimated Uses</u>	
Refunding Fund Deposit	\$ 139,704,923
Other Fund Deposits	\$ 8,586,650
Debt Service Reserve Fund	8,586,650
Other Costs of Issuance	\$ 1,236,449
Cost of Issuance	607,150
Underwriter's Discount	629,299
Total Estimated Uses	\$ 149,528,022

In addition, approximately \$1,310,525 will be allotted for costs associated with the issuance of the Refunding Certificates. This includes amounts for legal fees, financial advisory fees, rating agency fees, printing cost, bond insurance, and other issuance costs.

Based upon a conservative estimate of 3.83% true interest cost as defined in the proposed Resolution, OPF estimates that average fiscal year debt service on the Refunding Certificates is approximately \$8,590.696. The anticipated total par value of \$140,675,000 is estimated to result in approximately \$80,535,424 in interest payments over the life of the Refunding Certificates. The total principal and interest payment over the approximate 25 year life of the Refunding Certificates is approximately \$221,210,424.

Official Statement

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

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

The Board of Supervisors and the Mayor, in adopting and approving the proposed Resolution, approve and authorize the use and distribution of the Official Statement by the co-financial advisors with respect to the Refunding Bonds. In accordance with rule 15c2-12 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 Official Statement is attached for your approval prior to its publication.

Additional Information

The proposed Resolution will be introduced at the Board of Supervisors meeting on Tuesday, May 5, 2015. The related forms of Official Statement, including the Appendix A, will also be submitted.

Appendix A

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

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

The Official Notice of Sale for the Certificates announces the date and time of the competitive bond sale, including the terms relating to the Certificates; the terms of sale, form of bids, and delivery of bids; and closing procedures and documents.

The Official Bid Form attached to the Official Notice of Sale is the form of the official bid for the purchase of the Certificates. Pursuant to the Resolution, the Controller is authorized to award the Certificates to the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

Continuing Disclosure Certificate: The City covenants to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events.

The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of enumerated events. These covenants have been made in order to assist initial purchasers of the Certificates in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

Financing Timeline

Schedule milestones in connection with the financing may be summarized as follows:

<u>Milestone</u>	<u>Date*</u>
Introduction of authorizing resolution to the Board of Supervisors	May 5, 2015
Consideration by the Board of Supervisors Budget & Finance Committee	May 13, 2015
Issuance and delivery of Refunding Certificates	June 2015

*Please note that dates are estimated unless otherwise noted.

Your consideration of this matter is greatly appreciated. Please contact me at 554-5956 if you have any questions.

cc: Angela Calvillo, Clerk of the Board of Supervisors
Nicole Elliot, Mayor's Office
Kate Howard, Mayor's Budget Director
Harvey Rose, Budget Analyst
Ben Rosenfield, Controller
Mark Blake, Deputy City Attorney

OFFICIAL NOTICE OF SALE

and

OFFICIAL BID FORM

**[\$[PAR AMOUNT]*
CITY AND COUNTY OF SAN FRANCISCO
REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2015-R1
(CITY OFFICE BUILDINGS - MULTIPLE PROPERTIES PROJECT)**

**evidencing proportionate interests of the Owners thereof in a certain Lease Agreement,
including the right to receive Base Rental payments to be made by the
CITY AND COUNTY OF SAN FRANCISCO**

The City and County of San Francisco will receive bids for the above-referenced Certificates by either the electronic bidding system specified on this Official Notice of Sale or via written sealed bids, on the date and up to the time specified below:

SALE DATE: Tuesday, June 9, 2015
(Subject to postponement or cancellation in accordance
with this Official Notice of Sale)

TIME: 8:30 a.m. (California time)

PLACE: 1 Dr. Carlton B. Goodlett Place, Room 336
San Francisco, California 94102

Telephone, telefax, or telegraph bids will not be accepted. If the Certificates are awarded by the City, it is anticipated that delivery will be made on or about Wednesday, July 1, 2015.*

* Subject to adjustment in accordance with this Official Notice of Sale.

OFFICIAL NOTICE OF SALE

**§[PAR AMOUNT]*
CITY AND COUNTY OF SAN FRANCISCO
REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2015-R1
(CITY OFFICE BUILDINGS - MULTIPLE PROPERTIES PROJECT)**

**evidencing proportionate interests of the Owners thereof in a certain Lease Agreement,
including the right to receive Base Rental payments to be made by the
CITY AND COUNTY OF SAN FRANCISCO**

NOTICE IS HEREBY GIVEN that either electronic or written sealed all-or-nothing bids will be received by the City and County of San Francisco (the "City") for the purchase of §[PAR AMOUNT]* City and County of San Francisco Refunding Certificates of Participation, Series 2015-R1 (the "Certificates").

Electronic bids must be submitted solely through the Ipreo LLC's BiDCOMP™/PARITY® System ("Parity"), as the only approved electronic bidding service for the Certificates, and written sealed bids must be delivered at the Office of Public Finance, City Hall, Room 336, 1 Dr. Carlton B. Goodlett Place, San Francisco, California 94102, on the date and up to the time specified below:

Tuesday, June 9, 2015, until 8:30 a.m. California Time

(Subject to postponement or cancellation in accordance with this Official Notice of Sale)

Bidding procedures and sale terms are as described in this Official Notice of Sale. No telephone, telefax, or telegraph bids will be accepted or considered. The Certificates are described in the City's Preliminary Official Statement for the Certificates dated [June 2, 2015] (the "Preliminary Official Statement").

Each bidder choosing to submit a bid via Parity shall be solely responsible for registering to bid via Parity and for all costs, fees or other expenses incurred by the bidder in connection with the bid and/or the use of Parity. The use of Parity shall be at the bidder's risk. Each bidder expressly assumes the risk for any error contained in any bid submitted through Parity, or for failure of any bid to be transmitted or received including without limitation the risk of any incomplete or untimely bid submitted by such bidder by reason of failed or garbled transmissions, mechanical failure, engaged telecommunications lines, or any other cause. None of the City, the City Attorney, or any City consultant or legal representative of the City, assumes any responsibility for any such error or failed or garbled transmission of any bid. The official time of receipt of bids will be determined by the City's Director of Public Finance, and the City will not be required to accept the time kept by Parity as the official time. Additional terms and conditions regarding the use of Parity are set forth below in "TERMS OF SALE—Form of Bids; Delivery of Bids."

***Postponement or Cancellation of Sale; Notice.* THE RECEIPT OF BIDS ON JUNE 9, 2015 MAY BE POSTPONED OR CANCELLED BY THE CITY AT OR PRIOR TO THE TIME BIDS ARE TO BE RECEIVED. NOTICE OF SUCH POSTPONEMENT OR CANCELLATION WILL BE COMMUNICATED THROUGH ANY OF THE BOND BUYER WIRE, THOMSON FINANCIAL OR BLOOMBERG BUSINESS NEWS (EACH, A "NEWS SERVICE") AND/OR PARITY AS SOON AS PRACTICABLE FOLLOWING SUCH POSTPONEMENT OR CANCELLATION.** Notice of the new date and time for receipt of bids shall be given through a News Service and/or Parity as soon as practicable following a postponement and no later than 1:00

* Subject to adjustment in accordance with this Official Notice of Sale.

p.m., California time, on the business day preceding the new date for receiving bids. If the sale is canceled, all written sealed bids will be returned unopened. Failure of any potential bidder to receive notice of postponement or cancellation will not affect the sufficiency of any such notice. In the event of a postponement of the sale only, any subsequent bid submitted by a bidder will supersede any prior bid made.

As an accommodation to bidders, notice of such postponement and of the new sale date and time will be given to any bidder requesting such notice from: Public Financial Management, Inc., 50 California Street, Suite 2300, San Francisco, California 94111; telephone: (415) 982-5544 (office), Attention: Sarah Hollenbeck (email: hollenbecks@pfm.com); and Ross Financial, 1736 Stockton Street, Suite 1, San Francisco, California 94133; telephone: (415) 912-5612 (office), Attention: Peter J. Ross (email: rossfinancial@smkc.com) (the "Co-Financial Advisors"); provided, however, that failure of any bidder to receive such supplemental notice shall not affect the sufficiency of any such notice or the legality of the sale.

Modification or Amendment; Notice. Other than with respect to postponement or cancellation of the sale as described above, the City reserves the right to modify or amend this Official Notice of Sale in any respect. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice or the legality of the sale. See "TERMS OF SALE—Right to Modify or Amend."

Notice of Sale; Posting; Priority. This Official Notice of Sale will be submitted for posting to the Parity bid delivery system (as described in "TERMS OF SALE – Form of Bids; Delivery of Bids" below). In the event the summary of the terms of sale of the Certificates posted on Parity conflicts with this Official Notice of Sale, or any amendment hereto, in any respect, the terms of this Official Notice of Sale and any amendment hereto shall control.

TERMS RELATING TO THE CERTIFICATES

THE TERMS, AUTHORITY FOR EXECUTION AND DELIVERY, PURPOSES, REPAYMENT, SECURITY, FORM OF LEGAL OPINIONS OF CO-SPECIAL COUNSEL AND OTHER INFORMATION REGARDING THE CERTIFICATES ARE PRESENTED IN THE PRELIMINARY OFFICIAL STATEMENT, WHICH EACH BIDDER IS DEEMED TO HAVE OBTAINED AND REVIEWED PRIOR TO BIDDING FOR THE CERTIFICATES. THIS OFFICIAL NOTICE OF SALE GOVERNS ONLY THE TERMS OF SALE, BIDDING, AWARD AND CLOSING PROCEDURES FOR THE CERTIFICATES. THE DESCRIPTION OF THE CERTIFICATES CONTAINED IN THIS OFFICIAL NOTICE OF SALE IS QUALIFIED IN ALL RESPECTS BY THE DESCRIPTION OF THE CERTIFICATES CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT.

Subject to the foregoing, the Certificates are generally described as follows:

Issue. The \$[PAR AMOUNT]* aggregate principal amount of the Certificates will be delivered as fully registered certificates without coupons in book-entry form in denominations of \$5,000 or any integral multiple thereof, all dated the date of execution and delivery, which is expected to be July 1, 2015*. See "CLOSING PROCEDURES AND DOCUMENTS—Delivery and Payment." If the sale is postponed, notice of the new date of the sale will also set forth the new date of delivery of the Certificates.

* Preliminary, subject to change.

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

Interest Rates. Interest evidenced and represented by the Certificates will be payable semiannually on [March 1 and September 1] of each year (each, an “Interest Payment Date”), commencing on [September 1, 2015]. Interest on a Certificate will be payable continuing to and including the Certificate Payment Date (defined below) or on prepayment prior thereto. Interest with respect to the Certificates will be calculated on the basis of a 30-day month, 360-day year from the date of the Certificates, as further described in the Preliminary Official Statement.

Bidders must specify the rate or rates of interest which each Certificate will bear. Bidders may specify any number of separate rates, and the same rate or rates may be repeated as often as desired, provided that:

- (i) The maximum interest rate bid shall not exceed [six percent (6%)] per annum;
- (ii) Each interest rate specified in any bid must be a multiple of one-eighth or one-twentieth of one percent (1/8 or 1/20 of 1%) per annum and a zero rate of interest cannot be named;
- (iii) Each Certificate shall bear interest from its date to its stated payment date at the single rate of interest specified in the bid;
- (iv) A single interest payment shall be due on each Certificate on each Interest Payment Date, and no supplemental payments will be permitted; and
- (v) All Certificate payments due at any one time shall bear the same rate of interest.

Principal Payments. The Certificates shall be serial and/or term Certificates, as specified by each bidder and principal shall be payable on September 1 of each year, commencing on September 1, 2015 (each, a “Certificate Payment Date”), calculated to produce approximately level annual debt service on a fiscal year basis. No term Certificate shall require sinking fund payments prior to September 1, 20____. The final Certificate Payment Date shall be no later than September 1, 20____. No serial Certificates may have a Certificate Payment Date following the commencement of the first mandatory sinking fund payment. For any term certificates specified, the principal amount for a given year may be allocated only to a single term certificate and must be part of an uninterrupted annual sequence from the first sinking account installment prepayment to the term certificate final Certificate Payment Date.

The principal amount of the serial payments or mandatory sinking fund payments for the Certificates is shown below for information purposes only. Subject to adjustment as herein provided, the principal amount of the serial payments or sinking account installment prepayment for the Certificates in each year is as follows:

Certificate Payment Date (September 1)*	Certificate Principal Amount*
2015	\$ _____
2016	
2017	
2018	
2019	
2020	
2021	
2022	
2023	
2024	
2025	
2026	
2027	
2028	
2029	
2030	
2031	
2032	
2033	
2034	
2035	
2036	
2037	
2038	
2039	
2040	
Total	\$[PAR AMOUNT]

*Subject to adjustment in accordance with this Official Notice of Sale.

Adjustment of Principal Payments. The principal amounts set forth in this Official Notice of Sale reflect certain estimates of the City with respect to the likely interest rates of the winning bid. **Potential bidders will be notified via a News Service and/or Parity prior to the sale of any change to the principal payment schedule for the Certificates to be utilized for the bidding process.** The City reserves the right to change the Certificate Payment Amounts set forth above after the determination of the apparent winning bidder (see "TERMS OF SALE—Process of Award"), by increasing or decreasing the aggregate principal amount of Certificates and/or by adjusting one or more principal payments of the Certificates in increments of \$5,000, as determined in the sole discretion of the City. Any such adjustment of principal payments with respect to the Certificates shall be based on the schedule of principal payments provided by the City to be used as the basis of bids for the Certificates. Any such adjustment will not change the average per Certificate dollar amount of the Purchaser's discount. See also "TERMS OF SALE—Right to Modify or Amend," regarding the City's right to modify or amend this Official Notice of Sale in any respect including, without limitation, increasing or decreasing the principal amount of any serial maturity for the Certificates and adding or

deleting serial or term maturity payment dates, along with corresponding principal amounts with respect thereto.

IN THE EVENT OF ANY SUCH ADJUSTMENT, NO REBIDDING OR RECALCULATION OF THE BIDS SUBMITTED WILL BE REQUIRED OR PERMITTED AND NO SUCCESSFUL BID MAY BE WITHDRAWN. A PURCHASER MAY NOT CHANGE THE INTEREST RATES IN ITS BID OR THE REOFFERING PRICES IN ITS REOFFERING PRICE CERTIFICATE AS A RESULT OF ANY CHANGES MADE TO THE PRINCIPAL PAYMENTS OF THE SERIES OF THE CERTIFICATES IN ACCORDANCE WITH THIS OFFICIAL NOTICE OF SALE.

Optional Prepayment. The Certificates with a Certificate Payment Date on or after September 1, 20____, are subject to optional prepayment prior to their respective Certificate Payment Dates in whole or in part (and if in part, in such order of maturity as the City specifies and within a maturity by lot or by such other method as the Trustee determines to be fair and reasonable and in Authorized Denominations) on any date on or after September 1, 20____, at the option of the City, if the City exercises its option under the Lease Agreement (as defined in the Preliminary Official Statement) to prepay the principal component of the Base Rental payments at a prepayment price equal to sum of the principal component of the Certificates called for prepayment plus the interest component of such Certificates to the prepayment date, without premium.

Sinking Fund Prepayment. The Certificates are further subject to prepayment prior to their respective stated Certificate Payment Dates on September 1 of each year for which a sinking account installment prepayment as specified by the bidder, by lot in the principal amount to be prepaid and accrued interest thereon to the prepayment date, without premium, but only in amounts equal to, and in accordance with, the scheduled prepaid components of the Base Rental represented by the Certificates to be prepaid.

Special Mandatory Prepayment. The Certificates are subject to mandatory prepayment prior to their respective Certificate Payment Dates in whole or in part on any date, at the Prepayment Price equal to the principal amount thereof (plus accrued but unpaid interest to the prepayment date), without premium, from amounts received following an event of damage, destruction or condemnation of the Leased Property (as defined in the Preliminary Official Statement) or any portion thereof or loss of the use or possession of the Leased Property or any portion thereof due to a title defect.

Municipal Bond Insurance at Bidder's Option. The City has not taken any steps to qualify the Certificates for municipal bond insurance and makes no representation as to whether the Certificates will qualify for municipal bond insurance. Payment of any insurance premium and satisfaction of any conditions to the issuance of a municipal bond insurance policy and payment of any additional rating agency fees shall be the sole responsibility of the bidder. **In particular, the City will not amend or supplement the documents authorizing the execution and delivery of the Certificates in any way, nor will either agree to enter into any additional agreement with respect to the provision of any such policy. FAILURE OF THE INSURANCE PROVIDER TO ISSUE ITS POLICY SHALL NOT CONSTITUTE CAUSE FOR A FAILURE OR REFUSAL BY THE PURCHASER TO ACCEPT DELIVERY OF OR PAY FOR THE CERTIFICATES.**

If the Purchaser exercises this option, the Purchaser must provide the City with the municipal bond insurance commitment, including the amount of the policy premium, as well as information with respect to the municipal bond insurance policy and the insurance provider for inclusion in the final Official Statement within two (2) business days following the award of the Certificates by the City. The City will require a certificate from the insurance provider substantially in the form attached hereto as Exhibit A on or prior to the date of delivery of the Certificates, as well as an opinion of counsel to the insurance provider regarding the enforceability of the municipal bond insurance policy and a tax certificate, each in form reasonably satisfactory to the City and Sidley Austin LLP and Garcia,

Hernández, Sawhney & Bermudez, LLP, Co-Special Counsel (collectively, "Co-Special Counsel"). **THE PURCHASER SHALL PAY ALL COSTS ASSOCIATED WITH ANY DECISION OF THE CITY TO AMEND, SUPPLEMENT, REPRINT AND/OR "STICKER" THE FINAL OFFICIAL STATEMENT AS A RESULT OF A FAILURE BY THE PURCHASER TO TIMELY PROVIDE INFORMATION FOR THE FINAL OFFICIAL STATEMENT OR ANY SUBSEQUENT EVENT WHICH RESULTS IN THE MUNICIPAL BOND INSURANCE DISCLOSURE PRINTED IN THE FINAL OFFICIAL STATEMENT BEING INACCURATE OR OTHERWISE INADEQUATE.**

Tax Matters. Upon delivery of the Certificates, Co-Special Counsel will deliver their separate legal opinions that, under existing law and assuming compliance with certain covenants in the documents pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest with respect to the Certificates is not includable in the gross income of the owners of the Certificates for federal income tax purposes. In the further opinion of Co-Special Counsel, interest with respect to the Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest with respect to the Certificates, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Co-Special Counsel, interest with respect to the Certificates is exempt from personal income taxes imposed by the State of California. Co-Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest with respect to the Certificates. See "TAX MATTERS" in the Preliminary Official Statement.

Legal Opinion. A complete copy of the proposed form of the separate legal opinions of Co-Special Counsel is set forth in Appendix F to the Preliminary Official Statement. The separate legal opinions of Co-Special Counsel with respect to the Certificates, approving the validity of the Certificates, will be furnished, without cost, to the Purchaser upon delivery of the Certificates.

TERMS OF SALE

Form of Bids; Delivery of Bids. Each bid for Certificates must be (1) for not less than all of the Certificates hereby offered for sale, (2) for not less than 99% of the par value of the Certificates, (3) unconditional and (4) submitted either (a) via Parity or (b) by written sealed bids on the Official Bid Form attached hereto as Exhibit B (the "Official Bid Form") and signed by a duly authorized signatory of the bidder. No telephone, telefax or telegraph bids will be accepted or considered.

If a bidder chooses to submit its bids via Parity, such bidder must follow the instructions under "--Use of Parity." If a bidder chooses to submit its bid as a written sealed bid, written sealed bids must be enclosed in a sealed envelope and delivered to the City c/o Angela Whittaker of the Office of Public Finance of the City and County of San Francisco at the address set forth on the cover of this Official Notice of Sale and clearly marked "Bid for the City and County of San Francisco Refunding Certificates of Participation, Series 2015-R1 (City Office Buildings - Multiple Properties Project)" or words of similar import.

To the extent any instructions or directions set forth in Parity conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about Parity, potential bidders may contact (i) either of the Co-Financial Advisors (Public Financial Management, Inc., 50 California Street, Suite 2300, San Francisco, California 94111; telephone: (415) 982-5544 (office), Attention: Sarah Hollenbeck (email: hollenbecks@pfm.com); or Ross Financial, 1736 Stockton Street, Suite 1, San Francisco, California 94133; telephone: (415) 912-5612 (office), Attention: Peter J. Ross (email: rossfinancial@smkc.com)); or (ii) Parity, phone: (212) 849-5021. Bids may include a premium on the par value of the Certificates. No bid submitted to the City is subject to withdrawal or modification by the bidder. **All bids will be deemed to incorporate and be subject to all of the**

terms of this Official Notice of Sale. The City retains absolute discretion to determine whether any bid, whether electronic or written sealed, is timely and complete and conforms to this Official Notice of Sale. The City takes no responsibility for informing any bidder prior to the time for receiving bids that its bid is incomplete or nonconforming with this Official Notice of Sale or has not been received.

Use of Parity: The use of Parity shall be at the bidder's option and risk and each bidder thereby agrees to the following terms and conditions: (1) if any provision in this Official Notice of Sale with respect to the Certificates conflicts with information or terms provided or required by Parity, this Official Notice of Sale, including any amendments or modifications issued through a News Service and/or Parity, will control; (2) each bidder is solely responsible for making necessary arrangements to access Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale; (3) the City will not have any duty or obligation to provide or assure access to Parity to any bidder, nor will the City be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of Parity or any incomplete, inaccurate or untimely bid; (4) the City is permitting the use of Parity as a communication mechanism, and not as an agent of the City, to facilitate the submission of electronic bids for the Certificates; Parity is acting as an independent contractor, and is not acting for or on behalf of the City; (5) the City is not responsible for ensuring or verifying bidder compliance with any procedures established by Parity; (6) the electronic transmission of a bid through Parity (including information regarding the purchase price for the Certificates or the interest rates for any maturity of the Certificates) is the bidder's binding offer to purchase the Certificates; and (7) information provided by Parity to bidders will form no part of any bid or of any contract between the Purchaser and the City unless that information is included in this Official Notice of Sale.

Process of Award. The City will take final action awarding the Certificates or rejecting all bids not later than thirty (30) hours after the time for receipt of bids, unless such time period is waived by the Purchaser.

The following six (6) steps constitute the City's process for a final award of the Certificates:

- (1) The Co-Financial Advisors, on behalf of the City, will give a verbal notice of award to the apparent winning bidder (the "Apparent Winning Bidder") to be determined as described below under "–Basis of Award;"
- (2) The Apparent Winning Bidder shall provide within the time specified by the City the initial reoffering prices and the Reoffering Price Certificate described under "–Public Offering; Initial Offering Prices," and "CLOSING PROCEDURES AND DOCUMENTS–Reoffering Price Certificate;"
- (3) If the Apparent Winning Bidder submitted its bid via Parity, such Apparent Winning Bidder shall, promptly after verbal award, but no later than one hour after the City award, fax or email to the City (in c/o its Co-Financial Advisors and to the City's Director of Public Finance at the fax and/or email addresses provided for such purpose) the executed and completed Official Bid Form (attached hereto as Exhibit B), executed on the Bidder's behalf by duly authorized signatory;
- (4) The Apparent Winning Bidder shall provide the Good Faith Deposit by wire transfer, as described under "–Good Faith Deposit;"
- (5) The Co-Financial Advisors will fax or email to the Apparent Winning Bidder confirmation of the final principal amortization schedule and purchase price for the Certificates, after adjustments, if any, are made, as described under "TERMS RELATING TO THE CERTIFICATES–Adjustment of Principal Payments;" and
- (6) The City will fax or email to the Apparent Winning Bidder its written final award.

Upon completion of all six (6) steps described above, the Apparent Winning Bidder will be deemed the Purchaser of the Certificates (the "Purchaser") and will be bound by the terms of the contract to purchase the Certificates, which contract shall consist of: (a) this Official Notice of Sale; (b) the information that is transmitted electronically by the bidder through Parity or provided in the bidder's written sealed bid, as applicable; (c) any adjustments to the final principal amortization schedule and purchase price made as described under "TERMS RELATED TO THE CERTIFICATES-Adjustment of Principal Payment;" and (d) the Official Bid Form executed and delivered, provided, however, in case of any inconsistencies between the information in the bid as originally transmitted by the Apparent Winning Bidder (either electronically or in the form of a written sealed bid) and the Official Bid Form subsequently submitted by such Apparent Winning Bidder, the data submitted electronically through Parity (or the written sealed bid, as applicable) shall control.

Basis of Award. Unless all bids are rejected, the Certificates will be awarded to the responsible bidder whose bid represents the lowest true interest cost ("TIC") to the City, taking into account the interest rate or rates and the discount or premium, if any, specified in the bid. The TIC will be that nominal annual interest rate which, when compounded semiannually and used to discount to the dated date of the Certificates all payments of principal and interest represented by the Certificates, results in an amount equal to the purchase price of such Certificates to be received by the City. In the event that two or more bidders offer bids for the Certificates at the same lowest TIC, the City will determine by lot which bidder will be awarded such Certificates. Bid evaluations or rankings made by Parity are not binding on the City.

Estimate of True Interest Cost. Each bidder is requested, but not required, to state in its bid the amount of interest payable on the Certificates during the life of the issue and the percentage TIC to the City (determined as described above under "-Basis of Award"), which estimate will be considered as informative only and not binding on either the bidder or the City.

Multiple Bids. In the event multiple bids are received from a single bidder by any means or combination thereof, the City will have the right to accept the bid representing the lowest TIC to the City, and each bidder agrees by submitting any bid to be bound by the bid representing the lowest TIC to the City.

Good Faith Deposit. To secure the City from any loss resulting from the failure of the Apparent Winning Bidder to comply with the terms of its bid, a good faith deposit in the amount of \$ _____ for the Certificates (the "Good Faith Deposit") must be provided by the Apparent Winning Bidder.

Upon the determination by the City of the Apparent Winning Bidder of Certificates (as described above under "-Process of Award"), the Co-Financial Advisors will request the Apparent Winning Bidder to (i) immediately wire the Good Faith Deposit, as described below, and (ii) provide, within ninety (90) minutes of such request by the Co-Financial Advisors, the Federal wire reference number of such Good Faith Deposit to the Co-Financial Advisors: Public Financial Management, Inc., Attention: Sarah Hollenbeck (email: hollenbecks@pfm.com) and Ross Financial, Attention: Peter J. Ross (email: rossfinancial@smkc.com) and to Angela Whittaker, telephone: (415) 554-6643 or fax: (415) 554-4864. The wire transfer is to be made to U.S. Bank, ABA: #091000022, BNF: U.S. Bank National Association, Acct: # _____, Ref: CCSF 2015-R1; Attention: Andrew Fung.

In the event that the Apparent Winning Bidder does not wire the Good Faith Deposit as required, or does not provide the Federal wire reference number confirming the wire-transfer of such deposit to the Co-Financial Advisors and Angela Whittaker within the time specified above, the City may reject the bid of the Apparent Winning Bidder and may award the Certificates to a responsible bidder that submitted a confirming bid that represents the next lowest TIC to the City.

No interest will be paid upon a Good Faith Deposit made by any bidder. The Good Faith Deposit of the Purchaser will immediately become the property of the City. The Good Faith Deposit will be held and invested for the exclusive benefit of the City. The Good Faith Deposit, without interest thereon,

will be credited against the purchase price of the Certificates purchased by the Purchaser at the time of delivery thereof.

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

Public Offering; Initial Offering Prices. The Purchaser of the Certificates must actually reoffer all Certificates to the general public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers). As soon as is practicable, but not later than one hour after the award of the Certificates, the Purchaser shall provide to the City the initial offering prices at which it has offered the Certificates of each maturity to the general public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers), in a bona fide public offering. The Purchaser will be required to provide a certificate as to the reoffering prices and actions. The City, Co-Special Counsel and the Co-Financial Advisors will rely on the Purchaser's certification of the initial public offering prices in determining the arbitrage yield on the Certificates. See "CLOSING PROCEDURES AND DOCUMENTS—Reoffering Price Certificate."

The price and yield will, at the discretion of the City, be reflected in the Official Statement and the Purchaser will be required to certify as to the accuracy of such information. See "CLOSING PROCEDURES AND DOCUMENTS—Purchaser Certificate Concerning Official Statement."

Right of Rejection and Waiver of Irregularity. The City reserves the right, in its sole and absolute discretion, to reject any and all bids, for any reason, and to waive any irregularity or informality in any bid.

Right to Modify or Amend. The City reserves the right to modify or amend this Official Notice of Sale in any respect; *provided*, that any such modification or amendment will be communicated to potential bidders through a News Service and/or Parity not later than 1:00 p.m. (California time) on the business day preceding the date for receiving bids. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice or the legality of the sale.

CLOSING PROCEDURES AND DOCUMENTS

Delivery and Payment. Delivery of the Certificates, in the form of one certificate for each maturity, will be made to the Purchaser through the facilities of DTC in New York, New York, or through the facilities of the Trustee via FAST transfer, and is presently expected to take place on July 1, 2015*. Payment for the Certificates (including any premium) must be made at the time of delivery by wire transfer in funds immediately available in San Francisco. Any expense for making payment in immediately available funds shall be borne by the Purchaser. The costs of preparing the Certificates will be borne by the City. The City will deliver to the Purchaser, dated as of the delivery date, the separate legal opinions of Co-Special Counsel in the form set forth in "APPENDIX F – PROPOSED FORM OF CO-SPECIAL COUNSEL OPINIONS" to the Preliminary Official Statement, subject to changes, as set forth in "TAX MATTERS" in the Preliminary Official Statement.

Qualification for Sale; Blue Sky. The City will furnish such information and take such action not inconsistent with law as the Purchaser may request and the City may deem necessary or appropriate to

* Preliminary, subject to change.

qualify the Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Purchaser; *provided, however*, that the City will not execute a general or special consent to service of process or qualify to do business in connection with such qualification or determination in any jurisdiction. By submitting its bid for the Certificates, the Purchaser assumes all responsibility for qualifying the Certificates for offer and sale under the Blue Sky or other securities laws and regulations of the states and jurisdictions in which the Purchaser offers or sells the Certificates, including the payment of fees for such qualification. **The Purchaser will not sell, offer to sell or solicit any offer to buy, Certificates in any jurisdiction where it is unlawful for such Purchaser to make such sale, offer or solicitation, and the Purchaser shall comply with the Blue Sky and other securities laws and regulations of the states and jurisdictions in which the Purchaser sells Certificates.**

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

No Litigation. The City Attorney will deliver a certificate stating that no litigation is pending (with service of process having been accomplished), or, to the knowledge of City Attorney, threatened, concerning the validity of the Trust Agreement (as defined in the Preliminary Official Statement), the Facilities Lease and the Lease Agreement (each as defined in the Preliminary Official Statement, and together, the "Leases") or the Certificates, the corporate existence of the City, or the title to their respective offices of the officers of the City who will execute the Certificates, the Trust Agreement and the Leases.

CUSIP Numbers and other Fees. It is anticipated that CUSIP numbers will be printed on the Certificates and in the Official Statement, but neither the failure to print such numbers on any Certificates or the Official Statement nor any error with respect thereto will constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Certificates in accordance with the terms of this Official Notice of Sale. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers will be provided for convenience of reference only. The City will not take any responsibility for the accuracy of such numbers. The expenses associated with printing CUSIP numbers on the Certificates will be paid by the City.

The Purchaser will be required to pay all fees required by DTC, Securities Industry and Financial Markets Association, Municipal Securities Rulemaking Board, and other similar entity imposing a fee in connection with the execution and delivery of the Certificates (including the California Debt and Investment Advisory Commission as described below).

California Debt and Investment Advisory Commission Fee. Pursuant to Section 8856 of the California Government Code, the Purchaser must pay to the California Debt and Investment Advisory Commission, within 60 days from the sale date, the statutory fee for the Certificates purchased.

Official Statement. Copies of the Preliminary Official Statement prepared by the City will be available electronically at www.i-dealprospectus.com or will be furnished to any interested bidder upon request to the Co-Financial Advisors. The contact information for the Co-Financial Advisors is set forth on pages one and two of this Official Notice of Sale. In accordance with Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), the City deems such Preliminary Official Statement final as of its date, except for the omission of certain information permitted by Rule 15c2-12. Within seven business days after the date of award of the Certificates, the Purchaser will be furnished with a reasonable number of copies (not to exceed 100) of the final Official Statement, without charge, for distribution in connection with the resale of the Certificates. Upon the request of the Purchaser made within two (2) days of the award of the Certificates, the City will supply additional copies of the Official Statement at the expense of the Purchaser.

By submitting a bid for the Certificates, each bidder agrees, if awarded the Certificates, (i) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any supplements prepared by the City, (ii) to promptly file a copy of the final Official Statement, including any supplements prepared by the City, with a nationally recognized municipal securities information repository, as defined in Rule 15c2-12, and (iii) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Certificates to the ultimate purchasers, including without limitation the delivery of a final Official Statement to each investor who purchases Certificates.

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

City Certificate Regarding Official Statement. At the time of delivery of the Certificates, the Purchaser will receive a certificate, signed by the Controller of the City, confirming to the Purchaser that, to the best knowledge of said officer, the Official Statement relating to the Certificates (excluding information regarding underwriting, the policy of municipal bond insurance and the provider thereof, if any, and DTC and its book-entry system, as to which no view will be expressed), as of the date of sale of the Certificates and as of the date of delivery thereof, did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Reoffering Price Certificate. On the day prior to delivery of the Certificates, the Purchaser shall provide to the City; Sidley Austin LLP, 555 California Street, 20th Floor, San Francisco, California 94111; fax (415) 772-7400; Attention: Eric Tashman, Esq.; e-mail: etashman@sidley.com; and Garcia, Hernández, Sawhney & Bermudez, LLP, 1330 Broadway, Suite 1701, Oakland, California 94612; fax: (510) 380-7704; Attention: Aerobel Banuelos, Esq.; e-mail: abanuelos@ghsblaw.com, a reoffering price certificate for the Certificates in the form attached hereto as Exhibit C, which shall be dated the date of the closing and be in a form and substance acceptable to and include such additional information as may be requested by Co-Special Counsel including information necessary to complete IRS form 8038G and information regarding its sales of the Certificates. For the purposes of this paragraph, sales of the Certificates to other securities brokers or dealers will not be considered sales to the general public.

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

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

Continuing Disclosure. In order to assist the Purchaser in complying with paragraph (b)(5) of Rule 15c2-12, the City will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial information and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the final Official Statement.

Equal Opportunity. Pursuant to the spirit and intent of the City's Local Business Enterprise ("LBE") Ordinance, Chapter 14B of the Administrative Code of the City, the City strongly encourages the

inclusion of Local Business Enterprises certified by the San Francisco Human Rights Commission in prospective bidding syndicates. A list of certified LBEs may be obtained from the San Francisco Human Rights Commission, 25 Van Ness Avenue, 8th Floor, San Francisco, California; phone: (415) 252-2500.

Dated: [June 2, 2015]

EXHIBIT A CERTIFICATE OF BOND INSURER

The undersigned, the duly authorized and acting _____ of _____ (the "Bond Insurer"), hereby certifies on behalf of the Bond Insurer as follows:

1. The statements contained in the Official Statement dated [June 9, 2015] (the "Official Statement"), relating to the \$ _____ City and County of San Francisco Refunding Certificates of Participation, Series 2015-R1 (City Office Buildings - Multiple Properties Project)(the "Certificates"), provided by the Insurer for use under the captions _____, which statements constitute descriptions or summaries of the municipal bond insurance policy (the "Policy") of the Bond Insurer covering the Certificates, the Bond Insurer, and financial information concerning the Bond Insurer, accurately reflect and fairly present the information set forth therein, and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they are made, not misleading; and

2. The form of Policy set forth in Appendix ___ of the Official Statement is a true and complete copy of the Policy (except for omissions therefrom of particulars relating to the Certificates).

[NAME OF BOND INSURER]

By: _____ Title: _____

Phone: _____

Date: [Date of Delivery]

EXHIBIT B

BID TIME: 8:30 a.m. (California time)

_____, 2015

**OFFICIAL BID FORM FOR THE PURCHASE OF
\$[PAR AMOUNT]*
CITY AND COUNTY OF SAN FRANCISCO
REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2015-R1
(CITY OFFICE BUILDINGS - MULTIPLE PROPERTIES PROJECT)**

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

BIDDING FIRM'S NAME: _____

Subject to the provisions and in accordance with the terms of the Official Notice of Sale dated [June 2, 2015], which is incorporated herein and made a part of this proposal, we have reviewed the Preliminary Official Statement relating to the above-referenced Certificates (the "Certificates") and hereby offer to purchase all of the \$[PAR AMOUNT]* aggregate principal amount of the Certificates described in the Official Notice of Sale on the following terms, including the submission of the required Good Faith Deposit in the amount of \$_____ by wire transfer; and to pay therefor the price of \$_____ (such amount being the "Purchase Price"), which is equal to the combined par value of the Certificates, less an underwriters' discount of \$_____, and (complete one): less a net original issue discount of \$_____ or plus a net original issue premium of \$_____. The Certificates shall mature and will be subject to mandatory sinking fund prepayment commencing no earlier than September 1, 20____ (if term Certificates are specified below) in the amounts and years, and bear interest at the rates per annum (in multiples of 1/8 or 1/20 of 1%, as set forth in the schedule below).

CERTIFICATE PAYMENT SCHEDULE

(Check one) ⁽¹⁾					(Check one) ⁽¹⁾				
Certificate Payment Date (September 1)*	Principal Amount*	Serial Maturity	Mandatory Sinking Fund Prepayment	Interest Rate	Certificate Payment Date (September 1)*	Principal Amount*	Serial Maturity	Mandatory Sinking Fund Prepayment	Interest Rate
2015	\$ _____	_____	_____	_____	2028	\$ _____	_____	_____	_____
2016	_____	_____	_____	_____	2029	_____	_____	_____	_____
2017	_____	_____	_____	_____	2030	_____	_____	_____	_____
2018	_____	_____	_____	_____	2031	_____	_____	_____	_____
2019	_____	_____	_____	_____	2032	_____	_____	_____	_____
2020	_____	_____	_____	_____	2033	_____	_____	_____	_____
2021	_____	_____	_____	_____	2034	_____	_____	_____	_____
2022	_____	_____	_____	_____	2035	_____	_____	_____	_____
2023	_____	_____	_____	_____	2036	_____	_____	_____	_____
2024	_____	_____	_____	_____	2037	_____	_____	_____	_____
2025	_____	_____	_____	_____	2038	_____	_____	_____	_____
2026	_____	_____	_____	_____	2039	_____	_____	_____	_____
2027	_____	_____	_____	_____	2040	_____	_____	_____	_____

⁽¹⁾ Circle the final maturity of each term certificate specified. There shall be no serial maturities for dates after the first mandatory sinking fund redemption payment.

Authorized Signatory
Title: _____
Phone Number: _____
Fax Number: _____

True Interest Cost (optional and not binding): _____

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

* Preliminary, subject to change.

EXHIBIT C

FORM OF REOFFERING PRICE CERTIFICATE

**(TO BE DELIVERED AND COMPLETED BY THE PURCHASER OF
CERTIFICATES, AS DESCRIBED UNDER "CLOSING PROCEDURES AND
DOCUMENTS-REOFFERING PRICE CERTIFICATE" IN THE OFFICIAL NOTICE
OF SALE)**

This Reoffering Price Certificate is being delivered by _____, as the purchaser (the "**Purchaser**"), in connection with its purchase of the \$_____ aggregate principal amount of City and County of San Francisco Refunding Certificates of Participation, Series 2015-R1 (City Office Buildings - Multiple Properties Project) (the "**Certificates**"). The Purchaser hereby certifies and represents the following:

A. Issue Price.

1. The Purchaser, beginning on _____, 2015, which is the date on which it agreed to purchase the Certificates (the "**Sale Date**") offered all of the Certificates of each maturity to the General Public (defined below) in a bona fide offering at their respective initial offering prices, as set forth in Schedule I attached hereto (each, an "**Initial Public Offering Price**"), and reasonably expects on the Sale Date to sell the Certificates of each maturity at their respective Initial Public Offering Prices.

2. The aggregate of the Initial Public Offering Prices is \$_____ (representing \$_____ aggregate principal amount of the Certificates, [plus] [minus] [net] original issue [premium] [discount] of \$_____).

3. [Except for the Certificates maturing on September 1, 20__, September 1, 20__, and September 1, 20__ (the "**Undersold Certificates**"), with] [With] respect to each maturity of the Certificates, the Purchaser first sold for cash at least 10% of the aggregate principal amount of the Certificates to the General Public at their respective Initial Public Offering Prices.

4. With respect to [each maturity of] the Undersold Certificates, despite the reasonable expectation of the Purchaser to sell the Certificates at their [respective] Initial Public Offering Prices, the Purchaser did not sell at least 10% of the Certificates [of the maturity] to the General Public at their [respective] Initial Public Offering Prices. [PROVIDE EXPLANATION].*

5. For purposes of this Certificate, the term "**General Public**" excludes bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers.

B. Compensation.

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

* For any maturity of Undersold Certificates, the successful bidder will be required to supply an explanation, satisfactory to the issuer, as to why the successful bidder did not sell at least 10% of each such maturity.

The undersigned is an authorized representative of the Purchaser and is duly authorized by the Purchaser to execute and deliver this Reoffering Price Certificate on behalf of the Purchaser. The Purchaser understands that the representations contained in this Reoffering Price Certificate will be relied upon by the City and County of San Francisco (the "City") in making certain of its representations in its Tax Certificate for the Certificates and in completing and filing the Information Return for the Certificates with the Internal Revenue Service, and by Sidley Austin LLP and Garcia, Hernández, Sawhney & Bermudez, LLP, Co-Special Counsel to the City, in rendering certain legal opinions in connection with the execution and delivery of the Certificates.

Dated: _____
[Closing Date]

By: _____
(Name of Purchaser)

Execution by: _____

Type Name: _____

Title: _____

NOTICE OF INTENTION TO SELL

**§[PAR AMOUNT]*
CITY AND COUNTY OF SAN FRANCISCO
REFUNDING CERTIFICATES OF PARTICIPATION, SERIES 2015-R1
(CITY OFFICE BUILDINGS - MULTIPLE PROPERTIES PROJECT)**

**evidencing proportionate interests of the Owners thereof in a certain Lease Agreement,
including the right to receive Base Rental payments to be made by the
CITY AND COUNTY OF SAN FRANCISCO**

NOTICE IS HEREBY GIVEN that the City and County of San Francisco (the "City") intends to offer for public sale the above captioned Certificates of Participation (the "Certificates") on

Tuesday, June 9, 2015, at 8:30 a.m. (California time)

by either electronic bids solely through Ipreo LLC's BiDCOMP™/PARITY® System ("Parity") or written sealed bids delivered at the Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, City Hall, Room 336, San Francisco 94102.

The City reserves the right to postpone or cancel the sale of the Certificates or change the terms thereof upon notice given through any of the Bond Buyer Wire, Thomson Financial or Bloomberg Business News (each, a "News Service") and/or Parity. In the event that no bid is awarded for the Certificates, the City will reschedule such sale to another date or time by providing notification through a News Service and/or Parity.

The Certificates will be offered for public sale subject to the terms and conditions of the Official Notice of Sale. The Preliminary Official Statement and the Official Notice of Sale relating to the Certificates will be posted electronically at Ipreo Prospectus www.i-dealprospectus.com on or around Tuesday, June 2, 2015. Failure of any bidder to receive such notice shall not affect the legality of the sale. Copies of the Preliminary Official Statement and the Official Notice of Sale for the Certificates may be obtained from either of the City's Co-Financial Advisors: Public Finance Management, Inc., 50 California Street, Suite 2300, San Francisco, California 94111; telephone: (415) 982-5544 (office), Attention: Sarah Hollenbeck (email: hollenbecks@pfm.com); and Ross Financial, 1736 Stockton Street, Suite 1, San Francisco, California 94133; telephone: (415) 912-5612 (office), Attention: Peter J. Ross (email: rossfinancial@smkc.com).

Other than with respect to postponement or cancellation as described above, the City reserves the right to modify or amend the Official Notice of Sale relating to the Certificates in any respect, as more fully described in the Official Notice of Sale; provided, that any such modification or amendment will be communicated to potential bidders through a News Service and/or Parity not later than 1:00 p.m. (California time) on the business day preceding the date for receiving bids for the Certificates. Failure of any potential bidder to receive notice of any modification or amendment will not affect the sufficiency of any such notice or the legality of the sale.

Dated: [June 1, 2015]

* Preliminary, subject to change.

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

PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2015

NEW ISSUE – BOOK-ENTRY ONLY

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

In the opinion of Sidley Austin LLP, San Francisco, California, and Garcia, Hernández, Sawhney & Bermudez, LLP, Oakland, California, Co-Special Counsel, under existing law and assuming compliance with certain covenants in the documents pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest with respect to the Certificates is not includable in the gross income of the owners of the Certificates for federal income tax purposes. In the further opinion of Co-Special Counsel, interest with respect to the Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest with respect to the Certificates, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Co-Special Counsel, interest with respect to the Certificates is exempt from personal income taxes imposed by the State of California. Co-Special Counsel express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates. See "TAX MATTERS" herein.



[\$[PAR AMOUNT]*
CITY AND COUNTY OF SAN FRANCISCO
REFUNDING CERTIFICATES OF PARTICIPATION
SERIES 2015-R1
(CITY OFFICE BUILDINGS – MULTIPLE PROPERTIES PROJECT)

**evidencing proportionate interests of the Owners thereof
in a certain Lease Agreement, including the right to receive
Base Rental payments to be made by the
CITY AND COUNTY OF SAN FRANCISCO**

Dated: Date of Delivery

Due: April 1, as shown on the inside cover

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

The \$[Par Amount]* City and County of San Francisco Refunding Certificates of Participation, Series 2015-R1 (the "Certificates") will be sold to provide funds to: (i) refund certain outstanding certificates of participation (as further described herein, the "Refunded Certificates") of the City and County of San Francisco (the "City"), the proceeds of which financed capital projects of the City generally consisting of the acquisition of and capital improvements to certain office buildings occupied by various City departments or certain tenants which are qualified as non-profit organizations exempt from Federal income taxes pursuant to Section 501(c)(3) of the Code ("501(c)(3) Tenants"); and (ii) pay costs of execution and delivery of the Certificates. See "PLAN OF REFUNDING AND THE LEASED PROPERTY" and "SOURCES AND USES OF FUNDS."

The Certificates are executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2015 (the "Trust Agreement"), by and between the City and U.S. Bank National Association, as trustee (the "Trustee"), and in accordance with the Charter of the City (the "Charter"). See "THE CERTIFICATES – Authority for Execution and Delivery." The Certificates evidence the principal and interest components of the Base Rental payable by the City pursuant to a Lease Agreement, dated as of June 1, 2015 (the "Lease Agreement"), by and between the Trustee, as lessor, and the City, as lessee. The City has covenanted in the Lease Agreement to take such action as may be necessary to include and maintain all Base Rental and Additional Rental payments in its annual budget, and to make necessary annual appropriations therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Covenant to Budget." The obligation of the City to pay Base Rental under the Lease Agreement is in consideration for the use and occupancy of the land and the existing office building thereon located at One South Van Ness Avenue, San Francisco (as further described herein, the "Leased Property"), and such obligation may be abated in whole or in part if there is substantial interference with the City's use and occupancy of the Leased Property. See "CERTAIN RISK FACTORS – Abatement."

The Certificates will be delivered in fully registered form and registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Individual purchases of the Certificates will be made in book entry form only, in the principal amount of \$5,000 and integral multiples thereof. Principal and interest with respect to the Certificates will be paid by the Trustee to DTC, which will in turn remit such payments to the participants in DTC for subsequent disbursement to the beneficial owners of the Certificates. See "THE CERTIFICATES – Form and Registration." Interest evidenced and represented by the Certificates is payable on April 1 and October 1 of each year, commencing [October 1, 2015]. Principal will be paid as shown on the inside cover hereof. See "THE CERTIFICATES – Payment of Principal and Interest."

The Certificates are subject to prepayment prior to maturity as described herein. See "THE CERTIFICATES – Prepayment of the Certificates."

THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL OR ADDITIONAL RENTAL PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE CITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE CITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE CITY TO MAKE BASE RENTAL OR ADDITIONAL RENTAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE CITY SHALL BE OBLIGATED TO MAKE BASE RENTAL PAYMENTS SUBJECT TO THE TERMS OF THE LEASE AGREEMENT AND NEITHER THE CITY NOR ANY OF ITS OFFICERS SHALL INCUR ANY LIABILITY OR ANY OTHER OBLIGATION WITH RESPECT TO THE EXECUTION AND DELIVERY OF THE CERTIFICATES. SEE "CERTAIN RISK FACTORS."

* Preliminary, subject to change.

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

Hawkins Delafield & Wood LLP
Draft of 4/3/2015

PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2015
MATURITY SCHEDULE

(See inside cover)

The Certificates are offered when, as and if executed and received by the Purchaser, subject to the approval of the validity of the Lease Agreement by Sidley Austin LLP, San Francisco, California, and Garcia, Hernández, Sawhney & Bermudez, LLP, Oakland, California, Co-Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel. It is expected that the Certificates in book-entry form will be available for delivery through DTC on or about June __, 2015.

Dated: June __, 2015.

MATURITY SCHEDULE

(Base CUSIP¹ Number: 79765D)

SERIES 2015-R1 CERTIFICATES

<u>Certificate Payment Date</u> <u>(April 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price/Yield²</u>	<u>CUSIP¹ Suffix</u>
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				

\$ _____ % Term Certificate due April 1, 20__ Price/Yield² _____ CUSIP¹: 79765D _____

¹ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC on behalf of the American Bankers Association. CUSIP numbers are provided for convenience of reference only. Neither the City nor the Purchaser takes any responsibility for the accuracy of such numbers.

² Reoffering price/yields furnished by the Purchaser. The City takes no responsibility for the accuracy thereof.

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

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

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

This Official Statement is not to be construed as a contract with the Purchasers of the Certificates. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. No representation is made that past experience, as it might be shown by financial and other information, will necessarily continue or be repeated in the future. 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," "expect," "estimate," "budget," "intend," "projection" or other similar words. All projections, forecasts, assumptions, expressions of opinions, estimates, and other forward-looking statements are expressly qualified in their entirety by the cautionary statements set forth in this Official Statement. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which 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. The City does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based do or do not occur.

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

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE PURCHASERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CITY AND COUNTY OF SAN FRANCISCO

MAYOR

Edwin M. Lee

BOARD OF SUPERVISORS

London Breed, *Board President, District 5*

Eric Mar, *District 1*
Mark Farrell, *District 2*
Julie Christensen, *District 3*
Katy Tang, *District 4*
Jane Kim, *District 6*

Norman Yee, *District 7*
Scott Wiener, *District 8*
David Campos, *District 9*
Malia Cohen, *District 10*
John Avalos, *District 11*

CITY ATTORNEY

Dennis J. Herrera

CITY TREASURER

José Cisneros

OTHER CITY AND COUNTY OFFICIALS

Naomi M. Kelly, *City Administrator*
Benjamin Rosenfield, *Controller*
Nadia Sesay, *Director of Public Finance*

PROFESSIONAL SERVICES

Co-Special Counsel

Sidley Austin LLP
San Francisco, California

Garcia, Hernández, Sawhney &
Bermudez, LLP
Oakland, California

Co-Financial Advisors

Public Financial Management, Inc.
San Francisco, California

Ross Financial
San Francisco, California

Disclosure Counsel

Hawkins Delafield & Wood LLP
San Francisco, California

Trustee

U.S. Bank National Association
San Francisco, California

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OFFICIAL STATEMENT

**[\$[PAR AMOUNT]*
CITY AND COUNTY OF SAN FRANCISCO
REFUNDING CERTIFICATES OF PARTICIPATION
SERIES 2015-R1
(CITY OFFICE BUILDINGS – MULTIPLE PROPERTIES PROJECT)**

**evidencing proportionate interests of the Owners thereof in a certain Lease Agreement,
including the right to receive Base Rental payments to be made by the
CITY AND COUNTY OF SAN FRANCISCO**

INTRODUCTION

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the offering by the City and County of San Francisco (the "City") of its \$[Par Amount]* City and County of San Francisco Refunding Certificates of Participation, Series 2015-R1 (the "Certificates"). Any capitalized term not defined herein will have the meaning given to such term in APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Definitions." The references to any legal documents, instruments and the Certificates in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each such document for complete details of all terms and conditions.

This Introduction is designed to give an overview of the transactions and serve as a guide to the contents of this Official Statement.

Overview of the Transaction

The City, exercising its powers under the Charter of the City (the "Charter") to convey and lease property for City purposes, will convey certain real property to U.S. Bank National Association, as trustee (the "Trustee") under a Facilities Lease, dated as of June 1, 2015 (the "Facilities Lease"), by and between the City, as lessor, and the Trustee, as lessee at a nominal annual rent. The Trustee will lease the Leased Property (as defined hereafter) back to the City for the City's use under a Lease Agreement, dated as of June 1, 2015, by and between the Trustee and the City (the "Lease Agreement"). The "Leased Property" generally consists of the land and existing office building thereon located at One South Van Ness, San Francisco, California (the "Leased Property"). See "PLAN OF REFUNDING AND THE LEASED PROPERTY." The City will be obligated under the Lease Agreement to pay Base Rental payments and other payments to the Trustee each year during the term of the Lease Agreement (subject to certain conditions under which Base Rental may be "abated" as discussed herein). Each payment of Base Rental will consist of principal and interest components, and when received by the Trustee in each rental period, will be deposited in trust for payment of the Certificates. The Trustee will create the "certificates of participation" in the Lease Agreement, representing proportional interests in the principal and interest components of Base Rental it will receive from the City. The Trustee will apply Base Rental it receives to pay principal and interest with respect to the Certificates

* Preliminary, subject to change.

when due according to the Trust Agreement, dated as of June 1, 2015 (the "Trust Agreement"), by and between the City and the Trustee, which governs the security and terms of payment of the Certificates. The money received from the sale of the Certificates will be applied by the Trustee, at the City's direction, to refund certain outstanding certificates of participation of the City (as further described herein, the "Refunded Certificates"), which financed the acquisition of and certain capital improvements to the Leased Property and certain other office buildings occupied by various City departments or certain tenants which are qualified as non-profit organizations exempt from Federal income taxes pursuant to Section 501(c)(3) of the Code ("501(c)(3) Tenants"), and to pay costs of execution and delivery of the Certificates. See "PLAN OF REFUNDING AND THE LEASED PROPERTY."

Guide to this Official Statement

The Refunded Certificates and the Leased Property are described herein in the section "PLAN OF REFUNDING AND THE LEASED PROPERTY." The application of the proceeds of sale of the Certificates is described in the sections "PLAN OF REFUNDING AND THE LEASED PROPERTY" and "SOURCES AND USES OF FUNDS." The terms of the Certificates and repayment thereof and security for the Certificates are described in the sections "THE CERTIFICATES," "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES," and other sections in the front portion of this Official Statement. Current information about the City, its finances and governance, are provided in APPENDIX A. The City's most recent comprehensive annual financial report appears in APPENDIX B. A summary of the Lease Agreement, the Facilities Lease, the Trust Agreement, and other basic legal documents are provided in APPENDIX C.

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

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

THE CITY AND COUNTY OF SAN FRANCISCO

The City is the economic and cultural center of the San Francisco Bay Area and northern California. The limits of the City encompass over 93 square miles, of which 49 square miles are land, with the balance consisting of tidelands and a portion of the San Francisco Bay (the "Bay"). The City is located at the northern tip of the San Francisco Peninsula, bounded by the Pacific Ocean to the west, the Bay and the San Francisco-Oakland Bay Bridge to the east, the entrance to the Bay and the Golden Gate Bridge to the north, and San Mateo County to the south. Silicon Valley is about a 40-minute drive to the south, and the wine country is about an hour's drive to the north. The City's 2014 population was approximately 849,200.

The San Francisco Bay Area consists of the nine counties contiguous to the Bay: Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma Counties (collectively, the "Bay Area"). The economy of the Bay Area includes a wide range of industries, supplying local needs as well as the needs of national and international markets. Major business sectors in the Bay Area include retail, entertainment and the arts, conventions and tourism, service businesses, banking, professional and financial services, corporate headquarters, international and wholesale trade, multimedia and advertising, biotechnology and higher education.

The City is a major convention and tourist destination. According to the San Francisco Travel Association, a nonprofit membership organization, during the calendar year 2013, approximately 16.9 million people visited the City and spent an estimated \$9.38 billion during their stay. The City is also a leading center for financial activity in the State and is the headquarters of the Twelfth Federal Reserve District, the Eleventh District Federal Home Loan Bank, and the San Francisco Regional Office of Thrift Supervision.

The City benefits from a highly skilled, educated and professional labor force. The per-capita personal income of the City for fiscal year 2013-14 was \$76,886. The San Francisco Unified School District operates 8 transitional kindergarten schools, 72 elementary and K-8 school sites, 13 middle schools, 18 senior high schools (including two continuation schools and an independent study school), and 34 State-funded preschool sites, and sponsors 12 independent charter schools. Higher education institutions located in the City include the University of San Francisco, California State University – San Francisco, University of California – San Francisco (a medical school and health science campus), the University of California Hastings College of the Law, the University of the Pacific's School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy, and the Academy of Art University.

San Francisco International Airport ("SFO"), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County and owned and operated by the City, is the principal commercial service airport for the Bay Area and one of the nation's principal gateways for Pacific traffic. In fiscal year 2013-14, SFO serviced approximately 46.1 million passengers and handled 370,525 metric tons of cargo. The City is also served by the Bay Area Rapid Transit District (electric rail commuter service linking the City with the East Bay and the San Francisco Peninsula, including SFO), Caltrain (a conventional commuter rail line linking the

City with the San Francisco Peninsula), and bus and ferry services between the City and residential areas to the north, east and south of the City. San Francisco Municipal Railway, operated by the City, provides bus and streetcar service within the City. The Port of San Francisco (the "Port"), which administers 7.5 miles of Bay waterfront held in "public trust" by the Port on behalf of the people of the State, promotes a balance of maritime-related commerce, fishing, recreational, industrial and commercial activities and natural resource protection.

The City is governed by a Board of Supervisors elected from eleven districts to serve four-year terms, and a Mayor who serves as chief executive officer, elected citywide to a four-year term. Edwin M. Lee is the 43rd and current Mayor of the City, having been elected by the voters of the City in November 2011. The City's adopted budget for fiscal years 2014-15 and 2015-16 totals \$8.58 billion and \$8.56 billion, respectively. The General Fund portion of each year's adopted budget is \$4.27 billion in fiscal year 2014-15 and \$4.33 billion in fiscal year 2015-16, with the balance being allocated to all other funds, including enterprise fund departments, such as SFO, the San Francisco Municipal Transportation Agency, the Port Commission and the San Francisco Public Utilities Commission. The City employed 29,236 full-time-equivalent employees at the end of fiscal year 2013-14. According to the Controller of the City (the "Controller"), the fiscal year 2014-15 total net assessed valuation of taxable property in the City is approximately \$181.8 billion.

More detailed information about the City's governance, organization and finances may be found in APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2014."

THE CERTIFICATES

Authority for Execution and Delivery

The Certificates will be executed and delivered pursuant to the Trust Agreement. Each Certificate will represent a proportionate interest in the right of the Trustee to receive Base Rental payments (comprising principal and interest components) payable by the City pursuant to the Lease Agreement. The City will be obligated under the Lease Agreement to pay the Base Rental in consideration for its use and occupancy of the Leased Property. The Leased Property will be leased by the City to the Trustee pursuant to the Facilities Lease.

The Trust Agreement, the Facilities Lease, and the Lease Agreement were approved by the Board of Supervisors of the City by its Resolution No. 299-13, adopted by the Board of Supervisors on July 30, 2013 and approved by the Mayor on August 7, 2013 (the "Resolution"), and the sale of the Certificates was authorized by the same Resolution. The Resolution authorized the execution and delivery of up to \$236,000,000 aggregate principal amount of certificates of participation, including the Certificates, under one or more trust agreements and the payment of a maximum annual Base Rental payment under one or more lease agreements. The City previously executed and delivered in May 2014 \$47,220,000 in aggregate principal amount of certificates of participation under the Resolution. Such certificates evidence interests in leases of different property than the Leased Property and were executed and delivered

pursuant to separate documents than the Certificates. Under Section 9.108 of the Charter of the City, the City is authorized to enter into lease-financing agreements with a public agency or nonprofit corporation only with the assent of the majority of the voters voting upon a proposition for the purpose. The lease-financing arrangements with the Trustee for the Certificates do not fall under this provision, since the Trustee is neither a public agency nor a nonprofit corporation.

Payment of Principal and Interest

The principal evidenced and represented by the Certificates will be payable on April 1 of each year shown on the inside cover hereof, or upon prepayment prior thereto, and will evidence and represent the sum of the portions of the Base Rental Payments designated as principal components coming due on each April 1. Payment of the principal and premium, if any, of the Certificates upon prepayment or upon a Certificate Payment Date will be made upon presentation and surrender of such Certificates at the Principal Office of the Trustee. Principal and premium will be payable in lawful money of the United States of America.

Interest evidenced and represented by the Certificates will be payable on April 1 and October 1 of each year, commencing on [October 1, 2015] (each, an "Interest Payment Date"). Interest will be payable continuing to and including their Certificate Payment Dates or on prepayment prior thereto, and will evidence and represent the sum of the portions of the Base Rental designated as interest components coming due on such dates in each year. Interest with respect to the Certificates will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest evidenced and represented by each Certificate will accrue from the Interest Payment Date next preceding the date of execution and delivery thereof, unless (i) it is executed after a Regular Record Date and before the close of business on the immediately following Interest Payment Date, in which event interest represented thereby will be payable from such Interest Payment Date; or (ii) it is executed prior to the close of business on the first Regular Record Date, in which event interest represented thereby will be payable from the date of delivery; provided, however, that if at the time of execution of any Certificate interest thereon is in default, such interest will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment or, if no interest has been paid or made available for payment, from the date of delivery.

Interest evidenced and represented by the Certificates will be payable in lawful money of the United States of America. Payments of interest represented by the Certificates will be made on each Interest Payment Date by check of the Trustee sent by first-class mail, postage prepaid, or by wire transfer to any Owner of \$1,000,000 or more of Certificates to the account in the United States of America specified by such Owner in a written request delivered to the Trustee on or prior to the Regular Record Date for such Interest Payment Date, to the Owner thereof on the Regular Record Date.

Form and Registration

The Certificates will be executed and delivered in the aggregate principal amounts shown on the cover hereof.

The Certificates will be delivered in fully registered form, without coupons, dated their date of delivery, and registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), who will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only in the principal amount of \$5,000 or any integral multiple thereof. Principal and interest evidenced and represented by the Certificates will be paid by the Trustee to DTC which will in turn remit such principal and interest to the participants in DTC for subsequent disbursement to the beneficial owners of the Certificates. Beneficial owners of the Certificates will not receive physical certificates representing their interest in the Certificates. For further information concerning the Book-Entry Only System, see APPENDIX E: "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

Prepayment of the Certificates

Optional Prepayment

The Certificates maturing on or before April 1, 20__ are not subject to optional prepayment prior to their respective Certificate Payment Dates. The Certificates maturing on or after April 1, 20__ are subject to optional prepayment prior to their respective stated Certificate Payment Dates in whole or in part on any date (and if in part, in such order of maturity as the City specifies and within a maturity by lot or by such other method as the Trustee determines to be fair and reasonable and in Authorized Denominations) on or after April 1, 20__, at a prepayment price equal to the sum of the principal component of the Certificates called for prepayment plus the interest component of such Certificates to the prepayment date, without premium.

*Sinking Fund Prepayment**

The Certificates with a Certificate Payment Date of April 1, 20__ are subject to mandatory sinking fund prepayment on April 1, 20__ and on each April 1 shown below, upon notice as provided in the Trust Agreement, in part in Authorized Denominations, at a prepayment price equal to the principal amount of the Certificates called plus accrued interest thereon to the prepayment date, in the years and principal amount as follows:

<u>April 1</u>	<u>Principal Amount</u>
+	

† Maturity	

Special Mandatory Prepayment

The Certificates will be subject to mandatory prepayment prior to their Certificate Payment Dates, as a whole or in part on any date, at a Prepayment Price equal to the principal amount thereof (plus accrued but unpaid interest to the prepayment date), without premium, from amounts deposited in the related account of the Base Rental Fund following an event of damage,

* Preliminary, subject to change.

destruction or condemnation of the applicable Leased Property or any portion thereof or upon loss of the use or possession of the applicable Leased Property or any portion thereof due to a title defect.

Selection of Certificates for Prepayment

Whenever provision is made in the Trust Agreement for the prepayment of Certificates and less than all of the Outstanding Certificates will be prepaid, the City will direct the principal amount of each Certificate Payment Date to be prepaid. Within a Certificate Payment Date, the Trustee, with the consent of the City, will select Certificates for prepayment by lot in any manner which the Trustee in its sole discretion deems fair and appropriate; provided, however, that the portion of any Certificate to be prepaid will be in Authorized Denominations and all Certificates to remain Outstanding after any prepayment in part will be in Authorized Denominations.

Notice of Prepayment

Notice of prepayment will be given to the respective Owners of Certificates designated for prepayment by Electronic Notice or first-class mail, postage prepaid, at least 20 but not more than 45 days before any prepayment date, at their addresses appearing on the registration books maintained by the Trustee; provided, however, that so long as the DTC book-entry system is used for any Certificates, notice with respect thereto will be given to DTC, as nominee of the registered Owner, in accordance with its operational requirements. Notice will also be given as required by the Continuing Disclosure Certificate. See "CONTINUING DISCLOSURE" herein.

Each notice of prepayment will specify: (i) the Certificates and designated portions thereof (in the case of prepayment of the Certificates in part but not in whole) which are to be prepaid, (ii) the date of prepayment, (iii) the place or places where the prepayment will be made, including the name and address of the Trustee, (iv) the prepayment price, (v) the CUSIP numbers (if any) assigned to the Certificates to be prepaid, (vi) the Certificate numbers of the Certificates to be prepaid in whole or in part and, in the case of any Certificate to be prepaid in part only, the amount of such Certificate to be prepaid, and (vii) the original delivery date and stated Certificate Payment Date of each Certificate to be prepaid in whole or in part. Each notice will further state that on the specified date there will become due and payable with respect to each Certificate or portion thereof being prepaid the prepayment price, together with interest represented thereby accrued but unpaid to the prepayment date, and that from and after such date, if sufficient funds are available for prepayment, interest with respect thereto will cease to accrue and be payable. Neither the failure to receive any notice nor any defect therein will affect the proceedings for such prepayment.

Effect of Prepayment

If, on the designated prepayment date, money for the prepayment of all of the Certificates to be prepaid, together with accrued interest to such prepayment date, is held by the Trustee so as to be available for the prepayment on the scheduled prepayment date, and if a prepayment notice has been given as described above, then from and after such prepayment date, no additional interest will become due with respect to the Certificates to be prepaid, and such Certificate or portion thereof will no longer be deemed Outstanding under the provisions of the Trust

Agreement; however, all money held by or on behalf of the Trustee for the prepayment of such Certificates will be held in trust for the account of the Owners thereof.

If the City acquires any Certificate by purchase or otherwise, such Certificate will no longer be deemed Outstanding and will be surrendered to the Trustee for cancellation.

Purchase of Certificates

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

PLAN OF REFUNDING AND THE LEASED PROPERTY

Plan of Refunding

A portion of the proceeds of the Certificates will be used to current refund the City and County of San Francisco Refunding Certificates of Participation, Series 2007A (City Office Buildings – Multiple Properties Project), originally issued in the aggregate principal amount of \$152,120,000 (the "Refunded Certificates"). The Refunded Certificates will be outstanding as of the date of delivery of the Certificates in the aggregate principal amount of \$[137,185,000]. The proceeds of the Refunded Certificates were generally used to: (i) finance the acquisition of the Leased Property and an existing office building located at 1650 Mission Street, San Francisco, California (the "Mission Street Property"), which are occupied by various City departments or 501(c)(3) Tenants, and (ii) improve portions of the Leased Property, the Mission Street Property and an existing City-owned office building located at 30 Van Ness Avenue, San Francisco, California (the "30 Van Ness Property"), which are occupied by various City departments or 501(c)(3) Tenants.

Improvements to the Leased Property funded by a portion of the proceeds of the Refunded Certificates included, but were not limited to, the following: (i) improvements on approximately 38,085 rentable square feet in connection with scheduled occupancy by the City's Department of Telecommunications and Information Services, (ii) improvements in connection with the occupancy by the City's Municipal Transportation Agency, (iii) roof replacement, (iv) upgrades and repairs to the heating, air conditioning and ventilations systems, (v) escalators upgrades, (vi) installation of a roof garden, (vii) improvements to access to public areas for disabled persons, (viii) improvements to security systems, and (ix) water conservation measures.

The Leased Property

[Please review and update this section, which is derived from the 2007 Refunded Certificates OS.] The Leased Property is comprised of the land and existing office building thereon located at One South Van Ness, San Francisco, California. The Mission Street Property and the 30 Van Ness Property, improvements to which are being refinanced with the proceeds of the Certificates, are not part of the Leased Property.

[The Leased Property is located on the southeast corner of Van Ness Avenue and Mission Street in San Francisco and has approximately 65,000 square feet of site area. An approximately 636,538 square foot, eight-story office building (plus mezzanine and basement) with approximately 508,057 rentable square feet and a multi-level enclosed parking garage with capacity for approximately 120 automobiles (together, the "One South Van Ness Building") are situated on the site. Parking at the One South Van Ness Building is operated by [Standard Parking Corporation.] The One South Van Ness Building was built in 1960 and renovated in 1990. In 2007, the City used a portion of the proceeds of the Refunded Bonds to purchase and improve the Leased Property, as described in "Plan of Refunding" above.

The City currently leases portions of the _____ floors to _____. *[Describe lessees (include whether City department or 501(c)(3) Tenant), square footage, terms of lease contracts (e.g., termination dates, special terms (for example, in the 2007 OS, BofA's lease gave BofA a right of first refusal to purchase One South Van Ness and the right of first offer under certain conditions)), upcoming vacancies and anticipated tenants.]*

A Phase I environmental site assessment for the Leased Property dated June 8, 2004 indicated that (i) the Leased Property contains two decommissioned 10,000-gallon diesel underground storage tanks which were filled with concrete slurry, closed in place in 1997 and received a notice of completion from the San Francisco Department of Public Health ("SFDPH") and (ii) based on the date of construction, asbestos containing materials and lead-containing paint may be present in the Leased Property. Based on these conclusions, the assessment (i) stated that because the underground storage tanks were decommissioned in 1997 in accordance with applicable standards and to the approval of SFDPH, the issue is now considered a historical recognized environmental condition and a *de minimis* condition, (ii) recommended continued implementation of the existing operating and maintenance plan to manage any remaining known or assumed asbestos containing materials, (iii) recommended that prior to any significant remodeling or demolition, asbestos containing materials, if present, should be managed property, and (iv) recommended that prior to any significant renovation or demolition activities, testing for lead-containing paint coatings should be performed in the areas to be disturbed so lead-containing paint, if present, can be property managed. *[Updates?]*

SOURCES AND USES OF FUNDS

The following are the estimated sources and uses of funds with respect to the Certificates.

Sources of Funds:

Par Amount
Original Issue Premium
[Release from Prior Certificates Reserve
Fund]
Less: Purchaser's Discount.....
Total Sources.....

Uses of Funds:

Prepayment of Refunded Certificates
Costs of Delivery⁽¹⁾
Total Uses

⁽¹⁾ Includes amounts for legal fees, Trustee's fees and expenses, financial advisory fees, rating agency fees, appraisals and property condition report fees, title insurance fees, rounding amounts, printing costs and any other delivery costs.

BASE RENTAL PAYMENT SCHEDULE

The Lease Agreement requires the City to make Base Rental payments in arrears on each March 25 and September 25, commencing [September 25, 2015], in payment for the use and occupancy of the Leased Property.

The Trust Agreement requires that Base Rental payments with respect to the Leased Property be deposited in the Base Rental Fund maintained by the Trustee. Pursuant to the Trust Agreement, on April 1 and October 1 of each year, commencing on [October 1, 2015], the Trustee will apply such amounts in the Base Rental Fund as are necessary to make principal and interest payments with respect to the Certificates as the same become due and payable, as shown in the following table.

Base Rental Payment Schedule

Payment Date	Principal	Interest	Debt Service	Fiscal Year Debt Service
[October 1, 2015]				
April 1, 2015				
October 1, 2015				
April 1, 2016				
October 1, 2016				
April 1, 2017				
October 1, 2017				
April 1, 2018				
October 1, 2018				
April 1, 2019				
October 1, 2019				
April 1, 2020				
October 1, 2020				
April 1, 2021				
October 1, 2021				
April 1, 2022				
October 1, 2022				
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April 1, 2030				
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April 1, 2031				
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April 1, 2033				
October 1, 2033				
April 1, 2034				
October 1, 2034				
April 1, 2035				
October 1, 2035				
April 1, 2036				
October 1, 2036				
April 1, 2037				
October 1, 2037				
April 1, 2038				
October 1, 2038				
April 1, 2039				
October 1, 2039				
April 1, 2040				
Total				

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Source of Payment

The Certificates will evidence and represent proportionate interests in the Base Rental payments required to be made by the City to the Trustee under the Lease Agreement so long as the City has use and occupancy of the Leased Property. The Lease Agreement terminates on [April 1, 2040], or upon early payment of all of the Certificates in accordance with the Trust Agreement, unless extended upon the event of abatement. See "Abatement of Base Rental Payments" below.

Pursuant to the Trust Agreement, the City will grant to the Trustee, for the benefit of the Owners, a first and exclusive lien on, and security interest in, all amounts on hand from time to time in the funds and accounts established under the Trust Agreement (excluding the Rebate Fund), including: (i) all Base Rental payments received by the Trustee from the City; (ii) the proceeds of any insurance (including the proceeds of any self-insurance and any liquidated damages received in respect of the Leased Property), and eminent domain award not required to be used for repair or replacement of the Leased Property; (iii) proceeds of rental interruption insurance policies with respect to the Leased Property, (iv) all amounts on hand from time to time in the Base Rental Fund established under the Trust Agreement, including amounts transferred to the Base Rental Fund from other funds and accounts, as provided in the Trust Agreement (including proceeds of the Certificates no longer needed to pay costs of execution and delivery of the Certificates); and (v) any additional property subjected to the lien of the Trust Agreement by the City or anyone on its behalf. The City will pay to the Trustee the Base Rental payments to the extent required under the Lease Agreement, which Base Rental payments are designed to be sufficient, in both time and amount, to pay, when due, the annual principal and interest represented by the Certificates. **The Certificates are not secured by any reserve fund.**

Covenant to Budget

The City will covenant in the Lease Agreement to take such action as may be necessary to include all Rental Payments as a separate line item in its annual budget and to make the necessary annual appropriations for all such Rental Payments. The Lease Agreement provides that such covenants on the part of the City are deemed and construed to be ministerial duties imposed by law and by the Charter, and it is the duty of each and every public official of the City to take such action and do such things as are required by law and by the Charter in the performance of the official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the City.

If the City defaults on its covenant in the Lease Agreement to include all Rental Payments in the applicable annual budget and such default continues for 60 days or more, the Trustee may either re-let the Leased Property for the account of the City or may retain the Lease Agreement and hold the City liable for all Rental Payments on an annual basis.

The obligation of the City to make Rental Payments is an obligation payable from any legally available funds of the City. For a discussion of the budget and finances of the City, see

APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET" and APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2014." For a discussion of the City's investment policy regarding pooled cash, see APPENDIX G: "CITY AND COUNTY OF SAN FRANCISCO OFFICE OF THE TREASURER INVESTMENT POLICY."

Limited Obligation

The obligation of the City to make Base Rental or Additional Rental payments under the Lease Agreement does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the City to make Base Rental or Additional Rental payments constitutes an indebtedness of the City, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. See "CERTAIN RISK FACTORS – Rental Payments Not a Debt of the City."

Base Rental Payments; Additional Rental

Base Rental Payments. The City has covenanted in the Lease Agreement that, so long as the City has the full use and occupancy of the Leased Property, it will make Base Rental payments to the Trustee from any legally available funds of the City. The Trustee is required by the Trust Agreement to deposit in the Base Rental Fund all Base Rental payments and certain other amounts received and required to be deposited therein, including investment earnings. The total Rental Payment due in any fiscal year will not be in excess of the total fair rental value of the Leased Property for such Fiscal Year.

Base Rental payments relating to the Certificates will be payable by the City on March 25 and September 25 of each year during the term of the Lease Agreement, commencing [September 25, 2015], provided that any such payment will be for that portion of the applicable period that the City has use and occupancy of all or a portion of the Leased Property. In the event that during any such period the City does not have use and occupancy of all or a portion of the Leased Property due to material damage to, destruction of or condemnation of or defects in the title to the Leased Property, the Base Rental payments are subject to abatement. See "Abatement of Base Rental Payments" and "CERTAIN RISK FACTORS – Abatement." The obligation of the City to make Base Rental payments is payable solely from annual appropriations of the City from any legally available funds of the City and the City has covenanted in the Lease Agreement to take such action as may be necessary to include all Base Rental and Additional Rental due under the Lease Agreement as a separate line item in its annual budget and to make necessary annual appropriations for all such Base Rental and Additional Rental, subject to the abatement provisions under the Lease Agreement. See "Covenant to Budget" above.

Additional Rental. Additional Rental payments due from the City to the Trustee include, among other things, amounts sufficient to pay any taxes and insurance premiums, and to pay all fees, costs and expenses of the Trustee in connection with the Trust Agreement, deposits required to be made to the Rebate Fund, if any, and all other fees, costs and expenses of the

Trustee incurred from time to time in administering the Lease Agreement and the Trust Agreement. The City is also responsible for repair and maintenance of the Leased Property during the term of the Lease Agreement.

Abatement of Base Rental Payments

The Trustee will collect and receive all of the Base Rental payments, and all payments of Base Rental received by the Trustee under the Lease Agreement will be deposited into the Base Rental Fund. The City's obligation to make Rental Payments in the amount and on the terms and conditions specified in the Lease Agreement is absolute and unconditional without any right of set-off or counterclaim, subject only to the provisions of the Lease Agreement regarding rental abatement. See "CERTAIN RISK FACTORS – Abatement."

Rental Payments will be abated during any period in which there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City, by reason of material damage, destruction or condemnation of the Leased Property or any portion thereof, or due to defects in title to the Leased Property, or any portion thereof, except to the extent of (i) available amounts held by the Trustee in the related account within the Base Rental Fund, (ii) amounts, if any, received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the City for Rental Payments or to the Trustee for payments in respect of the Certificates. The amount of annual rental abatement will be such that the resulting Rental Payments in any Lease Agreement Year during which such interference continues do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference. Abatement will commence with such damage, destruction or condemnation and end when use and occupancy or possession is restored. In the event of abatement, the term of the Lease Agreement may be extended until all amounts due under such Lease Agreement and the Trust Agreement are fully paid, but in no event later than April 1, 20__ . See "CERTAIN RISK FACTORS – Abatement" and APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – LEASE AGREEMENT – Rental Abatement."

In order to mitigate the risk that an abatement event will cause a disruption in payment of Base Rental, the Lease Agreement requires the City to maintain rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Facilities Lease for a period of at least 24 months. Pursuant to the Lease Agreement, rental interruption insurance is required to insure only against loss of rental income from the Leased Property caused by fire, lightning, explosion, windstorm, hail, riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by the City's all risk property insurance on the Leased Property. The City is not required to maintain earthquake or flood insurance (or rental interruption insurance relating to such coverage) under the Lease Agreement [and the City does not currently have earthquake or flood insurance on the Leased Property]. [*Confirm.*] See "Insurance with Respect to the Leased Property" below and APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – LEASE AGREEMENT – Insurance." During any period of abatement with respect to all or any part of the Leased Property, the Trustee is required to use the proceeds of the rental interruption insurance to make payments of principal and interest represented by the Certificates. The City is also required by the Lease Agreement to use insurance proceeds to replace or repair the Leased

Property destroyed or damaged to the extent that there is substantial interference with the City's use and occupancy, or to prepay the Certificates such that resulting Rental Payments are sufficient to pay all amounts due under the Lease Agreement and the Trust Agreement with respect to the Certificates remaining Outstanding. See "Replacement, Maintenance and Repairs" below. In lieu of abatement of Rental Payments, the City in its sole discretion may elect, but is not obligated, to substitute property for the damaged, condemned or destroyed Leased Property, or portion thereof, pursuant to the substitution provisions of the Lease Agreement. See "Substitution, Release and Addition of Leased Property" below.

Replacement, Maintenance and Repairs

The Lease Agreement requires the City, at its own expense and as determined and specified by the Director of Property of the City, to maintain or cause to be maintained the Leased Property in good order, condition and repair during the term of the Lease Agreement. The Trust Agreement requires that if the Leased Property or any portion thereof is damaged or destroyed or taken by eminent domain, the City must elect to either prepay the Certificates or replace or repair the affected portion of the Leased Property in accordance with the Lease Agreement, provided however that the City's obligation to repair or replace any portion of the Leased Property pursuant to the Lease Agreement will be subject to the availability of proceeds of insurance or condemnation for such purpose. Under the Lease Agreement, the City must replace any portion of the Leased Property that is destroyed or damaged or taken by eminent domain, to such an extent that there is substantial interference with its right to the use and occupancy of the Leased Property or any portion thereof that would result in an abatement of Rental Payments or any portion thereof pursuant to the Lease Agreement; provided, however, that the City is not required to repair or replace any such portion of the Leased Property if there is applied to the prepayment of the Outstanding Certificates insurance or condemnation proceeds or other legally available funds are sufficient to prepay: (i) all of the Certificates Outstanding and to pay all other amounts due under the Lease Agreement and under the Trust Agreement or (ii) any portion of the Certificates such that the resulting Rental Payments payable in any Lease Agreement Year following such partial prepayment are sufficient to pay in the then current and any future Lease Agreement Year the principal and interest evidenced and represented by all Certificates to remain Outstanding and all other amounts due under the Lease Agreement and under the Trust Agreement to the extent they are due and payable in such Lease Agreement Year. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – LEASE AGREEMENT – Replacement, Maintenance and Repairs."

Insurance with Respect to the Leased Property

The Lease Agreement requires the City to maintain or cause to be maintained throughout the term of the Lease Agreement: (i) general liability insurance against damages occasioned by construction of improvements to or operation of the Leased Property with minimum coverage limits of \$5,000,000 combined single limit for bodily and personal injury and property damage per occurrence, which general liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage maintained or caused by the City to be maintained; (ii) all risk property insurance on all structures constituting any part of the Leased Property in an amount equal to the Outstanding principal amount of the Certificates, with such insurance covering, as nearly as practicable, loss or damage by fire, lightning, explosion, windstorm, hail,

riot, civil commotion, vandalism, malicious mischief, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance (excluding earthquakes and flood), including a replacement cost endorsement; (iii) boiler and machinery insurance, comprehensive form, insuring against accidents to pressure vessels and mechanical and electrical equipment, with a property damage limit not less than \$5,000,000 per accident; and (iv) rental interruption insurance in an amount not less than the aggregate Base Rental payable by the City pursuant to the Lease Agreement for a period of 24 months (such amount may be adjusted to reflect the actual scheduled Base Rental payments due under the Lease Agreement for the next succeeding 24 months) to insure against loss of rental income from the Leased Property caused by perils covered by the insurance described in (ii) above. All policies of insurance required under the Lease Agreement may provide for a deductible amount that is commercially reasonable as determined by the City Risk Manager.

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

The City is not required to maintain earthquake or flood insurance (or rental interruption insurance relating to such coverage) under the Lease Agreement [and the City does not currently have earthquake or flood insurance on the Leased Property]. APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – LEASE AGREEMENT – Insurance."

The City may self-insure against any of the risks required to be insured against in the Lease Agreement, except for self-insurance for rental interruption insurance and title insurance. [The City expects to self-insure for general liability insurance only.] [*Confirm.*]

Eminent Domain

If all of the Leased Property, or so much thereof as to render the remainder of the Leased Property unusable for the City's purposes under the Lease Agreement, is taken under the power of eminent domain: (i) the City may, at its option, replace the Leased Property, or (ii) the Lease Agreement will terminate and the proceeds of any condemnation award will be paid to the Trustee for application to the prepayment of the Certificates. If less than a substantial portion of the Leased Property is taken under the power of eminent domain, and the remainder is useable for the City's purposes, the Lease Agreement will continue in full force and effect as to the remaining portions of the Leased Property, subject only to its rental abatement provisions. Any condemnation award will be paid to the Trustee for application to the replacement of the portion of the Leased Property taken or to the partial prepayment of the Certificates. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – TRUST AGREEMENT – Repair or Replacement – Eminent Domain" and "– LEASE AGREEMENT – Eminent Domain."

Substitution, Release, and Addition of Leased Property

If no Event of Default has occurred and is continuing under the Lease Agreement, the Lease Agreement may be modified or amended at any time, and the Trustee may consent thereto without the consent of the Owners, if such amendment is to modify or amend the description of the Leased Property or to release from the Lease Agreement any portion of the Leased Property, or to add other property and improvements to the Leased Property or substitute other property and improvements for the Leased Property, upon satisfaction of the conditions to such amendment and substitution in the Lease Agreement. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – LEASE AGREEMENT – Substitution of Leased Property," "– Release of Leased Property" and "– Addition of Leased Property."

CERTAIN RISK FACTORS

The following risk factors should be considered, along with all other information in this Official Statement, by potential investors in evaluating the risks inherent in the purchase of the Certificates. The following discussion is not meant to be a comprehensive or definitive list of the risks associated with an investment in the Certificates. The order in which this information is presented does not necessarily reflect the relative importance of the various issues. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the liquidity of the Certificates. There can be no assurance that other risk factors not discussed herein will not become material in the future.

Rental Payments Not a Debt of the City

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

The Certificates represent and are payable solely from Base Rental payments made by the City pursuant to the Lease Agreement and amounts held in the Base Rental Fund established pursuant to the Trust Agreement, subject to the provisions of the Trust Agreement permitting the application of such amounts for the purposes and on the terms and conditions set forth therein. The City will be obligated to make Rental Payments subject to the terms of the Lease Agreement, and neither the City nor any of its officers will incur any liability or any other obligation with respect to the delivery of the Certificates.

Additional Obligations

Subject to certain City Charter restrictions, the City may incur other obligations, which may constitute additional charges against its revenues, without the consent of the Owners of the Certificates. There are no restrictions in the Trust Agreement against the City incurring additional lease and other obligations payable from the City's General Fund. To the extent that the City incurs additional obligations, the funds available to make payments of Base Rental may

be decreased. The City is currently liable on other obligations payable from its general revenues. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – Overlapping Debt," "– Tax Supported Debt Service," and "– Lease Payments and Other Long-Term Obligations." See also APPENDIX B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2014."

Abatement

The obligation of the City under the Lease Agreement to make Base Rental payments is in consideration for the use and right of occupancy of the Leased Property. Under certain circumstances, the City's obligation to make Base Rental payments will be abated during any period in which there is substantial interference with the right to the use and occupancy of the Leased Property or any portion thereof by the City, by reason of material damage, destruction or condemnation of the Leased Property or any portion thereof, or due to defects in title to the Leased Property, or any portion thereof. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Abatement of Base Rental Payments."

In the case of abatement relating to the Leased Property, the amount of annual rental abatement would be such that the resulting Rental Payments in any Lease Agreement Year during which such interference continues do not exceed the annual fair rental value of the portions of the Leased Property with respect to which there has not been substantial interference, as evidenced by a certificate of a City Representative. Such abatement would continue for the period commencing with the date of such damage, destruction, condemnation or discovery of such title defect and ending with the restoration of the Leased Property or portion thereof to tenantable condition or correction of the title defect; and the term of the Lease Agreement will be extended by the period during which the rental is abated under such Lease Agreement, except that such extension will in no event extend beyond April 1, 20___. Proceeds of rental interruption insurance may be used by the Trustee to make payments with respect to the Certificates in the event Base Rental payments received by the Trustee are insufficient to pay principal or interest represented by the Certificates as such amounts become due. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Insurance with Respect to the Leased Property." and "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Replacement, Maintenance and Repairs" for additional provisions governing damage to the Leased Property.

If damage, destruction, condemnation or title defect with respect to the Leased Property or any portion thereof results in abatement of Base Rental payments and the resulting Base Rental payments, together with any available insurance proceeds, are insufficient to make all payments with respect to the Certificates during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Lease Agreement or Trust Agreement for nonpayment under such circumstances. Failure to pay principal of, premium, if any, or interest with respect to the Certificates as a result of abatement of the City's obligation to make Rental Payments under the Lease Agreement is not an event of default under the Trust Agreement or the Lease Agreement.

Notwithstanding the provisions of the Lease Agreement and the Trust Agreement specifying the extent of abatement in the event of the City's failure to have use and possession of the Leased Property, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rental payments of the City may not be sufficient to pay all of that portion of the remaining principal and interest with respect to the Certificates. It is not possible to predict the circumstances under which such an abatement of Base Rental Payments may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured.

No Reserve Fund

The Certificates are not secured by any reserve fund.

Limited Recourse on Default; Re-letting of the Leased Property

The Lease Agreement and the Trust Agreement provide that, if there is a default by the City, the Trustee may take possession of and re-let the Leased Property for the account of the City. The amounts received from such re-letting may be insufficient to pay the scheduled principal and interest represented by the Certificates when due. In addition, the Trust Agreement provides that no remedies such as re-letting may be exercised (i) in violation of the Tax Certificate unless waived by the Owners of not less than the majority in the aggregate principal amount of the Certificates then Outstanding, or (ii) in violation of any applicable provision of law. The enforcement of any remedies provided for in the Lease Agreement and in the Trust Agreement could prove to be both expensive and time consuming.

The Lease Agreement provides that any remedies on default will be exercised by the Trustee. Upon the occurrence and continuance of the City's failure to deposit with the Trustee any Base Rental and/or Additional Rental payments when due, or if the City breaches any other terms, covenants, conditions or agreements contained in the Lease Agreement (and does not remedy such breach within 60 days after notice thereof or, if such breach cannot be remedied within such 60-day period, the City fails to take corrective action within such 60-day period and diligently pursue the same to completion), the Trustee may proceed (and, upon written request of the Owners of not less than a majority in aggregate principal amount of the Certificates then outstanding and receipt of indemnification of its fees and expenses, will proceed), without any further notice: (i) to reenter the Leased Property and without terminating the Lease Agreement, re-let the Leased Property as the agent and for the account of the City upon such terms and conditions as the Trustee may deem advisable or (ii) to enforce all of its rights and remedies under the Lease Agreement, including the right to recover Base Rental payments as they become due, by pursuing any remedy available in law or in equity.

Enforcement of Remedies

The enforcement of any remedies provided in the Lease Agreement and the Trust Agreement could prove both expensive and time consuming. The rights and remedies provided in the Lease Agreement and the Trust Agreement may be limited by and are subject to the limitations on legal remedies against cities and counties in the State, including State constitutional limits on expenditures and limitations on the enforcement of judgments against

funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against municipal corporations in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

The legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified, as to the enforceability of the Certificates, the Trust Agreement, the Lease Agreement and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against charter cities and counties and non-profit public benefit corporations in the State. See also "CERTAIN RISK FACTORS – Bankruptcy; City; Trustee" herein.

No Acceleration on Default

In the event of a default, there is no remedy of acceleration of the total Base Rental payments for the term of the Lease Agreement. Any suit for money damages would be subject to the legal limitations on remedies against cities and counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Release and Substitution of the Leased Property

The Lease Agreement permits the release of portions of the Leased Property or the substitution of other real property for all or a portion of the Leased Property. See APPENDIX C: "SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – LEASE AGREEMENT – Substitution of Leased Property" and "– Release of Leased Property." Although the Lease Agreement requires that the substitute property have an annual fair rental value upon becoming part of the Leased Property equal to the maximum annual amount of the Base Rental payments remaining due with respect to the Leased Property being replaced, it does not require that such substitute property have an annual fair rental value equal to the total annual fair rental value at the time of replacement of the Leased Property or portion thereof being replaced. In addition, such replacement property could be located anywhere within the City's boundaries. Therefore, release or substitution of all or a portion of the Leased Property could have an adverse effect on the security for the Certificates.

Seismic Risks

The City is located in a seismically active region. Active earthquake faults underlie both the City and the surrounding Bay Area, including the San Andreas Fault, which passes about 3 miles to the southeast of the City's border, and the Hayward Fault, which runs under Oakland, Berkeley and other cities on the east side of San Francisco Bay, about 10 miles away. Significant recent 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 environs. 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.

In April 2008, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (U.S.G.S.), the California Geological Society, and the Southern California Earthquake Center) reported that there is a 63% chance that one or more quakes of about magnitude 6.7 or larger will occur in the Bay Area before the year 2038. Such earthquakes may be very destructive. For example, the U.S.G.S. predicts a magnitude 7 earthquake occurring today on the Hayward Fault would likely cause hundreds of deaths and almost \$100 billion of damage. In addition to the potential damage to City-owned buildings and facilities, including the Leased Property (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 longer-term harm to the City's economy, tax receipts, and residential and business real property values.

In addition, the Leased Property is located in a seismically active region. The obligation of the City to make payments of Base Rental may be abated, in whole or in part, if the Leased Property or any improvements thereon are damaged or destroyed by natural hazard such as earthquake or flood. The City is not obligated under the Lease Agreement to maintain earthquake or flood insurance, [and the City does not currently have earthquake or flood insurance on the Leased Property.] There can be no assurance that the Leased Property would not be damaged in whole or in part by seismic activity.

Climate Change Regulations

The U.S. Environmental Protection Agency (the "EPA") has taken steps towards the regulation of greenhouse gas ("GHG") emissions under existing federal law. On December 14, 2009, the EPA made an "endangerment and cause or contribute finding" under the Clean Air Act, codified at 40 C.F.R. 1. In the finding, the EPA determined that the body of scientific evidence supported a finding that six identified GHGs – carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that global warming endangers public health and welfare. The EPA also found that GHGs are a pollutant and that GHG emissions from motor vehicles cause or contribute to air pollution. This finding requires that the EPA regulate emissions of certain GHGs from motor vehicles.

Regulation by the EPA can be initiated by private parties or by governmental entities other than the EPA. On July 11, 2008, the EPA issued an Advanced Notice of Proposed Rulemaking (the "ANPR") relating to GHG emissions and climate change. The final rule, the Mandatory Reporting of Greenhouse Gases Rule (74 FR 56260), requires reporting of GHG data and other relevant information from large stationary sources and electricity and fuel suppliers.

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, including California, and have been proposed on the federal level. California passed Assembly Bill 32, the "California Global Warming Solutions Act of 2006," which requires the Statewide level of GHGs to be reduced to 1990 levels by 2020. On October 20, 2011, the California Air Resources Board ("CARB") made the final adjustments to its implementation of Assembly Bill 32: the "California Cap-and-Trade Program" (the "Program") which was implemented in January 2012. The Program covers regulated entities emitting 25,000 MtCO_{2e} per year or more and entities in certain listed industries, including major industrial sources, electricity generating facilities, and fuel suppliers. Non-covered entities are encouraged to opt-in and voluntarily participate in the Program. It is expected that the Program will result in rising electricity and fuel costs, which may adversely affect the City and the local economy.

The City is unable to predict what additional federal or State laws and regulations with respect to GHG emissions or other environmental issues (including but not limited to air, water, hazardous substances and waste regulations) will be adopted, or what effects such laws and regulations will have on the City or the local economy. The effects, however, could be material.

Risk of Sea Level Changes and Flooding

In May 2009, the California Climate Change Center released a final paper, for informational purposes only, which was funded by the California Energy Commission, the California Environmental Protection Agency, the Metropolitan Transportation Commission, the California Department of Transportation and the California Ocean Protection Council. The title of the paper is "The Impacts of Sea-Level Rise on the California Coast." The paper posits that increases in sea level will be a significant consequence of climate change over the next century. The paper evaluated the population, infrastructure, and property at risk from projected sea-level rise if no actions are taken to protect the coast. The paper concluded that significant property is at risk of flooding from 100-year flood events as a result of a 1.4 meter sea level rise. The paper further estimates that two-thirds of this at-risk property (with a replacement value of approximately \$62 billion in 2000 dollars) is concentrated in San Francisco Bay, indicating that this region is particularly vulnerable to impacts associated with sea-level rise due to extensive development on the margins of the Bay. A wide range of critical infrastructure, such as roads, hospitals, schools, emergency facilities, wastewater treatment plants, power plants, and wetlands is also vulnerable. Continued development in vulnerable areas will put additional assets at risk and raise protection costs.

The City is unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur, and if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the City and the local economy.

Natural Gas Transmission and Distribution Pipelines

In September 2010, a Pacific Gas and Electric Company ("PG&E") high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results. There are numerous gas transmission and distribution pipelines owned, operated and maintained by PG&E throughout the City. The City cannot provide any assurances as to the condition of PG&E pipelines in the City, or predict the extent of damage to surrounding property that would occur if a PG&E pipeline located within the City were to explode. The obligation of the City to make payments of Base Rental may be abated if the Leased Property or any improvements thereon are damaged or destroyed by a pipeline explosion. There can be no assurance that the Leased Property would not be damaged in whole or in part by a pipeline explosion.

Other Natural Events

Seismic events, wildfires and other calamitous events may damage City infrastructure and adversely impact the City's ability to provide municipal services. In August 2013, a massive wildfire in Tuolumne County and the Stanislaus National Forest burned over 257,135 acres (the "Rim Fire"), which area included portions of the City's Hetch Hetchy Project. The Hetch Hetchy Project is comprised of dams (including O'Shaughnessy Dam), reservoirs (including Hetch Hetchy Reservoir which supplies 85% of San Francisco's drinking water), hydroelectric generator and transmission facilities and water transmission facilities. Hetch Hetchy facilities affected by the Rim Fire included two power generating stations and the southern edge of the Hetch Hetchy Reservoir. There was no impact to drinking water quality. The City's hydroelectric power generation system was interrupted by the fire, forcing the San Francisco Public Utilities Commission to spend approximately \$1.6 million buying power on the open market and using existing banked energy with PG&E. The Rim Fire inflicted approximately \$40 million in damage to parts of the City's water and power infrastructure located in the region.

Risk Management and Insurance

The Lease Agreement obligates the City to maintain and keep in force various forms of insurance, subject to deductibles, on the Leased Property for repair or replacement in the event of damage or destruction to the Leased Property. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Insurance with Respect to the Leased Property." The City is also required to maintain rental interruption insurance in an amount equal to but not less than 24 months Base Rental payments. The Lease Agreement allows the City to insure against any or all risks, except rental interruption and title defects, through an alternative risk management program such as self-insurance. The City expects to self-insure for general liability insurance only. The City makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Lease Agreement and no assurance can be given as to the adequacy of any such insurance to fund necessary repair or replacement or to pay principal of and interest with respect to the Certificates when due.

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

ORGANIZATION AND FINANCES – LITIGATION AND RISK MANAGEMENT – Risk Retention Program."

State Law Limitations on Appropriations

Article XIII B of the State Constitution limits the amount that local governments can appropriate annually. The ability of the City to make Base Rental payments may be affected if the City should exceed its appropriations limit. The State may increase the appropriation limit of counties in the State by decreasing the State's own appropriation limit. The City does not anticipate exceeding its appropriations limit in the foreseeable future. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES – Article XIII B of the California Constitution" herein.

Changes in Law

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

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

Bankruptcy; City; Trustee

In addition to the limitations on remedies contained in the Trust Agreement and the Lease Agreement, the rights and remedies in the Trust Agreement and the Lease Agreement may be limited and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights. The legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified, as to the enforceability of the Certificates, the Trust Agreement, the Lease Agreement and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against charter cities and counties and non-profit public benefit corporations in the State. See "CERTAIN RISK FACTORS – Enforcement of Remedies" herein.

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

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

The Trust Agreement will state that the Trustee has entered into such agreement in its capacity as trustee and not in its individual corporate capacity. Were the Trustee to fail or become insolvent, federal regulatory authorities such as the Federal Deposit Insurance Corporation, the United States Comptroller of the Currency and the Federal Reserve Bank of the United States would have broad authority respecting the assets and liabilities of the Trustee. No opinion will be delivered in connection with the delivery of the Certificates to the effect that the Leased Property or payments by the City under the Lease Agreement do not constitute property of the Trustee or that the Trust Agreement or the Certificates do not constitute obligations of the Trustee. Were the Trustee to fail or become insolvent, the Lease Agreement, the Trust

Agreement and/or the Certificates could be determined to be assets and/or liabilities of the Trustee. In such event, the Owners of the Certificates could suffer a significant delay in payment and/or a loss of some portion or all of their investment.

State of California Financial Condition

The City receives a significant portion of its funding from the State. *[State budget disclosure to come.]*

The City cannot predict the extent of the budgetary problems the State will encounter in this or in any future fiscal years, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. Accordingly, the City cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors over which the City has no control. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET – City Budget Adopted for Fiscal Years 2014-15 and 2015-16" and "– Impact of the State of California Budget on Local Finances."

U.S. Government 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. On March 1, 2013 automatic spending cuts to federal defense and other discretionary spending (referred to as "sequestration") went into effect, and Congress was unable to enact a regular budget or a continuing resolution for the 2014 fiscal year, which began on October 1, 2013. As a result, certain appropriations lapsed on October 1, 2013 and the United States federal government entered a partial shutdown with furloughs of certain federal workers and suspension of certain services not exempted by law until October 16, 2013. Among other impacts, the City's receipt of federal subsidies for the interest payments on its obligations issued as "Build America Bonds" was delayed (the City's payment of interest on such obligations is not dependent upon federal subsidies and were not adversely affected by such delay). The City cannot predict the outcome of future federal budget deliberations. See APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CITY BUDGET – Impact of Federal Budget Tax Increases and Expenditure Reductions on Local Finances." See also APPENDIX A: "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – OTHER CITY TAX REVENUES" and "– INVESTMENT OF CITY FUNDS."

Other

There may be other risk factors inherent in ownership of the Certificates in addition to those described in this section.

TAX MATTERS

In the opinion of Sidley Austin LLP, San Francisco, California, and Garcia, Hernández, Sawhney & Bermudez, LLP, Oakland, California (collectively, "Co-Special Counsel"), under existing law and assuming compliance with certain covenants in the Trust Agreement, the Lease Agreement, the Facilities Lease, the Tax Certificate and other documents pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Certificates and the timely payment of certain investment earnings to the United States, interest with respect to the Certificates is not includable in the gross income of the owners of the Certificates for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest with respect to the Certificates to be included in gross income retroactive to the date of execution and delivery of the Certificates.

In the further opinion of Co-Special Counsel, interest with respect to the Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest with respect to the Certificates, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Co-Special Counsel express no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Certificates should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Trust Agreement or in other documents pertaining to the Certificates may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Co-Special Counsel express no opinion as to the effect of any change to any document pertaining to the Certificates or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Co-Special Counsel or in reliance upon the advice of counsel other than Co-Special Counsel with respect to the exclusion from gross income of the interest with respect to the Certificates for federal income tax purposes.

Original Issue Discount. The initial public offering price of certain of the Certificates (collectively, the "Discount Certificates") may be less than the principal amount of the Discount Certificates. The difference between the principal amount of a Discount Certificate and its initial public offering price is original issue discount. Original issue discount on a Discount Certificate accrues over the term of such Discount Certificate at a constant interest rate. To the extent it has accrued, original issue discount on a Discount Certificate is treated as interest excludable from

gross income for federal income tax purposes subject to the assumptions, conditions and limitations described above. The amount of original issue discount that accrues in each year to an owner of a Discount Certificate that is a corporation, however, is included in the calculation of the corporation's federal alternative minimum tax liability. In addition, the amount of original issue discount that accrues in each year to an owner of a Discount Certificate is included in determining the distribution requirements of certain regulated investment companies, and also may result in one or more of the collateral federal income tax consequences described above. Consequently, owners of Discount Certificates should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount Certificate will increase an owner's adjusted basis in such Discount Certificate. This will affect the amount of taxable gain or loss realized by the owner of the Discount Certificate upon the prepayment, sale or other disposition of such Discount Certificate. The effect of the accrual of original issue discount on the federal income tax consequences of a prepayment, sale or other disposition of a Discount Certificate that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount Certificates should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount Certificates, other federal income tax consequences of owning and disposing of the Discount Certificates and any state and local tax consequences of owning and disposing of the Discount Certificates.

Premium Certificates. Certain of the Certificates may be sold at an initial offering price in excess of their stated principal amount. The excess, if any, of the tax adjusted basis of Certificates purchased as part of the initial public offering to a purchaser (other than a purchaser who holds such Certificates as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at such Certificates' maturity is "bond premium." Bond premium is amortized over the term of such Certificates for federal income tax purposes (or, in the case of a Certificate with bond premium callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Certificate). Owners of Certificates with bond premium are required to decrease their adjusted basis in such Certificates by the amount of amortizable bond premium attributable to each taxable year such Certificates are held. The amortizable bond premium on such Certificates attributable to a taxable year is not deductible for federal income tax purposes. Such amortizable bond premium is treated as an offset to the interest received with respect to such Certificates. Owners of such Certificates should consult their tax advisors with respect to the determination for federal income tax purposes of the treatment of bond premium upon the sale or other disposition of such Certificates and with respect to the state and local tax consequences of owning and disposing of such Certificates.

Information Reporting and Backup Withholding. Interest paid with respect to the Certificates will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest with respect to the Certificates to be subject to

backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the Internal Revenue Service as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's federal income tax liability provided the required information is furnished to the Internal Revenue Service.

State Tax Exemption. In the further opinion of Co-Special Counsel, interest with respect to the Certificates is exempt from personal income taxes imposed by the State of California.

Future Developments. Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest with respect to the Certificates to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or State tax exemption or the market value of the Certificates. Prospective purchasers of the Certificates should consult their tax advisors regarding any future, pending or proposed federal or State tax legislation, regulations, rulings or litigation as to which Co-Special Counsel express no opinion.

For example, various proposals have been made in Congress and by the President (the "Proposed Legislation"), which, if enacted, would subject interest on obligations that is otherwise excludable from gross income for federal income tax purposes, including interest with respect to the Certificates, to a tax payable by certain owners with adjusted gross income in excess of thresholds specified in the Proposed Legislation. It is unclear if the Proposed Legislation will be enacted, whether in its current or an amended form, or if other legislation that would subject interest with respect to the Certificates to a tax or cause interest with respect to the Certificates to be included in the computation of a tax, will be introduced or enacted. Prospective purchasers should consult their tax advisors as to the effect of the Proposed Legislation, if enacted in its current form or as it may be amended, or such other legislation on their individual situations.

Copies of the proposed forms of opinion of Co-Special Counsel are attached hereto as APPENDIX F.

OTHER LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Certificates and with regard to the tax status of the interest represented by the Certificates (see "TAX MATTERS" herein) are subject to the separate legal opinions of Sidley Austin LLP, San Francisco, California and Garcia, Hernández, Sawhney & Bermudez, LLP, Oakland, California Co-Special Counsel. The signed legal opinions of Co-Special Counsel, dated and premised on facts existing and law in effect as of the date of original delivery of the Certificates, will be delivered to the initial purchasers of the Certificates at the time of original delivery of the Certificates.

The proposed form of the legal opinions of Co-Special Counsel are set forth in APPENDIX F hereto. The legal opinions to be delivered may vary that text if necessary to reflect facts and law on the date of delivery. The opinions will speak only as of their date, and subsequent distributions of it by recirculation of this Official Statement or otherwise will create no implication that Co-Special Counsel have reviewed or express any opinion concerning any of the matters referred to in the opinion subsequent to its date. In rendering their opinions, Co-Special Counsel will rely upon certificates and representations of facts to be contained in the transcript of proceedings for the Certificates, which Co-Special Counsel will not have independently verified.

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

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

The legal opinions and other letters of counsel to be delivered concurrently with the delivery of the Certificates express the professional judgment of the attorneys rendering the opinions or advice regarding the legal issues and other matters expressly addressed therein. By rendering a legal opinion or advice, the giver of such opinion or advice does not become an insurer or guarantor of the result indicated by that opinion, or the transaction on which the opinion or advice is rendered, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

PROFESSIONALS INVOLVED IN THE OFFERING

Public Financial Management, Inc. and Ross Financial have served as Co-Financial Advisors to the City with respect to the sale of the Certificates. The Co-Financial Advisors have assisted the City in the City's review and preparation of this Official Statement and in other matters relating to the planning, structuring, and sale of the Certificates. The Co-Financial Advisors have not independently verified any of the data contained herein nor conducted a

detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement and assume no responsibility for the accuracy or completeness of any of the information contained herein. The Co-Financial Advisors, Co-Special Counsel and Disclosure Counsel will all receive compensation from the City contingent upon the sale and delivery of the Certificates.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Owners of the Certificates to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for fiscal year 2014-15, which is due not later than March 26, 2016, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB"). The notices of enumerated events will be filed by the City with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX D: "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made to assist the initial purchasers of the Certificates to comply with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). In the last five years, the City has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

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

ABSENCE OF LITIGATION

No litigation is pending or threatened concerning the validity of the Certificates, the Trust Agreement, the Lease Agreement, the Facilities Lease, the corporate existence of the City, or the entitlement to their respective offices of the officers of the City who will execute and deliver the Certificates and other documents and certificates in connection therewith. The City will furnish to the initial purchasers of the Certificates a certificate of the City as to the foregoing matters as of the time of the original delivery of the Certificates.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Service ("S&P") and Fitch Ratings ("Fitch") have assigned municipal bond ratings of "___," "___" and "___," respectively, to the Certificates. Certain supplemental information not included in this Official Statement was supplied by the City to the rating agencies to be considered in evaluating the Certificates. Any explanation of the significance of any rating may be obtained only from the respective credit rating agencies: Moody's, at www.moodys.com; S&P, at www.sandp.com; and Fitch, at www.fitchratings.com. The ratings reflect only the views of each rating agency. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. No assurance can be given that any rating issued by a rating agency will be retained for any given period or that the same will not be revised or

withdrawn entirely by such rating agency, if in such rating agency's judgment, circumstances so warrant. Any such revision or withdrawal of the ratings obtained, or other actions of a rating agency related to its rating, may have an adverse effect on the market or market price of the Certificates. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal, but the City has undertaken to provide notice to investors of any such change. See "CONTINUING DISCLOSURE" above.

SALE OF CERTIFICATES

The Certificates were sold at competitive bid on June __, 2015. The Certificates were awarded to _____ (the "Purchaser"), who submitted the lowest true interest cost bid, at a purchase price of \$_____. Under the terms of its bid, the Purchaser will be obligated to purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by Co-Special Counsel, and certain other conditions to be satisfied by the City.

The Purchaser has certified the reoffering prices or yields on the Certificates set forth on the inside cover of this Official Statement, and the City takes no responsibility for the accuracy of those prices or yields. Based on the reoffering prices, the original issue premium on the reoffering of the Certificates is \$_____, and the Purchaser's gross compensation (or "spread") is \$_____.

The Purchaser may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Purchaser.

MISCELLANEOUS

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

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

CITY AND COUNTY OF SAN FRANCISCO

By: _____
Benjamin Rosenfield
Controller

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES

APPENDIX B

**COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE
CITY AND COUNTY OF SAN FRANCISCO
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

[to be attached]

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

The following summary discussion of selected features of the Trust Agreement, the Facilities Lease and the Lease Agreement, all dated as of June 1, 2015, are made subject to all of the provisions of such documents and to the discussions of such documents contained elsewhere in this Official Statement. This summary does not purport to be a complete statement of said provisions and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request from the City through the Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102-4682.

[to come from Co-Special Counsel]

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CITY AND COUNTY OF SAN FRANCISCO REFUNDING CERTIFICATES OF PARTICIPATION SERIES 2015-R1 (CITY OFFICE BUILDINGS – MULTIPLE PROPERTIES PROJECT)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of San Francisco (the "City") in connection with the delivery of the certificates of participation captioned above (the "Certificates"). The Certificates are issued pursuant to that certain Trust Agreement (the "Trust Agreement"), dated as of June 1, 2015, between the City and U.S. Bank National Association, as trustee (the "Trust Agreement"). Pursuant to Section 8.10 of the Trust Agreement and Section 4.8 of the Lease Agreement, dated as of June 1, 2015, by and between the Trustee and the City, the City covenants and agrees as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms will have the following meanings:

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

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

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

"Holder" will mean either the registered owners of the Certificates, or, if the Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" will mean any of the events listed in Section 5(a) of this Disclosure Certificate.

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

"Participating Underwriter" will mean any of the original underwriters or purchasers of the Certificates required to comply with the Rule in connection with offering of the Certificates.

"Rule" will mean Rule 15c2-12(b)(5) adopted by the S.E.C. under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The City will, or will cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which is June 30), commencing with the report for the 2014-15 Fiscal Year (which is due not later than March 26, 2016), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the City, the City will provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City will submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City's fiscal year changes, it will give notice of such change in the same manner as for a Listed Event under Section 5(b).

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

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

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

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

(b) a summary of budgeted general fund revenues and appropriations;

(c) a summary of the assessed valuation of taxable property in the City;

(d) a summary of the ad valorem property tax levy and delinquency rate;

(e) a summary of aggregate annual scheduled lease payments or rental obligations with respect to outstanding certificates of participation and lease revenue bonds payable from the general fund of the City.

(f) a summary of outstanding and authorized but unissued general fund lease obligations, certificates of participation, and other long-term obligations payable from the general fund of the City.

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

SECTION 5. Reporting of 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 Certificates:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults, if material;
- (3) Unscheduled draws on any debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;
- (7) Modifications to the rights of Certificate holders, if material;
- (8) Certificate calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Certificates, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;

- (13) Consummation of a merger, consolidation or acquisition involving an obligated person of the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City will, in a timely manner not in excess of ten business days after the occurrence of the Listed Event, file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate will terminate upon the legal defeasance, prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final Certificate Payment Date of the Certificates, the City will give notice of such termination in the same manner as for a Listed Event under Section 5(b).

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

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

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

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

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

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

SECTION 9. Additional Information. Nothing in this Disclosure Certificate will be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City will have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

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

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

SECTION 12. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which will be an original and all of which will constitute but one and the same instrument.

Dated: June __, 2015

**CITY AND COUNTY OF SAN
FRANCISCO**

Benjamin Rosenfield
Controller

Approved as to form:

DENNIS J. HERRERA
CITY ATTORNEY

By: _____
Deputy City Attorney

CONTINUING DISCLOSURE CERTIFICATE – EXHIBIT A

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

Name of City: CITY AND COUNTY OF SAN FRANCISCO
Name of Issue: CITY AND COUNTY OF SAN FRANCISCO
REFUNDING CERTIFICATES OF PARTICIPATION
SERIES 2015-R1
Date of Delivery: June __, 2015

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Certificates as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated the Date of Delivery. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY AND COUNTY OF SAN FRANCISCO

By: _____ [to be signed only if filed]
Title: _____

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The information in numbered paragraphs 1-11 of this Appendix E, concerning The Depository Trust Company ("DTC") and DTC's book-entry system, has been furnished by DTC for use in official statements and the City takes no responsibility for the completeness or accuracy thereof. The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest or principal with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

Information Furnished by DTC Regarding its Book-Entry Only System

1. The Depository Trust Company ("DTC") will act as securities depository for the certificates (as used in this Section, the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated "AA+" by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit the notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices will be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon

as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the paying agent or bond trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the paying agent or bond trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the paying agent or bond trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

APPENDIX F

PROPOSED FORM OF CO-SPECIAL COUNSEL OPINIONS

[Please use Appendix F sent separately]

APPENDIX G

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

APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO
ORGANIZATION AND FINANCES

This Appendix contains information that is current as of April 1, 2015.

This Appendix A to the Official Statement of the City and County of San Francisco (the "City" or "San Francisco") covers general information about the City's governance structure, budget processes, property taxation system and other tax and revenue sources, City expenditures, labor relations, employment benefits and retirement costs, and investments, bonds and other long-term obligations.

The various reports, documents, websites and other information referred to herein are not incorporated herein by such references. The City has referred to certain specified documents in this Appendix A which are hosted on the City's website. A wide variety of other information, including financial information, concerning the City is available from the City's publications, websites and its departments. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded and is not a part of or incorporated into this Appendix A. The information contained in this Official Statement, including this Appendix A, speaks only as of its date, and the information herein is subject to change. Prospective investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

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CITY GOVERNMENT

City Charter

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

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

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

The Charter distributes governing authority among the Mayor, the Board of Supervisors, the various other elected officers, the City Controller and other appointed officers, and the boards and commissions that oversee the various City departments. Compared to the governance of the City prior to 1995, the Charter concentrates relatively more power in the Mayor and Board of Supervisors. The Mayor appoints most commissioners subject to a two-thirds vote of the Board of Supervisors, unless otherwise provided in the Charter. The Mayor appoints each department head from among persons nominated to the position by the appropriate commission, and may remove department heads.

Mayor and Board of Supervisors

Edwin M. Lee is the 43rd and current Mayor of the City. The Mayor is the chief executive officer of the City, with responsibility for general administration and oversight of all departments in the executive branch of the City. Mayor Lee was elected to his current four-year term as Mayor on November 8, 2011. Prior to being elected, Mayor Lee was appointed by the Board of Supervisors in January 2011 to fill the remaining year of former Mayor Gavin Newsom's term when Mayor Newsom was sworn in as the State's Lieutenant Governor. Mayor Lee served as the

City Administrator from 2005 up until his appointment to Mayor. He also previously served in each of the following positions: the City's Director of Public Works, the City's Director of Purchasing, the Director of the Human Rights Commission, the Deputy Director of the Employee Relations Division, and coordinator for the Mayor's Family Policy Task Force.

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

TABLE A-1

**City and County of San Francisco
Board of Supervisors**

Name	First Elected or Appointed	Current Term Expires
Eric Mar, <i>District 1</i>	2008	2017
Mark Farrell, <i>District 2</i>	2010	2019
Julie Christensen, <i>District 3</i>	2015	2016
Katy Tang, <i>District 4</i>	2013	2019
London Breed, <i>Board President, District 5</i>	2012	2017
Jane Kim, <i>District 6</i>	2010	2019
Norman Yee, <i>District 7</i>	2012	2017
Scott Wiener, <i>District 8</i>	2010	2019
David Campos, <i>District 9</i>	2008	2017
Malia Cohen, <i>District 10</i>	2010	2019
John Avalos, <i>District 11</i>	2008	2017

Other Elected and Appointed City Officers

Dennis J. Herrera was re-elected to his third four-year term as City Attorney in November 2009. The City Attorney represents the City in legal proceedings in which the City has an interest. Mr. Herrera was first elected City Attorney in December 2001. Before becoming City Attorney, Mr. Herrera had been a partner in a private law firm and had served in the Clinton Administration as Chief of Staff of the U.S. Maritime Administration. He also served as president of the San Francisco Police Commission and was a member of the San Francisco Public Transportation Commission.

Carmen Chu was elected Assessor-Recorder of the City in November 2013. The Assessor-Recorder administers the property tax assessment system of the City. Before becoming Assessor-Recorder, Ms. Chu was elected in November 2008 and November 2010 to the Board of Supervisors, representing the Sunset/Parkside District 4 after being appointed by then-Mayor Newsom in September 2007.

José Cisneros was re-elected to a four-year term as Treasurer of the City in November 2013. The Treasurer is responsible for the deposit and investment of all City moneys, and also acts as Tax Collector for the City. Mr. Cisneros has served as Treasurer since September 2004, following his appointment by then-Mayor Newsom. Prior to being appointed Treasurer, Mr. Cisneros served as Deputy General Manager, Capital Planning and External Affairs for the MTA.

Benjamin Rosenfield was appointed to a ten-year term as Controller of the City by then-Mayor Newsom in March 2008, and was confirmed by the Board of Supervisors in accordance with the Charter. The City Controller is responsible for timely accounting, disbursement, and other disposition of City moneys, certifies the accuracy of budgets, estimates the cost of ballot measures, provides payroll services for the City's employees, and, as the Auditor for the City, directs performance and financial audits of City activities. Before becoming Controller, Mr. Rosenfield served as the Deputy City Administrator under former City Administrator Edwin Lee from 2005 to

2008. He was responsible for the preparation and monitoring of the City's ten-year capital plan, oversight of a number of internal service offices under the City Administrator, and implementing the City's 311 non-emergency customer service center. From 2001 to 2005, Mr. Rosenfield worked as the Budget Director for then-Mayor Willie L. Brown, Jr. and then-Mayor Newsom. As Budget Director, Mr. Rosenfield prepared the City's proposed budget for each fiscal year and worked on behalf of the Mayor to manage City spending during the course of each year. From 1997 to 2001, Mr. Rosenfield worked as an analyst in the Mayor's Budget Office and a project manager in the Controller's Office.

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

CITY BUDGET

Overview

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

The City manages the operations of its nearly 60 departments, commissions and authorities, including the enterprise fund departments, through its annual budget. In July 2014, the City adopted a full two-year budget. The City's fiscal year 2014-15 adopted budget appropriates annual revenues, fund balance, transfers, and reserves of approximately \$8.58 billion, of which the City's General Fund accounts for approximately \$4.27 billion. In fiscal year 2015-16 appropriated revenues, fund balance, transfers and reserves total approximately \$8.56 billion and \$4.33 billion of General Fund budget. For a further discussion of the fiscal years 2014-15 and 2015-16 adopted budgets, see "City Budget Adopted for Fiscal Years 2014-15 and 2015-16" herein.

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

Budget Process

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

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

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

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

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

November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle

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

Proposition A requires four significant changes:

- Specifies a two-year (biennial) budget, replacing the annual budget. Fixed two-year budgets were approved beginning in July 2012 by the Board of Supervisors for four departments: the Airport, the Port, the Public Utilities Commission, and MTA. In July 2014, the Board also approved fixed two year budgets for the Library, Retirement, and Child Support Services departments. All other departments prepared balanced, rolling two-year budgets.
- Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The most recent five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the Mayor, Budget Analyst for the Board of Supervisors and Controller's Office on December 9, 2014, for FY 2015-16 through FY 2019-20, to be considered by the Board of Supervisors. See "Five Year Financial Plan" below.
- Charges the Controller's Office with proposing to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt, and financial measures in the case of disaster recovery and requires the City to adopt budgets consistent with these policies once approved. The Controller's Office

may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent year.

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

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

Role of Controller; Budgetary Analysis and Projections

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

Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued the most recent of these reports, the fiscal year 2014-15 Six Month Budget Status Report (the "Six Month Report"), on February 10, 2015. In addition, under Proposition A of November 2009, the Mayor must submit a Five-Year Financial Plan every two years to the Board of Supervisors which forecasts revenues and expenditures for the next five fiscal years and proposes actions to balance them. On December 9, 2014, the Mayor, Budget Analyst for the Board of Supervisors and Controller's Office issued a proposed Five Year Financial Plan for FY 2015-16 through FY 2019-20, to be considered by the Board of Supervisors. For details see "Five Year Financial Plan" below. On March 12, 2015 the Mayor, Budget Analyst for the Board of Supervisors and the Controller's Office released an update to the City's proposed Five Year Financial Plan. Finally, as discussed above, the City Charter directs the Controller to annually report on the accuracy of economic assumptions underlying the revenue estimates in the Mayor's proposed budget. On June 10, 2014 the Controller released the Discussion of the Mayor's FY 2014-15 and FY 2015-16 Proposed Budget (the "Revenue Letter"). All of these reports are available from the Controller's website: www.sfcontroller.org. The information from said website is not incorporated herein by reference.

General Fund Results: Audited Financial Statements

The General Fund portions of the fiscal year 2014-15 and 2015-16 Original Budgets total \$4.27 billion, and \$4.33 billion respectively. This does not include expenditures of other governmental funds and enterprise fund departments such as the Airport, the MTA, the Public Utilities Commission, the Port, and the City-owned hospitals

(San Francisco General and Laguna Honda). Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2011-12 through 2013-14 and the Original Budgets for fiscal years 2014-15 and 2015-16. See "PROPERTY TAXATION –Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

The City's most recently completed Comprehensive Annual Financial Report (the "CAFR" which includes the City's audited financial statements) for fiscal year 2013-14 was issued on November 28, 2014. The fiscal year 2013-14 CAFR reported that as of June 30, 2014, the General Fund available for appropriation in subsequent years was \$295 million (see Table A-4), of which \$136 million was assumed in the fiscal year 2014-15 Original Budget and \$137 million was assumed in the fiscal year 2015-16 Original Budget. This represents a \$55 million increase in available fund balance over the \$240 million available as of June 30, 2013 and resulted primarily from savings and greater-than-budgeted additional tax revenue, particularly property transfer tax, business tax, and state hospital revenues in fiscal year 2013-14. The fiscal year 2014-15 CAFR is scheduled to be completed in late November 2015.

TABLE A-2

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 2011-12 through 2015-16

	(000s)				
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
	Final Revised Budget	Final Revised Budget	Final Revised Budget	Original Budget ²	Original Budget ²
Prior-Year Budgetary Fund Balance & Reserves	\$427,886	\$557,097	\$156,426	\$193,583	\$149,823
<u>Budgeted Revenues</u>					
Property Taxes	\$1,028,677	\$1,078,083	\$1,153,417	\$1,232,927	\$1,290,500
Business Taxes	389,878	452,853	532,988	572,385	597,835
Other Local Taxes	602,455	733,295	846,924	910,430	922,940
Licenses, Permits and Franchises	24,257	25,378	25,533	27,129	27,278
Fines, Forfeitures and Penalties	7,812	7,194	4,994	4,242	4,265
Interest and Investment Earnings	6,219	6,817	10,946	6,853	8,253
Rents and Concessions	22,895	21,424	23,060	22,692	18,738
Grants and Subventions	680,091	721,837	799,188	861,933	882,270
Charges for Services	153,318	169,058	177,081	209,810	199,455
Other	14,803	13,384	14,321	20,538	19,651
Total Budgeted Revenues	\$2,930,405	\$3,229,323	\$3,588,452	\$3,868,938	\$3,971,185
Bond Proceeds & Repayment of Loans	589	627	1,105	29,151	29,043
<u>Expenditure Appropriations</u>					
Public Protection	\$991,840	\$1,058,324	\$1,102,667	\$1,173,977	\$1,190,234
Public Works, Transportation & Commerce	53,878	68,351	79,635	127,973	129,991
Human Welfare & Neighborhood Development	677,953	670,958	745,277	799,355	814,586
Community Health	573,970	635,960	703,092	736,916	733,506
Culture and Recreation	99,762	105,580	112,051	126,932	121,579
General Administration & Finance	190,014	190,151	199,709	293,107	293,686
General City Responsibilities ¹	99,274	86,527	86,519	158,180	146,460
Total Expenditure Appropriations	\$2,686,691	\$2,815,852	\$3,028,950	\$3,416,440	\$3,430,042
Budgetary reserves and designations, net	\$11,112	\$4,191	\$0	\$19,261	\$11,461
Transfers In	\$160,187	\$195,388	\$242,958	\$179,282	\$180,460
Transfers Out	(567,706)	(646,018)	(720,114)	(835,253)	(889,008)
Net Transfers In/Out	(\$407,519)	(\$450,630)	(\$477,156)	(\$655,971)	(\$708,548)
Budgeted Excess (Deficiency) of Sources					
Over (Under) Uses	\$253,558	\$516,375	\$239,876	\$0	\$0
Variance of Actual vs. Budget	299,547	146,901	184,184		
Total Actual Budgetary Fund Balance	\$553,105	\$663,276	\$424,060	\$0	\$0

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

² FY 2014-15 and FY 2015-16 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the previous year's Final Revised Budget.

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2014 was \$836 million (as shown in Table A-3 and Table A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of \$3.7 billion. Audited General Fund balances are shown in Table A-3 on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2010 through June 30, 2014.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO
Summary of Audited General Fund Balances
Fiscal Year Ended June 30¹
(000s)

	2010	2011	2012	2013	2014
Restricted for rainy day (Economic Stabilization account)	\$39,582	\$33,439	\$31,099	\$23,329	\$60,289 ²
Restricted for rainy day (One-time Spending account)	-	-	3,010	3,010	22,905 ²
Committed for budget stabilization (citywide)	-	27,183	74,330	121,580	132,264
Committed for Recreation & Parks expenditure savings reserve	4,677	6,248	4,946	15,907	12,862 ²
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	69,562	57,846	62,699	74,815	92,269 ²
Assigned for appropriation carryforward	60,935	73,984	85,283	112,327	159,345 ²
Assigned for budget savings incentive program (citywide)	-	8,684	22,410	24,819	32,088 ²
Assigned for salaries and benefits (MOU)	4,198	7,151	7,100	6,338	10,040 ²
Total Fund Balance Not Available for Appropriation	\$178,954	\$214,535	\$290,877	\$382,125	\$522,062 ³
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies	\$27,758	\$44,900	\$23,637	\$30,254	79,223 ⁴
Assigned for General reserve	-	-	\$22,306	\$21,818	-
Assigned for subsequent year's budget	105,328	159,390	104,284	122,689	135,938 ⁵
Unassigned for General Reserve	-	-	-	-	45,748
Unassigned - Budgeted for use second budget year	-	-	103,575	111,604	137,075
Unassigned - Available for future appropriation	-	9,061	12,418	6,147	21,656
Total Fund Balance Available for Appropriation	\$133,086	\$213,351	\$266,220	\$292,512	\$419,640 ⁶
Total Fund Balance, Budget Basis	\$312,040	\$427,886	\$557,097	\$674,637	\$941,702
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$312,040	\$427,886	\$557,097	\$674,637	\$941,702
Unrealized gain or loss on investments	1,851	1,610	6,838	(1,140)	935
Nonspendable fund balance	14,874	20,501	19,598	23,854	24,022 ⁷
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(71,967)	(43,072)	(46,140)	(38,210)	(37,303)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(55,938)	(63,898)	(62,241)	(93,910)	(66,415)
Deferred Amounts on Loan Receivables	(9,082)	(13,561)	(16,551)	(20,067)	(21,670)
Pre-paid lease revenue	-	(1,460)	(2,876)	(4,293)	(5,709)
Total Fund Balance, GAAP Basis	<u>\$191,778</u>	<u>\$328,006</u>	<u>\$455,725</u>	<u>\$540,871</u>	<u>\$835,562</u>

¹ Summary of financial information derived from City CAFRs. GASB Statement 54, issued in March 2009, and implemented in the City's FY 2010-11 CAFR, establishes a new fund balance classification based primarily on the extent to which a government is bound to observe constraints imposed on the use of funds. Subsequent footnotes in this table provide the former descriptive titles for 2011 fund balance amounts.

² Prior to 2011, each line item was titled "reserved" for the purpose indicated

³ Prior to 2011, titled "Total Reserved Fund Balance"

⁴ Prior to 2011, titled "Designated for litigation and contingencies"

⁵ Prior to 2011, titled "Unreserved, undesignated fund balance available for appropriation"

⁶ Prior to 2011, titled "Total Unreserved Fund Balance"

⁷ Prior to 2011, titled "Reserved for Assets Not Available for Appropriation"

Table A-4, entitled "Audited Statement of Revenues, Expenditures and Changes in General Fund Balances," is extracted from information in the City's CAFR for the five most recent fiscal years. Audited financial statements for the fiscal year ended June 30, 2014 are included herein as Appendix B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2014." Prior years' audited financial statements can be obtained from the City Controller's website. Information from the City Controller's website is not incorporated herein by reference. Excluded from this Statement of General Fund Revenues and Expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

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TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Audited Statement of Revenues, Expenditures and Changes in General Fund Balances
Fiscal Year Ended June 30¹
(000s)

	2010	2011	2012	2013	2014
Revenues:					
Property Taxes	\$1,044,740	\$1,090,776	\$1,056,143	\$1,122,008	\$1,178,277
Business Taxes ²	353,471	391,057	435,316	479,627	562,896
Other Local Taxes	520,733	608,197	751,301	756,346	922,205
Licenses, Permits and Franchises	24,249	25,252	25,022	26,273	26,975
Fines, Forfeitures and Penalties	17,279	6,868	8,444	6,226	5,281
Interest and Investment Income	7,900	5,910	10,262	2,125	7,866
Rents and Concessions	18,733	21,943	24,932	35,273	25,501
Intergovernmental	651,074	657,238	678,808	720,625	827,750
Charges for Services	138,615	146,631	145,797	164,391	180,850
Other	21,856	10,377	17,090	14,142	9,760
Total Revenues	\$2,798,650	\$2,964,249	\$3,153,115	\$3,327,036	\$3,747,361
Expenditures:					
Public Protection	\$948,772	\$950,548	\$991,275	\$1,057,451	\$1,096,839
Public Works, Transportation & Commerce	40,225	25,508	52,815	68,014	78,249
Human Welfare and Neighborhood Development	632,713	610,063	626,194	660,657	720,787
Community Health	473,280	493,939	545,962	634,701	668,701
Culture and Recreation	94,895	99,156	100,246	105,870	113,019
General Administration & Finance	169,980	175,381	182,898	186,342	190,335
General City Responsibilities	87,267	85,422	96,132	81,657	86,968
Total Expenditures	\$2,447,132	\$2,440,017	\$2,595,522	\$2,794,692	\$2,954,898
Excess of Revenues over Expenditures	\$351,518	\$524,232	\$557,593	\$532,344	\$792,463
Other Financing Sources (Uses):					
Transfers In	\$94,115	\$108,072	\$120,449	\$195,272	\$216,449
Transfers Out	(559,263)	(502,378)	(553,190)	(646,912)	(720,806)
Other Financing Sources	3,733	6,302	3,682	4,442	6,585
Other Financing Uses	-	-	-	-	-
Total Other Financing Sources (Uses)	(\$461,415)	(\$388,004)	(\$429,059)	(\$447,198)	(\$497,772)
Extraordinary gain/(loss) from dissolution of the Redevelopment Agency			(815)	-	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(\$109,897)	\$136,228	\$127,719	\$85,146	\$294,691
Total Fund Balance at Beginning of Year	\$301,675	\$191,778	\$328,006	\$455,725	\$540,871
Total Fund Balance at End of Year -- GAAP Basis⁴	\$191,778	\$328,006	\$455,725	\$540,871	\$835,562
Fund Balance Available to Support Subsequent Year's Appropriations, Year End					
-- GAAP Basis	(\$2,050)	\$48,070	\$133,794	\$135,795	\$178,066
-- Budget Basis ⁵	\$105,328	\$168,451	\$220,277	\$240,410	\$294,669

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

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

³ Prior to adoption of GASB Statement 54 in 2011, titled "Unreserved & Undesignated Balance, Year End"

⁴ Total FY 2012-13 amount is comprised of \$122.7 million in assigned balance subsequently appropriated for use in FY 2013-14 plus \$117.8 million unassigned balance available for future appropriations.

⁵ Beginning in FY 2013-14, CAFR reports year end General Reserve balance as unassigned but it is not considered available for subsequent year's appropriations.

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

Five-Year Financial Plan

The Five-Year Financial Plan is required under Proposition A, a Charter amendment approved by voters in November 2009. The Charter requires the plan to forecast expenditures and revenues for the next five fiscal years, propose actions to balance revenues and expenditures during each year of the plan, and discuss strategic goals and corresponding resources for City departments. Proposition A required that a Five-Year Financial Plan be adopted every two years. The City updates the plan annually.

On December 9, 2014, the Mayor, Budget Analyst for the Board of Supervisors and Controller's Office issued a proposed Five-Year Financial Plan for fiscal year 2015-16 through fiscal year 2019-20, to be considered by the Board of Supervisors. The Plan projected shortfalls of \$16 million, \$88 million, \$275 million, \$376 million, and \$418 million cumulatively for fiscal years 2015-16 through fiscal year 2019-20, respectively. On March 12, 2015, the Plan was updated with the most recent information on the City's fiscal condition. For General Fund Supported operations, the updated Plan projects budgetary shortfalls of \$21 million, \$67 million, \$289 million, and \$376 million and \$402 cumulatively over the next five fiscal years.

The updated Plan projects a cumulative decrease in shortfall projections of \$16 million during the plan period. The updated Plan projects continued growth in General Fund revenues of 14%, primarily composed of growth in local tax sources, offset by projected increases in employee salaries and benefits, citywide operating expenses, and departmental costs of 24%. The Plan presents an array of fiscal strategies to constrain this increase in expenditures and bring revenues and expenditures into balance. To the extent budgets are balanced with ongoing savings or revenues, future shortfalls expected to decrease. .

The City currently projects growth in General Fund sources of \$610 million over the five-year period, and expenditure growth of \$1.012 billion. Growth in citywide operating costs is responsible for the majority of the cost growth and projected annual shortfalls, growing by \$397 million during the plan period. Other costs projected to increase during the period include: employee wage and benefit cost increases of \$367 million, Charter mandated baseline and reserve changes of \$162 million, and individual department cost increases totaling \$86 million. These figures incorporate cost increases incurred due to voter approval of several November 2014 ballot measures:

Proposition B – Population-Based Adjustment to General Fund Appropriation to Transportation Fund: Starting in FY 2015-16, the City is required to adjust the baseline to the Municipal Transportation Agency annually by the percent increase in the San Francisco population. The estimated value of this transfer is \$23.6 million in FY 2015-16, increasing annually by the change in population thereafter.

Proposition C – Children and Families First Initiative: Voters approved the renewal of the Public Education Enrichment Fund (PEEF) and the Children's Amendment (The Children's Fund and the Children's Baseline) through Proposition C. PEEF and the Children's Amendment are local legislation that set aside General Fund dollars for services for San Francisco children and families. The Plan reflects an increase in the property tax set-aside for the Children's Fund, now the Children and Youth Fund, the removal of in-kind contributions to the San Francisco Unified School District through PEEF, and the bifurcation of the existing Rainy Day Reserve on January 1, 2015 into a City Reserve and a School Reserve. This will increase costs to the General Fund by approximately \$21 million annually by the end of the four-year phase in period.

Proposition J - Minimum Wage Increase: This report reflects the projected increases to the City's minimum wage mandated by Proposition J. Over the course of the next three years, the minimum wage in San Francisco will increase from \$11.05/hour, the minimum wage as of January 1, 2015 pursuant to the existing minimum wage legislation, to \$15.00/hour on July 1, 2018, and by CPI thereafter. This will increase City costs for In Home Supportive Services (IHSS) program workers at the Human Services Agency and employees of some City contractors by approximately \$11.3 million in FY 2015-16,

The Plan proposes the following strategies to restore fiscal stability: capital spending and debt restructuring; controlling wage and benefit costs; additional tax and fee revenues; limiting growth in contract and materials costs; and ongoing departmental revenues and savings initiatives.

New to the Plan is consideration of the potential impact of a recession on the City's five year outlook. The base case does not assume an economic downturn due to the difficulty of predicting recessions; however, the City has historically not experienced more than six consecutive years of expansion and the current economic expansion began over five years ago. The recession scenario projects a cumulative deficit of \$821 million in fiscal year 2019-20 as compared to the base case cumulative deficit of \$402 million in fiscal year 2019-20 as updated. At a high level, the recession scenario would necessitate much larger reductions in expenditures than the base case fiscal strategies section of the report. In the base case projection, the report assumes expenditure growth of 23%; in the fiscal strategies section a more modest growth rate of 18% over the next five years is assumed, which contains both revenue and expenditure solutions. In the recession scenario, expenditures grow by 9% over the next five years to match the slower projected rate of revenue growth.

City Budget Adopted for Fiscal Years 2014-15 and 2015-16

On July 23, 2014, Mayor Lee signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for fiscal years ending June 30, 2015 and June 30, 2016. This is the third two-year budget for the entire City. The adopted budget closed the \$67 million and \$133 million general fund shortfalls for fiscal year 2014-15 and fiscal year 2015-16 identified in the Five-Year Financial Plan update through a combination of increased revenues and expenditures savings, partially offset by expenditure increases including: (a) net citywide revenue increases of \$140 million and \$78 million, respectively; (b) a net citywide expenditure increase of \$31 million in fiscal year 2014-15 primarily from increased labor costs, followed by citywide expenditure savings of \$62 million in fiscal year 2015-16, made possible in part by lower than expected health costs and improved pension system returns; and, (d) increased departmental costs totaling \$43 million and \$7 million respectively, the largest component of which was one-time and ongoing operating costs of the new San Francisco General Hospital opening in December 2015.

On July 10, 2014 the Board of Supervisors Budget and Finance Committee unanimously approved the Mayor's proposed budget with minor revisions totaling \$19 million in fiscal year 2014-15 and \$13 million in fiscal year 2015-16. The revisions in fiscal year 2014-15 were funded by \$12 million in Committee reductions to the Mayor's budget and \$7 million in additional fiscal year 2014-15 state subvention revenue that became available after the state approved its budget. The revisions in fiscal year 2015-16 were funded by \$10 million in Committee reductions to the Mayor's budget, increased by an additional \$5 million of fiscal year 2014-15 and fiscal year 2015-16 expenditure reductions, and offset by increased expenditure requirements of \$2 million primarily from proposed increases to the Children's Fund property tax set-aside.

The Original Budget for fiscal years 2014-15 and 2015-16 totals \$8.58 billion and \$8.56 billion respectively, representing an increase of fiscal year 2014-15 over fiscal year 2013-14 of \$673 million and a decrease from fiscal year 2014-15 to fiscal year 2015-16 of \$24 million. The General Fund portion of each year's budget is \$4.27 billion in fiscal year 2014-15 and \$4.33 billion in fiscal year 2015-16 representing consecutive increases of \$321 million and \$60 million. There are 28,435 funded full time positions in the fiscal year 2014-15 Original Budget and 29,058 in the fiscal year 2015-16 Original Budget representing increases of 766 and 622 positions, respectively.

The budget for fiscal years 2014-15 and 2015-16 adheres to the City's policy limiting the use of certain nonrecurring revenues to nonrecurring expenses proposed by the Controller's Office and approved unanimously by the Board of Supervisors on November 22, 2011. The policy was approved by the Mayor on December 1, 2011 and can only be suspended for a given fiscal year by a two-thirds vote of the Board. Specifically, this policy limited the Mayor and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance (defined as General Fund prior year unassigned fund balance before deposits to the Rainy Day Reserve or Budget Stabilization Reserve in excess of the average of the previous five years), the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves, acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long term obligations.

Other Budget Updates

On February 10, 2015, the Controller's Office issued the Six-Month Report which projected the General Fund would end fiscal year 2014-15 with a balance of \$256.5 million. This represents a \$21.6 million improvement from the previously assumed ending balance of the adopted budget. The fund balance projection includes \$158.7 million in prior year ending fund balance, a projected \$96.9 million revenue surplus, \$34.2 million from departmental cost savings, offset by \$23 million in increased reserve deposits and \$10.3 million in increased contributions to baselines. The general revenue improvements are driven primarily by a significant increase in property transfer tax revenues, as well as hotel and business tax receipts higher than budgeted levels. The Nine-Month Budget Status Report, to be published in May 2015, will provide updated projections.

Impact of the State of California Budget on Local Finances

Revenues from the State represent approximately 16% of the General Fund revenues appropriated in the budget for fiscal years 2014-15 and 2015-16, and thus changes in State revenues could have a significant impact on the City's finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor's Proposed Budget required to be submitted in January; and 2) the "May Revise" to the Governor's Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget. City policy makers review and estimate the impact of both the Governor's Proposed and May Revise Budgets prior to the City adopting its own budget.

On July 10, 2014, Governor Brown signed the fiscal year 2014-15 California State budget into law. Consistent with the statewide economic recovery spending in fiscal year 2014-15 is set to increase by 7% over fiscal year 2013-14, including a \$1.6 billion deposit to the newly created Rainy Day Reserve. The budget includes payments of local mandate debt if sales tax revenue exceeds set thresholds. Additional uncertainty remains related to the implementation of national health care reform (the Affordable Care Act, or ACA). The State's budget estimates State savings of \$725 million annually beginning in FY 2014-15. The savings are achieved by reducing realignment funding to county health departments of which the City's share is \$17 million. State savings estimates assume that costs for the care of uninsured will decrease as a result of the ACA, offsetting the impact of reduced realignment funding. The timing and extent to which reduced subventions will be offset by increased insurer reimbursements is not certain at this time, and budget adjustments may be required should the Mayor and the Board of Supervisors wish to backfill lost revenue and increased costs.

On January 9, 2015, the Governor released the 2015-16 Proposed State Budget, which projects fiscal year 2014-15 General Fund revenues and transfers of \$108.0 billion, total expenditures of \$111.7 billion and a year-end surplus of \$1.4 billion (inclusive of the \$5.1 billion fund balance in the State's General Fund from fiscal year 2013-14), of which \$971 million would be reserved for the liquidation of encumbrances and \$452 million would be deposited in a reserve for economic uncertainties. As required by the fiscal year 2014-15 California State budget, the Governor is proposing to pay local governments \$533 million for pre-2004 mandate debt, of which \$17 million is estimated to be received by the City. The Governor also proposed increases of \$150 million and \$240 million in fiscal years 2014-15 and 2015-16, respectively, for county Medi-Cal administration. The proposed budget estimates that counties will save \$724.9 million and \$698.2 million in fiscal years 2014-15 and 2015-16, respectively, in indigent health care costs under the ACA, all of which will be redirected to fund CalWORKs grant increases. The proposed budget also describes certain factors threatening the continuation of the In Home Supportive Services Maintenance of Effort ("MOE") negotiated by counties with the State in 2012. In fiscal year 2013-14, the county share of the MOE was approximately \$1 billion. The Governor will release a revised budget in May, at which time the City will evaluate the May revision to determine its impact on the City's finances.

Impact of Federal Budget Tax Increases and Expenditure Reductions on Local Finances

On December 26, 2013, the President signed a two-year federal budget. The budget partially repeals sequester-related budget cuts for Fiscal Years 2013-14 and 2014-15. The Controller's Office will continue to monitor federal budget changes and provide updates on City financial impacts as necessary in quarterly budget updates.

Budgetary Reserves

Under the Charter, the Treasurer, upon recommendation of the City Controller, is authorized to transfer legally available moneys to the City's operating cash reserve from any unencumbered funds then held in the City's pooled investment fund. The operating cash reserve is available to cover cash flow deficits in various City funds, including the City's General Fund. From time to time, the Treasurer has transferred unencumbered moneys in the pooled investment fund to the operating cash reserve to cover temporary cash flow deficits in the General Fund and other City funds. Any such transfers must be repaid within the same fiscal year in which the transfer was made, together with interest at the rate earned on the pooled funds at the time the funds were used. The City has not issued tax and revenue anticipation notes to finance short-term cash flow needs since fiscal year 1996-97. See "INVESTMENT OF CITY FUNDS – Investment Policy" herein.

The financial policies passed on April 13, 2010 codified the current practice of maintaining an annual General Reserve to be used for current-year fiscal pressures not anticipated during the budget process. The policy set the reserve equal to 1% of budgeted regular General Fund revenues in fiscal year 2012-13 and increasing by 0.25% each year thereafter until reaching 2% of General Fund revenues in fiscal year 2016-17. The Original Budget for fiscal years 2014-15 and 2015-16 includes starting balances of \$58 million and \$70 million for the General Reserve for fiscal years 2014-15 and 2015-16, respectively. On December 16, 2014, the Board of Supervisors adopted financial policies to further increase the City's General Reserve from 2% to 3% of General Fund revenues between FY 2017-18 and FY 2020-21 while reducing the required deposit to 1.5% of General Fund revenues during economic downturns. The intent of this policy change is to increase reserves available during a multi-year downturn.

In addition to the operating cash and general reserves the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the Board of Supervisors. These include the Salaries and Benefit Reserve (Original Budget for fiscal years 2014-15 and 2015-16 includes \$17 million in fiscal year 2014-15 and \$18 million in fiscal year 2015-16), and the Litigation Reserve (Original Budget for fiscal years 2014-15 and 2015-16 includes \$17 million in fiscal year 2014-15 and \$16 million in fiscal year 2015-16). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

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

Rainy Day Reserve

In November 2003, City voters approved the creation of the City's Rainy Day Reserve into which the previous Charter-mandated cash reserve was incorporated. Charter Section 9.113.5 requires that if the Controller projects total General Fund revenues for the upcoming budget year will exceed total General Fund revenues for the current year by more than five percent, then the City's budget shall allocate the anticipated General Fund revenues in excess of that five percent growth into the following two accounts within the Rainy Day Reserve and for other lawful governmental purposes.

50 percent of the excess revenues to the Rainy Day Economic Stabilization account;
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 2013-14 revenue exceeded the deposit threshold by \$86 million generating a deposit of \$64 million to the Rainy Day Reserve composed of \$43 million to the Economic Stabilization account and \$21 million to the One-Time Capital Expenditures account. The fiscal year 2014-15 and 2015-16 budgets do not anticipate deposits to the Rainy Day Reserve.

Deposits to the Rainy Day Reserve's Economic Stabilization account are subject to a cap of 10% of actual total General Fund revenues as stated in the City's most recent independent annual audit. Amounts in excess of that cap in any year will be allocated to capital and other one-time expenditures. Monies in the Rainy Day Reserve's Economic Stabilization account are available to provide a budgetary cushion in years when General Fund revenues are

projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Monies in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. Withdrawals of \$12 million and \$3 million from the One-Time Capital Expenditures account are budgeted in fiscal years 2014-15 and 2015-16 respectively leaving a balance of \$8 million at the end of fiscal year 2015-16.

If the Controller projects that per-pupil revenues for the SFUSD will be reduced in the upcoming budget year, the Board of Supervisors and Mayor may appropriate funds from the Rainy Day Economic Stabilization account to the SFUSD. This appropriation may not exceed the dollar value of the total decline in school district revenues, or 25% of the account balance, whichever is less. The fiscal year 2013-14 year-end balance of the Rainy Day Reserve's Economic Stabilization Account is \$60 million. The fiscal year 2014-15 budget includes an allocation of \$11 million to the SFUSD leaving a balance of \$49 million.

Effective January 1, 2015, Proposition C passed by the voters in November 2014, divides the existing Rainy Day Economic Stabilization Account into a City Rainy Day Reserve ("City Reserve") and a School Rainy Day Reserve ("School Reserve") with each reserve account receiving 50% of the January 1, 2015 balance. Beginning in fiscal year 2015-16, 25% of Rainy Day Reserve deposits will go to the School Reserve and 75% will go to the City Reserve. No withdrawals or deposits from the City Reserve are included in the Original Budget for fiscal year 2014-15 or fiscal year 2015-16 leaving a City Reserve budgeted balance of \$25 million at the end of FY 2015-16.

Budget Stabilization Reserve

On April 13, 2010, the Board of Supervisors unanimously approved the Controller's proposed financial policies on reserves and the use of certain volatile revenues. The policies were approved by the Mayor on April 30, 2010, and can only be suspended for a given fiscal year by a two-thirds vote of the Board. With these policies the City created two additional types of reserves: General Reserve, described above, and the Budget Stabilization Reserve.

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

Fiscal year 2013-14 RPTT receipts exceeded the five-year annual average by \$44 million and ending general fund unassigned fund balance was \$56 million, triggering a \$75 million deposit. However, this deposit requirement was partially offset by the Rainy Day Reserve deposit of \$64 million, resulting in a required deposit of \$11 million and bringing the fiscal year 2013-14 Budget Stabilization Reserve ending balance to \$132 million. The fiscal year 2014-15 and fiscal year 2015-16 budgets project deposits of \$28 million and \$4 million, respectively, as a result of projected RPTT receipts in excess of the five-year annual average, bringing the projected ending balance in fiscal year 2015-16 to \$165 million. The Controller's Office will determine final deposits in October of each year based on actual receipts during the prior fiscal year.

The maximum combined value of the Rainy Day Reserve and the Budget Stabilization Reserve is 10% of General Fund revenues, which would be approximately \$389 million for fiscal year 2014-15. No further deposits will be made once this cap is reached, and no deposits are required in years when the City is eligible to withdraw. The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve, however, there is no provision for allocations to the SFUSD. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn; in the second year, the maximum withdrawal is 50%; and, in the third year, the entire remaining balance may be drawn.

THE SUCCESSOR AGENCY

As described below, the Successor Agency was established by the Board of Supervisors of the City following dissolution of the former San Francisco Redevelopment Agency (the "Former Agency") pursuant to the Dissolution Act. Within City government, the Successor Agency is titled "The Office of Community Investment and Infrastructure as the Successor to the San Francisco Redevelopment Agency." Set forth below is a discussion of the history of the Former Agency and the Successor Agency, the governance and operations of the Successor Agency and its powers under the Redevelopment Law and the Dissolution Act, and the limitations thereon.

The Successor Agency maintains a website as part of the City's website. The information on such websites is not incorporated herein by reference.

Authority and Personnel

The powers of the Successor Agency are vested in its governing board (the "Successor Agency Commission"), referred to within the City as the "Commission on Community Investment and Infrastructure," which has five members who are appointed by the Mayor of the City with the approval of the Board of Supervisors. Members are appointed to staggered four-year terms (provided that two members have initial two-year terms). Once appointed, members serve until replaced or reappointed.

The Successor Agency currently employs approximately 50.6 full-time equivalent positions. The Executive Director, Tiffany Bohee, was appointed to that position in February 2012. The other principal full-time staff positions are the Deputy Executive Director, Community and Economic Development; the Deputy Executive Director, Finance and Administration; the Deputy Executive Director, Housing; and the Successor Agency General Counsel. Each project area in which the Successor Agency continues to implement redevelopment plans, is managed by a Project Manager. There are separate staff support divisions with real estate and housing development specialists, architects, engineers and planners, and the Successor Agency has its own fiscal, legal, administrative and property management staffs, including a separate staff to manage the South Beach Harbor Marina.

Effect of the Dissolution Act

AB 26 and AB 27. The Former Agency was established under the Community Redevelopment Law in 1948. The Former Agency was established under the Redevelopment Law in 1948. As a result of AB 1X 26 and the decision of the California Supreme Court in the *California Redevelopment Association* case, as of February 1, 2012, all redevelopment agencies in the State were dissolved, including the Former Agency, and successor agencies were designated as successor entities to the former redevelopment agencies to expeditiously wind down the affairs of the former redevelopment agencies and also to satisfy "enforceable obligations" of the former redevelopment agency all under the supervision of a new oversight board, the State Department of the Finance and the State Controller.

Pursuant to Resolution No. 11-12 (the "Establishing Resolution") adopted by the Board of Supervisors of the City on January 24, 2012 and signed by the Mayor on January 26, 2012, and Sections 34171(j) and 34173 of the Dissolution Act, the Board of Supervisors of the City confirmed the City's role as successor to the Former Agency. On June 27, 2012, the Redevelopment Law was amended by AB 1484, which clarified that successor agencies are separate political entities and that the successor agency succeeds to the organizational status of the former redevelopment agency but without any legal authority to participate in redevelopment activities except to complete the work related to an approved enforceable obligation.

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

As discussed below, many actions of the Successor Agency are subject to approval by an “oversight board” and the review or approval by the California Department of Finance, including the issuance of bonds such as the Bonds.

Oversight Board

The Oversight Board was formed pursuant to Establishing Resolution adopted by the City’s Board of Supervisors and signed by the Mayor on January 26, 2012. The Oversight Board is governed by a seven-member governing board, with four members appointed by the Mayor, and one member appointed by each of the Bay Area Rapid Transit District (BART), the Chancellor of the California Community Colleges, and the County Superintendent of Education.

Department of Finance Finding of Completion

The Dissolution Act established a process for determining the liquid assets that redevelopment agencies should have shifted to their successor agencies when they were dissolved, and the amount that should be available for remittance by the successor agencies to their respective county auditor-controllers for distribution to affected taxing entities within the project areas of the former redevelopment agencies. This determination process was required to be completed through the final step (review by the State Department of Finance) by November 9, 2012 with respect to affordable housing funds and by April 1, 2013 with respect to non-housing funds. Within five business days of receiving notification from the State Department of Finance, a successor agency must remit to the county auditor-controller the amount of unobligated balances determined by the State Department of Finance, or it may request a meet and confer with the State Department of Finance to resolve any disputes.

On May 23, 2013, the Successor Agency promptly remitted to the City Controller the amounts of unobligated balances relating to affording housing funds, determined by the State Department of Finance in the amount of \$10,577,932, plus \$1,916 in interest. On May 23, 2013, the Successor Agency promptly remitted to the City Controller the amount of unobligated balances relating to all other funds determined by the State Department of Finance in the amount of \$959,147. The Successor Agency has made all payments required under AB 1484 and has received its finding of completion from the State Department of Finance on May 29, 2013.

State Controller Asset Transfer Review

The Dissolution Act requires that any assertion of a former redevelopment agency transferred to a city, county or other local agency after January 1, 2011, be sent back to the successor agency. The Dissolution Act further requires that the State Controller review any such transfer. As of the date hereof, the Controller’s review is pending. The Successor Agency does not expect the outcome of the State Controller’s Asset Transfer Review to have a material adverse impact on the availability of Tax Revenues.

Continuing Activities

The Former Agency was organized in 1948 by the Board of Supervisors of the City pursuant to the Redevelopment Law. The Former Agency’s mission was to eliminate physical and economic blight within specific geographic areas of the City designated by the Board of Supervisors. The Former Agency had redevelopment plans for nine (9) redevelopment project areas.

Because of the existence of enforceable obligations, the Successor Agency is authorized to continue to implement, through the issuance of tax allocation bonds, four major redevelopment projects that were previously administered by the Former Agency: (i) the Mission Bay North and South Redevelopment Project Areas, (ii) the Hunters Point Shipyard Redevelopment Project Area and Zone 1 of the Bayview Redevelopment Project Area, and (iii) the Transbay Redevelopment Project Area (collectively, the “Major Approved Development Projects”). In addition, the Successor Agency continues to manage Yerba Buena Gardens and other assets within the former Yerba Buena Center Redevelopment Project Area (“YBC”). The Successor Agency exercises land use, development and design approval authority for the Major Approved Development Projects and manages the former Redevelopment Agency assets in YBC in place of the Former Agency.

PROPERTY TAXATION

Property Taxation System – General

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

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

Assessed Valuations, Tax Rates and Tax Delinquencies

Table A-5 provides a recent history of assessed valuations of taxable property within the City. The property tax rate is composed of two components: 1) the 1.0% countywide portion, and 2) all voter-approved overrides which fund debt service for general obligation bond indebtedness. The total tax rate shown in Table A-5 includes taxes assessed on behalf of the City as well as SFUSD, SFCCD, the Bay Area Air Quality Management District ("BAAQMD"), and the San Francisco Bay Area Rapid Transit District ("BART"), all of which are legal entities separate from the City. See also, Table A-26: "Statement of Direct and Overlapping Debt and Long-Term Obligations" below. In addition to *ad valorem* taxes, voter-approved special assessment taxes or direct charges may also appear on a property tax bill.

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor Agency (also known as the Office of Community Investment and Infrastructure or OCII). Property tax revenues attributable to the growth in assessed value of taxable property (known as "tax increment") within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations, causing a loss of tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. The Successor Agency received \$132 million of property tax increment in fiscal year 2013-14, diverting about \$75 million that would have otherwise been apportioned to the City's discretionary general fund.

The percent collected of property tax (current year levies excluding supplementals) was 98.83% for fiscal year 2013-14. This table has been modified from the corresponding table in previous disclosures in order to make the levy and collection figures consistent with statistical reports provided to the State of California. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder's Office, numbered 187 for fiscal year 2013-14 compared to 363 for fiscal year 2012-13, 802 in fiscal year 2011-12, 927 in fiscal year 2010-11, and 901 in fiscal year 2009-10. This represents 0.09%, 0.18%, 0.39%, 0.46%, and 0.45%, respectively, of total parcels in such fiscal years.

TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property
Fiscal Years 2010-11 through 2014-15
(\$000s)

Fiscal Year	Net Assessed Valuation (NAV) ¹	% Change from Prior Year	Total Tax Rate per \$100 ²	Total Tax Levy ³	Total Tax Collected ³	% Collected June 30
2010-11	\$157,865,981	5.1%	1.164	\$1,888,048.26	\$1,849,460.12	97.96%
2011-12	158,649,888	0.5%	1.172	1,918,680	1,883,666	98.18%
2012-13	165,043,120	4.0%	1.169	1,997,645	1,970,662	98.65%
2013-14	172,489,208	4.5%	1.188	2,138,245	2,113,284	98.83%
2014-15	181,809,981	5.4%	1.174	2,134,995	n/a	n/a

¹ Based on preliminary assessed valuations for FY 2014-15. 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 FY 2013-14 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported to the State of California (available on the website of the California State Controller's Office).

Total Tax Levy for FY 2014-15 is based on NAV times the 1.1743% tax rate.

Note: This table has been modified from the corresponding table in previous bond disclosures to make levy and collection figures consistent with statistical reports provided to the State of California.

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

At the start of fiscal year 2014-15, the total net assessed valuation of taxable property within the City is \$181.8 billion. Of this total, \$171.1 billion (94.1%) represents secured valuations and \$10.7 billion (5.9%) represents unsecured valuations. (See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.)

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

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

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in appeals as the economy rebounds. Historically, during severe economic downturns, partial reductions of up to approximately 30% of the assessed valuations appealed have been granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCCD, BAAQMD, and BART share proportionately in the rest of any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary General Fund appeal reserve fund for fiscal years 2009-10 through 2013-14 are listed in Table A-6 below.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Refunds of Prior Years' Property Taxes
General Fund Assessment Appeals Reserve
(000s)

Year Ended	Amount Refunded
June 30, 2010	\$14,015
June 30, 2011	41,730
June 30, 2012	53,288
June 30, 2013	36,744
June 30, 2014	25,756

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

As of July 1, 2014, the Assessor granted 10,726 temporary reductions in property assessed values worth a total of \$640.3 million (equating to a reduction of about \$3.6 million in general fund taxes), compared to 18,409 temporary reductions with a value of \$2.02 billion (equating to a reduction of about \$11.4 million in discretionary general fund taxes) granted in Spring 2013. The 2014 \$640.3 million temporary reduction total represented 0.35% of the fiscal year 2014-15 Net Assessed Valuation of \$181.8 billion shown in Table A-5. All of the temporary reductions granted are subject to review in the following year. Property owners who are not satisfied with the valuation shown on a Notice of Assessed Value may have a right to file an appeal with the Assessment Appeals Board (AAB) within a certain period of time. For regular, annual secured property tax assessments, the time period for property owners to file an appeal typically falls between July 2nd and September 15th.

As of June 30, 2014, the total number of open appeals before the Assessment Appeals Board (AAB) was 6,279, compared to 7,421 open AAB appeals as of June 30, 2013, including 5,051 filed since July 1, 2013, with the balance pending from prior fiscal years. The difference between the current assessed value and the taxpayers' opinion of values for the open AAB appeals is \$27.9 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all of the taxpayers' requests, this represents a negative potential property tax impact of about \$331.1 million (based upon the FY 2013-14 tax rate) with an impact on the General Fund of about \$157.7 million. The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction in assessed valuation that the Assessor may ultimately grant. City revenue estimates take into account projected losses from pending and future assessment appeals.

Tax Levy and Collection

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City's boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the Bay Area Air Quality Management District, and BART. The total tax levy for all taxing entities in fiscal year 2014-15 is estimated to produce about \$2.1 billion, not including supplemental, escape, and special assessments that may be assessed during the year. Of this amount, the City has budgeted to receive \$935.1 million into the General Fund and \$132.0 million into special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD are estimated to receive about \$130.0 million and \$24.5 million, respectively, and the local ERAF is estimated to receive \$429.0 million (before adjusting for the State's Triple Flip sales tax and vehicle license fees ("VLF") backfill shifts). The Successor Agency will receive about \$131 million. The remaining portion is allocated to various other governmental bodies, various special funds, general obligation bond debt service funds, and other taxing entities. Taxes levied to pay debt service for general obligation bonds issued by the City, SFUSD, SFCCD, and BART may only be applied for that purpose.

General Fund property tax revenues in fiscal year 2013-14 were \$1.18 billion, representing an increase of \$24.8 million (2.2%) over fiscal year 2013-14 Original Budget and \$56.3 million (5.0%) over fiscal year 2012-13 actual

revenue. Property tax revenue is budgeted at \$1.23 billion in fiscal year 2014-15 representing an increase of \$54.7 million (4.6%) over FY 2013-14 actual receipts and \$1.29 billion in fiscal year 2015-16 representing an annual increase of \$57.6 million (4.7%) over fiscal year 2014-15 budget. Tables A-2 and A-3 set forth a history of budgeted and actual property tax revenues for fiscal years 2011-12 through 2013-14, and budgeted receipts for fiscal years 2014-15 and fiscal year 2015-16.

The City's General Fund is allocated about 48% of total property tax revenue before adjusting for the State's Triple Flip (whereby Proposition 57 dedicated 0.25% of local sales taxes, which were subsequently backfilled by a decrease to the amount of property taxes shifted to ERAF from local governments, thereby leaving the State to fund a like amount from the State's General Fund to meet Proposition 98 funding requirements for schools) and VLF backfill shifts.

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

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

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

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

In October 1993, the Board of Supervisors passed a resolution that adopted the Alternative Method of Tax Apportionment (the "Teeter Plan"). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. This apportionment method authorizes the City Controller to allocate to the City's taxing agencies 100% of the secured property taxes billed but not yet collected. In return, as the delinquent property taxes and associated penalties and interest are collected, the City's General Fund retains such amounts. Prior to adoption of the Teeter Plan, the City could only allocate secured property taxes actually collected (property taxes billed minus delinquent taxes). Delinquent taxes, penalties and interest were allocated to the City and other taxing agencies only when they were collected. The City has funded payment of accrued and current delinquencies through authorized internal borrowing. The City also maintains a Tax Loss Reserve for the Teeter Plan as shown on Table A-7.

TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO
Teeter Plan
Tax Loss Reserve Fund Balance
(000s)

Year Ended	Amount Funded
June 30, 2010	\$17,507
June 30, 2011	17,302
June 30, 2012	17,980
June 30, 2013	18,341
June 30, 2014	19,654

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, 2014 are shown in Table A-8. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Top 10 Parcels Total Assessed Value
Fiscal Year 2014-15
(000s)

Assessee	Location	Parcel Number	Type	Total Assessed	
				Value ¹	% of Basis of Levy ²
HWA 555 Owners LLC	555 California St	0259 026	Commercial Office	\$945,282	0.52%
PPF Paramount One Market Plaza Owner LP	1 Market	3713 007	Commercial Office	774,392	0.42%
Union Investment Real Estate GMBH	555 Mission St	3721 120	Commercial Office	457,498	0.25%
Emporium Mall LLC	845 Market St	3705 056	Commercial Retail	432,617	0.24%
SPF China Basin Holdings LLC	185 Berry St	3803 005	Commercial Office	425,167	0.23%
SHC Embarcadero LLC	4 The Embarcadero	0233 044	Commercial Office	399,011	0.22%
Wells REIT II - 333 Market St LLC	333 Market St	3710 020	Commercial Office	397,044	0.22%
Post-Montgomery Associates	165 Sutter St	0292 015	Commercial Retail	389,025	0.21%
PPF Off One Maritime Plaza LP	300 Clay St	0204 021	Commercial Office	369,052	0.20%
S F Hilton Inc	1 Hilton Square	0325 031	Commercial Hotel	368,599	0.20%
				\$4,957,686	2.72%

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).

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 2014-15 valuation of property assessed by the State Board of Equalization is \$2.72 billion.

OTHER CITY TAX REVENUES

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

The following section contains a brief description of other major City-imposed taxes as well as taxes that are collected by the State and shared with the City.

Business Taxes

Through tax year 2013 businesses in the City were subject to payroll expense and business registration taxes. Proposition E approved by the voters in the November 6, 2012 election changed business registration tax rates and introduced a gross receipts tax which phases in over a five-year period beginning January 1, 2014, replacing the current 1.5% tax on business payrolls over the same period. Overall, the ordinance increases the number and types of businesses in the City that pay business tax and registration fees from approximately 7,500 currently to 15,000. Current payroll tax exclusions will be converted into a gross receipts tax exclusion of the same size, terms and expiration dates.

The payroll expense tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. The 1.5% payroll tax rate in 2013 was adjusted to 1.35% in tax year 2014 and annually thereafter according to gross receipts tax collections to ensure that the phase-in of the gross receipts tax neither results in a windfall nor a loss for the City. The new gross receipts tax ordinance, like the current payroll expense tax, is imposed for the privilege of "engaging in business" in San Francisco. The gross receipts tax will apply to businesses with \$1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. Proposition E also imposes a 1.4% tax on administrative office business activities measured by a company's total payroll expense within San Francisco in lieu of the Gross Receipts Tax, and increases annual business registration fees to as much as \$35,000 for businesses with over \$200 million in gross receipts. Prior to Proposition E, business registration taxes varied from \$25 to \$500 per year per subject business based on the prior year computed payroll tax liability. Proposition E increased the business registration tax rates to between \$75 and \$35,000 annually.

Business tax revenue in fiscal year 2013-14 was \$563 million, representing an increase of \$83 million (17%) over fiscal year 2012-13 revenue. Business tax revenue is budgeted at \$573 million in fiscal year 2014-15 representing an increase of \$10 million (2%) over fiscal year 2013-14 revenue. In fiscal year 2015-16, Business Tax revenue is budgeted at \$599 million, an increase of \$25 million (4%) from fiscal year 2014-15 budgeted revenue.

TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Business Tax Revenues
Fiscal Years 2011-12 through 2015-16
All Funds
(000s)

Fiscal Year	Revenue	Change	
2011-12	\$437,677	\$45,898	11.7%
2012-13	480,131	42,454	9.7%
2013-14	563,406	83,275	17.3%
2014-15 budgeted	573,385	9,979	1.8%
2015-16 budgeted	598,835	25,450	4.4%

Includes Payroll Tax, portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and, beginning in FY 2013-14, Gross Receipts Tax revenues. Figures for FY 2011-12 through FY 2013-14 are audited actuals. Figures for FY 2014-15 and FY 2015-16 are Original Budget amounts.

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

Transient Occupancy Tax (Hotel Tax)

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. Hotel tax revenue growth is a function of changes in occupancy, average daily room rates (ADR) and room supply. Revenue per available room (RevPAR), the combined effect of occupancy and ADR, reached a historic high of \$273 in October of 2014, which is approximately 9% over October of the prior year. Increases in RevPAR are budgeted to continue at a slower pace through fiscal year 2015-16. Including amounts used to pay debt service on hotel tax revenue bonds hotel tax revenue for fiscal year 2013-14 was \$313 million, representing a \$71 million increase from FY 2012-13 revenue. Fiscal year 2014-15 is budgeted to be \$323 million, an increase of \$10 million (3%) from FY 2013-14 and FY 2015-16 is budgeted to be \$341 million, an increase of \$18 million (5%) from FY 2014-15 budget.

San Francisco and a number of other jurisdictions in California and the U.S. are currently involved in litigation with online travel companies regarding the companies' duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. On February 6, 2013, the Los Angeles Superior Court issued a summary judgment concluding that the online travel companies had no obligation to remit hotel tax to San Francisco. The City has received approximately \$88 million in disputed hotel taxes paid by the companies. Under State law, the City is required to accrue interest on such amounts. The portion of these remittances that will be retained or returned (including legal fees and interest) will depend on the ultimate outcome of these lawsuits. San Francisco has appealed the judgment against it. That appeal has been stayed pending the California Supreme Court's decision in a similar case between the online travel companies and the City of San Diego.

In fiscal years prior to 2013-14, the allocation of hotel tax revenues was set by the Administrative provisions of the Annual Appropriation Ordinance, and all of the gain or loss in revenue from budgeted levels fell to the General Fund, contributing to the large variances from prior periods. Table A-10 sets forth a history of transient occupancy tax receipts for fiscal years 2011-12 through 2013-14 and budget projections for fiscal year 2014-15 through 2015-16. Beginning in fiscal year 2013-14, hotel tax budgeted in the General Fund in fiscal year 2013-14 increased by \$56 million because revenue previously budgeted in special revenue funds is now deposited to the General Fund.

TABLE A -10

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Revenues
Fiscal Years 2011-12 through 2015-16
All Funds
(000s)

Fiscal Year	Tax Rate	Revenue	Change	
2011-12	14.00%	\$242,843	\$27,331	12.7%
2012-13	14.00%	241,961	(882)	-0.4%
2013-14	14.00%	313,138	71,177	29.4%
2014-15 budgeted	14.00%	323,456	10,318	3.3%
2015-16 budgeted	14.00%	341,134	17,678	5.5%

Figures for FY 2011-12 through FY 2013-14 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds. Figures for FY 2014-15 and FY 2015-16 are Original Budget amounts.

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

Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources. Current rates are \$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.

Real property transfer tax (RPTT) revenue in fiscal year 2013-14 was \$262 million, a \$29 million (13%) increase from FY 2012-13 revenue. FY 2014-15 RPTT revenue is budgeted to be \$235 million, approximately \$27 million (10%) less than the revenue received in fiscal year 2013-14 due to the expected slowing of market activity as a result of the decline in real property in inventory. This slowing is budgeted to continue into FY 2015-16 with RPTT revenue budgeted at \$220 million, a reduction of \$15 million (6%). The volume of transactions in FY 2013-14 is projected to result in a decline in inventory into fiscal year 2014-15 and FY 2015-16.

Table A-11 sets forth a history of real property transfer tax receipts for fiscal years 2011-12 through 2013-14, and budgeted receipts for fiscal years 2014-15 and fiscal year 2015-16.

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Real Property Transfer Tax Receipts
Fiscal Years 2011-12 through 2015-16
(000s)

Fiscal Year	Revenue	Change	
2011-12	233,591	98,407	72.8%
2012-13	232,730	(861)	-0.4%
2013-14	261,925	29,195	12.5%
2014-15 budgeted	235,000	(26,925)	-10.3%
2015-16 budgeted	220,000	(15,000)	-6.4%

Figures for FY 2011-12 through FY 2013-14 are audited actuals. Figures for FY 2014-15 and FY 2015-16 are Original Budget amounts.

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

Sales and Use Tax

The State collects the City's local sales tax on retail transactions along with State and special district sales taxes, and then remits the local sales tax collections to the City. The rate of tax is one percent; however, the State takes one-quarter of this, and replaces the lost revenue with a shift of local property taxes to the City from local school district funding. The local sales tax revenue is deposited in the City's General Fund.

Local sales tax collections in fiscal year 2013-14 were \$134 million, an increase of \$11 million (9%) from FY 2012-13 sales tax revenue. Revenue growth is budgeted to continue during FY 2014-15 with \$136 million budgeted, an increase of \$2 million (2%) from projected FY 2013-14 receipts. Continued growth is budgeted during FY 2015-16 with an assumption that the strong local economy will generate increased taxable sales across nearly all categories, with particularly strong performance in the construction industry, but at a slower rate to reach \$142 million, \$6 million (5%) more than FY 2014-15.

Historically, sales tax revenues have been highly correlated to growth in tourism, business activity and population. This revenue is significantly affected by changes in the economy. In recent years online retailers such as Amazon have contributed significantly to sales tax receipts. The budget assumes no changes from state laws affecting sales tax reporting for these online retailers. Sustained growth in sales tax revenue will depend on changes to state and federal law and order fulfillment strategies for online retailers.

Table A-12 reflects the City's actual sales and use tax receipts for fiscal years 2011-12 through 2013-14, and budgeted receipt for fiscal year 2014-15 and 2015-16, as well as the imputed impact of the property tax shift made in compensation for the one-quarter of the sales tax revenue taken by the State.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Revenues
Fiscal Years 2011-12 through 2015-16
(000s)

Fiscal Year	Tax Rate	City Share	Revenue	Change	
2011-12	8.50%	0.75%	\$117,071	\$10,769	10.1%
2011-12 adj. ¹	8.50%	1.00%	155,466	14,541	10.3%
2012-13	8.50%	0.75%	122,271	5,200	4.4%
2012-13 adj. ¹	8.50%	1.00%	162,825	7,359	4.7%
2013-14	8.75%	0.75%	133,705	11,434	9.4%
2013-14 adj. ¹	8.75%	1.00%	177,299	14,474	8.9%
2014-15 <i>budgeted</i> ²	8.75%	0.75%	136,080	2,375	1.8%
2014-15 adj. ¹ <i>budgeted</i>	8.75%	1.00%	180,370	3,071	1.7%
2015-16 <i>budgeted</i> ²	8.75%	0.75%	142,200	6,120	4.5%
2015-16 adj. ¹ <i>budgeted</i>	8.75%	1.00%	188,478	8,108	4.5%

Figures for FY 2011-12 through FY 2013-14 are audited actuals. Figures for FY 2014-15 and FY 2015-16 are Original Budget amounts.

¹Adjusted figures represent the value of the entire 1.00% local sales tax, which was reduced by 0.25% beginning in FY 2004-05 in order to repay the State's Economic Recovery Bonds as authorized under Proposition 57 in March 2004. This 0.25% reduction is backfilled by the State.

²In November 2012 voters approved Proposition 30, which temporarily increases the state sales tax rate by 0.25% effective January 1, 2013 through December 31, 2016. The City share did not change.

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

Utility Users Tax

The City imposes a 7.5% tax on non-residential users of gas, electricity, water, steam and telephone services. The Telephone Users Tax ("TUT") applies to charges for all telephone communications services in the City to the extent permitted by Federal and State law, including intrastate, interstate, and international telephone services; cellular telephone services, and voice over internet protocol (VOIP). Telephone communications services do not include Internet access, which is exempt from taxation under the Internet Tax Freedom Act.

Fiscal year 2013-14 Utility User Tax revenues were \$87 million, representing a decrease of \$5 million (7%) from fiscal year 2012-13 revenue. Fiscal year 2014-15 revenue is budgeted to be \$92 million, representing expected growth of \$5 million (7%) from fiscal year 2013-14. Fiscal year 2015-16 Utility User Tax revenues are budgeted at \$92 million, unchanged from fiscal year 2014-15 budget.

Emergency Response Fee; Access Line Tax

The City imposes an Access Line Tax ("ALT") on every person who subscribes to telephone communications services in the City. The ALT replaced the Emergency Response Fee ("ERF") in 2009. It applies to each telephone line in the City and is collected from telephone communications service subscribers by the telephone service supplier. Access Line Tax revenue for fiscal year 2013-14 was \$44 million, a \$1 million (2%) increase over the previous fiscal year. In fiscal year 2014-15, the Access Line Tax revenue is budgeted at \$43 million, a \$1 million (2%) decrease from fiscal year 2013-14 revenue. Fiscal year 2015-16 revenue is budgeted at \$44 million a \$1 million (2%) increase from fiscal year 2014-15 budget. Budgeted amounts in FY 2014-15 and fiscal year 2015-16 assume annual inflationary increases to the access line tax rate as required under Business and Tax Regulation Code Section 784.

Parking Tax

A 25% tax is imposed on the charge for off-street parking spaces. The tax is authorized by the San Francisco Business and Tax Regulation Code. The tax is paid by the occupants of the spaces, and then remitted monthly to the City by the operators of the parking facilities. Parking tax revenue is positively correlated with business activity and employment, both of which are projected to increase over the next two years as reflected in increases in business and sales tax revenue projections.

Fiscal year 2013-14 Parking Tax revenue was \$83 million, \$1 million (1%) above fiscal year 2012-13 revenue. Parking tax revenue is budgeted at \$85 million in fiscal year 2014-15, an increase of \$2 million (2%) over the fiscal year 2013-14. In fiscal year 2015-16, parking tax revenue is budgeted at \$87 million, \$2 million (3%) over the fiscal year 2014-15 budgeted amount. Parking tax growth estimates are commensurate with expected changes to the consumer price index (CPI) over the same period.

Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80 percent is transferred to the San Francisco Municipal Transportation Agency for public transit as mandated by Charter Section 16.110.

INTERGOVERNMENTAL REVENUES

State – Realignment

San Francisco receives three groups of allocations of State sales tax and Vehicle License Fee (VLF) revenue: 1991 Health and Welfare Realignment, 2011 Health and Human Services Realignment, and Public Safety Realignment.

1991 Health & Welfare Realignment. The Governor's fiscal year 2013-14 budget assumed savings of \$300 million for counties statewide as a result of Affordable Care Act (ACA) implementation, and reduced realignment allocations to counties proportionally to recapture these savings for the state. These realignment reductions are expected to be ongoing and are reflected in fiscal year 2014-15 and 2015-16 budgeted amounts. A reconciliation of county costs is scheduled to take place starting January 2017.

In fiscal year 2013-14, General Fund 1991 realignment revenue was \$166 million, a decrease of \$9 million (5%) from FY 2012-13 as a result of a \$14 million (10%) reduction in sales tax distributions offset by an increase of \$5 million (18%) in VLF distributions. The decrease is primarily a result of reduced realignment funding from the AB 85 realignment 'clawback' offset by underlying growth in sales tax and VLF receipts. The realignment 'clawback' is budgeted to remain at the same level during fiscal year 2014-15 and fiscal year 2015-16 with budgeted realignment revenue of \$163 million and \$169 million, respectively.

2011 Health and Human Services Realignment. Beginning in FY 2011-12, counties received revenue allocations to pay for behavioral health and protective services programs formerly provided by the State. In fiscal year 2014-15 this revenue is budgeted at \$97 million, a \$7 million (8%) increase from fiscal year 2013-14. This increase includes anticipated growth of \$3 million in child welfare services subaccount funding and \$1 million of CalWORKs Maintenance of Effort (MOE) funding received by the Human Services Agency, and a \$2 million funding increase in community mental health service and \$1 million in state alcohol funds received by Department of Public Health. In fiscal year 2015-16 this revenue is budgeted at \$99 million, which is primarily comprised of an increase of \$2 million from the FY 2014-15 budget in the child protective services subaccount.

Public Safety Realignment. Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. This revenue is budgeted at \$32 million in fiscal year 2014-15, a \$2 million (5%) decrease from fiscal year 2013-14. This decrease resulted from projected reductions in both base amounts and growth amounts as the State budget reflects a temporary drop in funding to support implementation of AB109. The fiscal year 2015-16 budget assumes a \$4 million (14%) increase from fiscal year 2014-15.

Public Safety Sales Tax

State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. This revenue is a function of the City's proportionate share of statewide sales activity. Revenue from this source for fiscal year 2013-14 was \$87 million, an increase of \$4 million (5%) from fiscal year 2012-13 revenues. This revenue is budgeted at \$91 million in fiscal year 2014-15 and \$95 million in fiscal year 2015-16, representing annual growth of \$5 million (5%) and \$4 million (4%) respectively. These revenues are allocated to counties by the State separately from the local one-percent sales tax discussed above, and are used to fund police and fire services. Disbursements are made to counties based on the county ratio, which is the county's percent share of total statewide sales taxes in the most recent calendar year. The county ratio for San Francisco in fiscal year 2013-14 is 3% and is expected to remain at that level in fiscal year 2014-15 and fiscal year 2015-16.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, \$476 million is budgeted in fiscal year 2014-15 from grants and subventions from State and federal governments to fund public health, social services, and other programs in the General Fund. This represents a \$53 million (12%) increase from fiscal year 2013-14. The fiscal year 2015-16 budget is \$481 million, an increase of \$4 million (1%) from fiscal year 2014-15 Original Budget.

Charges for Services

Revenue from charges for services in the General Fund in fiscal year 2013-14 was \$172 million, an increase of \$19 million (13%) from fiscal year 2012-13 revenue. Charges for services revenue is budgeted at \$201 million in fiscal year 2014-15 and \$190 million in fiscal year 2015-16, representing growth of \$29 million (17%) and a reduction of \$10 million (5%) respectively from prior year.

Fiscal year 2014-15 growth reflects the following one-time revenues; (1) \$17 million in Public Health from a reallocation of Healthy San Francisco to the General Fund from San Francisco General Hospital; (2) \$7 million in Planning Department revenue, primarily from a one-time reduction in permit application backlogs and the expected increase in construction permit fees; (3) \$5 million in additional Fire Department revenue, including \$4 million in additional revenue from charges for providing services to the Presidio, which had previously been budgeted as an expenditure recovery, \$3 million in additional prior-year Ground Emergency Medical Transit (GEMT) revenue, and a \$1 million increase in plan check and inspection fees. These increases are offset by a \$4 million ongoing reduction in expected ambulance fees; and (4) \$5 million in Recreation and Park revenue, primarily from one-time events and including \$2 million from the disposition of assets from Candlestick Park. Fiscal year 2015-16 reduction reflects the following changes; (1) \$2 million less in Recreation and Park revenue, primarily due to the elimination of one-time revenue gains expected in FY 2014-15 from Candlestick Park; (2) \$2 million less in Planning Department revenue due to the elimination of one-time revenue gains from the FY 2014-15 backlog reduction; and (3) \$6 million less in Fire Department revenue due to the elimination of prior-year GEMT revenue in the form of ambulance fees.

CITY GENERAL FUND PROGRAMS AND EXPENDITURES

Unique among California cities, San Francisco as a charter city and county must provide the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including port and airport; construction and maintenance of all public buildings and facilities; water, sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for approximately 50% of all City expenditures. In addition, the Charter imposes certain baselines, mandates, and property tax set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including MTA, children's services and public education, and libraries. Budgeted baseline and mandated funding is \$706 million in fiscal year 2014-15 and \$725 million in fiscal year 2015-16.

General Fund Expenditures by Major Service Area

San Francisco is a consolidated city and county, and budgets General Fund expenditures for both city and county functions in seven major service areas described in table A-13:

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO
Expenditures by Major Service Area
Fiscal Years 2011-12 through 2015-16
(000s)

Major Service Areas	FY 2011-12 Original Budget	FY 2012-13 Original Budget	FY 2013-14 Original Budget	FY 2014-15 Original Budget	FY 2015-16 Original Budget
Public Protection	\$998,237	\$1,058,689	\$1,130,932	\$1,173,977	\$1,190,234
Human Welfare & Neighborhood Development	672,834	670,375	700,254	799,355	814,586
Community Health	575,446	609,892	701,978	736,916	733,506
General Administration & Finance	199,011	197,994	244,591	293,107	293,686
Culture & Recreation	100,740	111,066	119,579	126,932	121,579
General City Responsibilities	110,725	145,560	137,025	158,180	146,460
Public Works, Transportation & Commerce	51,588	67,529	80,797	127,973	129,991
Total*	\$2,708,581	\$2,861,106	\$3,115,155	\$3,416,440	\$3,430,042

*Total may not add due to rounding

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

Public Protection primarily includes the Police Department, the Fire Department, and the Sheriff's Office. These departments are budgeted to receive \$411 million, \$222 million and \$150 million of General Fund support respectively in fiscal year 2014-15 and \$416 million, \$223 million, and \$153 million respectively in fiscal year 2015-16. Within Human Welfare & Neighborhood Development, the Department of Human Services, which includes aid assistance and aid payments and City grant programs, is budgeted to receive \$234 million of General Fund support in the fiscal year 2014-15 and \$238 million in fiscal year 2015-16.

The Public Health Department is budgeted to receive \$614 million in General Fund support for public health programs and the operation of San Francisco General Hospital and Laguna Honda Hospital in fiscal year 2014-15 and \$636 million in fiscal year 2015-16.

For budgetary purposes, enterprise funds are characterized as either self-supported funds or General Fund-supported funds. General Fund-supported funds include the Convention Facility Fund, the Cultural and Recreation Film Fund the Gas Tax Fund, the Golf Fund, the Grants Fund, the General Hospital Fund, and the Laguna Honda Hospital Fund. The MTA is classified as a self-supported fund, although it receives an annual general fund transfer equal to 80% of general fund parking tax receipts pursuant to the Charter. This transfer is budgeted to be \$68 million in FY 2014-15 and \$70 million in FY 2015-16 Original Budget.

Baselines

The Charter requires funding for baselines and other mandated funding requirements. The chart below identifies the required and budgeted levels of appropriation funding for key baselines and mandated funding requirements. Revenue-driven baselines are based on the projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO
Baselines & Set-Asides
Fiscal Years 2014-15 & 2015-16
(Millions)

	FY 2014-15 Required	FY 2014-15 Original	FY 2015-16 Required	FY 2015-16 Original
Municipal Transportation Agency	\$180.3	\$180.3	\$186.3	\$186.3
Parking and Traffic Commission	\$67.6	\$67.6	\$69.9	\$69.9
Children's Services	\$134.1	\$148.5	\$138.6	\$139.2
Library Preservation	\$61.6	\$61.6	\$63.7	\$63.7
Public Education Enrichment Funding				
Unified School District	\$50.7	\$50.7	\$56.8	\$56.8
First Five Commission	\$27.5	\$27.5	\$28.4	\$28.4
City Services Auditor	\$14.9	\$14.9	\$14.8	\$14.8
Human Services Homeless Care Fund	\$14.9	\$14.9	\$14.8	\$14.8
<u>Property Tax Related Set-Asides</u>				
Municipal Symphony	\$2.3	\$2.3	\$2.4	\$2.4
Children's Fund Set-Aside	\$51.6	\$51.6	\$58.7	\$58.7
Library Preservation Set-Aside	\$43.0	\$43.0	\$45.3	\$45.3
Open Space Set-Aside	\$43.0	\$43.0	\$45.3	\$45.3
<u>Staffing and Service-Driven</u>				
Police Minimum Staffing		Requirement likely not met		Requirement likely not met
Fire Neighborhood Firehouse Funding		Requirement met		Requirement met
Treatment on Demand		Requirement likely met		Requirement likely met
Total Baseline Spending	\$691.45	\$705.83	\$724.88	\$725.49

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

With respect to Police Department staffing, the Charter mandates a police staffing baseline of not less than 1,971 full-duty officers. The Charter-mandated baseline staffing level may be reduced in cases where civilian hires result in the return of a full-duty officer to active police work. The Charter also provides that the Mayor and Board of Supervisors may convert a position from a sworn officer to a civilian through the budget process. With respect to the Fire Department, the Charter mandates baseline 24-hour staffing of 42 firehouses, the Arson and Fire Investigation Unit, no fewer than four ambulances, and four Rescue Captains (medical supervisors).

EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS

The cost of salaries and benefits for City employees represents approximately 50% of the City's expenditures, totaling \$4.3 billion in the fiscal year 2014-15 Original Budget (all-funds), and \$4.4 billion in the fiscal year 2015-16 Original Budget. Looking only at the General Fund, the combined salary and benefits budget was \$2.0 billion in the fiscal year 2014-15 and 2015-16 Original Budgets. This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-retirement health and medical benefits. Employees of SFUSD, SFCCD and the San Francisco Superior Court are not City employees.

Labor Relations

The City's budget for fiscal years 2014-15 and 2015-16 includes 27,669 and 29,053 budgeted City positions, respectively. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021 (SEIU); the International Federation of Professional and Technical Engineers, Local 21(IFPTE); and the unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (the Meyers-Miliias-Brown Act, California Government Code Sections 3500-3511) and the Charter. Except for nurses and a few hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through final and binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final and binding unless legally challenged. Wages, hours and working conditions of nurses are not subject to interest arbitration, but are subject to Charter-mandated economic limits. Strikes by City employees are prohibited by the Charter. Since 1976, no City employees have participated in a union-authorized strike.

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

In May 2014, the City negotiated three-year agreements (for fiscal years 2014-15 through 2016-17) with most of its labor unions. In general, the parties agreed to: (1) annual wage increase schedules of 3% (October 11, 2014), 3.25% (October 10, 2015), and between 2.25% and 3.25% depending on inflation (July 1, 2016); and (2) some structural reforms of the City's healthcare benefit and cost-sharing structures to rebalance required premiums between the two main health plans offered by the City. These changes to health contributions build reforms agreed to by most unions during earlier negotiations.

In June 2013, the City negotiated a contract extension with the Police Officers' Association (POA), through June 30, 2018, that includes wage increases of 1% on July 1, 2015; 2% on July 1, 2016; and 2% on July 1, 2017. In addition, the union agreed to lower entry rates of pay for new hires in entry Police Officer classifications. In May 2014, the City negotiated a contract extension with the Firefighters Association through June 30, 2018, which mirrored the terms of POA agreement.

Pursuant to Charter Section 8A.104, the MTA is responsible for negotiating contracts for the transit operators and employees in service-critical bargaining units. These contracts are subject to approval by the MTA Board. In May 2014, the MTA and the union representing the transit operators (TWU, Local 250-A) agreed to a three-year contract that runs through June 30, 2017. Provisions in the contract include 14.25% in wage increases in exchange for elimination of the 7.5% employer retirement pick-up.

Table A-15 shows the membership of each operating employee bargaining unit and the date the current labor contract expires.

TABLE A-15

CITY AND COUNTY OF SAN FRANCISCO (All Funds)
Employee Organizations as of July 1, 2014

<u>Organization</u>	<u>Budgeted Positions</u>	<u>Expiration Date of MOU</u>
Automotive Machinists, Local 1414	429	June 30, 2017
Bricklayers, Local 3/Hod Carriers, Local 36	10	June 30, 2017
Building Inspectors Association	95	June 30, 2017
Carpenters, Local 22	110	June 30, 2017
Carpet, Linoleum & Soft Tile	3	June 30, 2017
CIR (Interns & Residents)	2	June 30, 2017
Cement Masons, Local 580	33	June 30, 2017
Deputy Sheriffs Association	780	June 30, 2017
District Attorney Investigators Association	41	June 30, 2017
Electrical Workers, Local 6	887	June 30, 2017
Glaziers, Local 718	10	June 30, 2017
International Alliance of Theatrical Stage Employees, Local 16	23	June 30, 2017
Ironworkers, Local 377	14	June 30, 2017
Laborers International Union, Local 261	1,027	June 30, 2017
Municipal Attorneys' Association	435	June 30, 2017
Municipal Executives Association	1,172	June 30, 2017
MEA - Police Management	6	June 30, 2018
MEA - Fire Management	9	June 30, 2018
Operating Engineers, Local 3	59	June 30, 2017
City Workers United	127	June 30, 2017
Pile Drivers, Local 34	24	June 30, 2017
Plumbers, Local 38	341	June 30, 2017
Probation Officers Association	157	June 30, 2017
Professional & Technical Engineers, Local 21	4,795	June 30, 2017
Roofers, Local 40	11	June 30, 2017
S.F. Institutional Police Officers Association	2	June 30, 2017
S.F. Firefighters, Local 798	1,737	June 30, 2018
S.F. Police Officers Association	2,502	June 30, 2018
SEIU, Local 1021	11,643	June 30, 2017
SEIU, Local 1021 Staff & Per Diem Nurses	1,616	June 30, 2016
SEIU, Local 1021 H-1 Rescue Paramedics	12	June 30, 2018
Sheet Metal Workers, Local 104	45	June 30, 2017
Sheriff's Managers and Supervisors Association	98	June 30, 2017
Stationary Engineers, Local 39	661	June 30, 2017
Supervising Probation Officers, Operating Engineers, Local 3	24	June 30, 2017
Teamsters, Local 853	162	June 30, 2017
Teamsters, Local 856 (Multi-Unit)	107	June 30, 2017
Teamsters, Local 856 (Supervising Nurses)	122	June 30, 2016
TWU, Local 200 (SEAM multi-unit & claims)	341	June 30, 2017
TWU, Local 250-A Auto Service Workers	117	June 30, 2017
TWU, Local 250-A Transit Fare Inspectors	74	June 30, 2017
TWU-250-A Miscellaneous	97	June 30, 2017
TWU-250-A Transit Operators	2,216	June 30, 2017
Union of American Physicians & Dentists	199	June 30, 2015
Unrepresented Employees	168	June 30, 2015
	32,543 ^[1]	

^[1] Budgeted positions do not include SFUSD, SFCCD, or Superior Court Personnel.

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

San Francisco City and County Employees' Retirement System ("SFERS" or "Retirement System")

History and Administration

SFERS is charged with administering a defined-benefit pension plan that covers substantially all City employees and certain other employees. The Retirement System was initially established by approval of City voters on November 2, 1920 and the California 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.

To aid in the administration of the Retirement System, the Retirement Board appoints an Executive Director and an Actuary. The Executive Director serves as chief executive officer, with responsibility extending to all divisions of the Retirement System. The Actuary's responsibilities include the production of data and a summary of plan provisions for the independent consulting actuarial firm retained by the Retirement Board to prepare an annual valuation report and other analyses as described below. The independent consulting actuarial firm is currently Cheiron, Inc., a nationally recognized firm selected by the Retirement Board pursuant to a competitive process.

In 2010, the Retirement System filed an application with the Internal Revenue Service ("IRS") for a Determination Letter. In March 2012, IRS issued a favorable Determination Letter for SFERS. Issuance of a Determination Letter constitutes a finding by the IRS that operation of the defined benefit plan in accordance with the plan provisions and documents disclosed in the application qualifies the plan for federal tax exempt status. A tax qualified plan also provides tax advantages to the City and to members of the Retirement System. The favorable Determination Letter included IRS review of all SFERS provisions, including the provisions of Proposition C approved by the City voters in November 2011.

Membership

Retirement System members include eligible employees of the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, and the San Francisco Trial Courts.

The Retirement System estimates that the total active membership as of July 1, 2014 (the date of most recent valuation report) was 35,957, compared to 34,690 members a year earlier. Active membership includes 5,409 terminated vested members and 1,032 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. Retirement allowances are paid to approximately 26,800 retired members and beneficiaries monthly. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Beginning July 1, 2008, the Retirement System had a Deferred Retirement Option Program (DROP) program for Police Plan members who were eligible and elected participation. The program "sunset" on June 30, 2011. A total of 354 eligible Police Plan members elected to participate in DROP during the three-year enrollment window. As of June 30, 2014, approximately 10 police officers are still enrolled in the program. All are expected to retire before the end of 2015.

Table A-16 displays total Retirement System participation (City and County of San Francisco, San Francisco Unified School District, San Francisco Community College District, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates.

TABLE A-16

SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System
Fiscal Years 2009 - 10 through 2013 - 14

As of 1-Jul	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
2011	27,955	4,499	1,021	33,475	24,292	1.151
2012	28,097	4,543	1,015	33,655	25,190	1.115
2013	28,717	4,933	1,040	34,690	26,034	1.103
2014	29,516	5,409	1,032	35,957	26,852	1.099

Sources: SFERS' Actuarial Valuation reports as of July 1, 2014, July 1, 2013, July 1, 2012, July 1, 2011, and July 1, 2010.

Notes: Member counts exclude DROP participants.

Member counts are for the entire Retirement System and include non-City employees.

Funding Practices

The annual actuarial valuation of the Retirement System is a joint effort of the Retirement System and its independent consulting actuarial firm. City Charter prescribes certain actuarial methods and amortization periods to be used by the Retirement System in preparing the actuarial valuation. 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 January 2015 Retirement Board meeting, the consulting actuarial firm recommended that the Board adopt the following economic assumptions for the July 1, 2014 actuarial valuation: long-term investment earnings assumption of 7.50%, long-term wage inflation assumption of 3.75% and long-term consumer price index assumption of 3.25%. After consideration of the analysis and recommendation, the Retirement Board voted to adopt these recommended assumptions.

Upon receipt of the consulting actuarial firm's valuation report, Retirement System staff provides a recommendation to the Retirement Board for their acceptance of the consulting actuary's valuation report. In connection with such acceptance, the Retirement Board acts to set the annual employer contribution rates required by the Retirement System as determined by the consulting actuarial firm and approved by the Retirement Board. This process is mandated by the City Charter.

Pursuant to the City Charter, the consulting actuarial firm and the Retirement Board set the actuarially required employer contribution rate using three related calculations:

First, the normal cost is established for the Retirement System. The normal cost of the Retirement System represents the portion of the actuarial present value of benefits that SFERS will be expected to fund that is attributable to a current year's employment. The Retirement System uses the entry age normal cost method, which is an actuarial method of calculating the anticipated cost of pension liabilities, designed to fund promised benefits over the working careers of the Retirement System members.

Second, the contribution calculation takes account of the amortization of a portion of the amount by which the actuarial accrued liability of the Retirement System exceeds the actuarial value of Retirement System assets, such amount being known as an "unfunded actuarial accrued liability" or "UAAL."

The UAAL can be thought of as a snapshot of the funding of benefits as of the valuation date. There are a number of assumptions and calculation methods that bear on each side of this asset-liability comparison. On the asset side, the actuarial value of Retirement System assets is calculated using a five-year smoothing technique, so that gains or losses in asset value are recognized over that longer period rather than in the immediate time period such gain or

loss is identified. On the liability side, assumptions must be made regarding future costs of pension benefits in addition to demographic assumptions regarding the Retirement System members including rates of disability, retirement, and death. When the actual experience of the Retirement System differs from the expected experience, the impacts on UAAL are called actuarial gains or losses. Under the Retirement Board's updated Actuarial Funding Methods Policy any such gain or loss is amortized over a closed 20-year period. Similarly, if the estimated liabilities change due to an update in any of the assumptions, the impact on UAAL is also amortized over a closed 20-year period. Prior to the updated Policy which became effective with the July 1, 2014 actuarial valuation, the amortization period for gains, losses, and assumption changes was 15 years at the valuation date.

Third, supplemental costs associated with the various SFERS benefit plans are amortized. Supplemental costs are additional costs resulting from the past service component of SFERS benefit increases. In other words, when the Charter is amended to increase benefits to some or all beneficiaries of the Retirement System, the Retirement System's liability is correspondingly increased in proportion to the amount of the new benefit associated with service time already accrued by the then-current beneficiaries. These supplemental costs are required to be amortized over no more than 20 years according to the Charter. The Board has adopted a 15-year closed period for changes to active member benefits and a 5-year closed period for changes to inactive or retired members effective for all changes on or after July 1, 2014. The prior Board Policy specified closed 20-year periods for all benefit changes.

The consulting actuarial firm combines the three calculations described above to arrive at a total contribution requirement for funding the Retirement System in the next fiscal year. This total contribution amount is satisfied from a combination of employer and employee contributions. 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. The employer contribution rate is established by Retirement Board action each year and is expressed as a percentage of salary applied to all wages covered under the Retirement System.

Prospective purchasers of the City's bonds should carefully review and assess the assumptions regarding the performance of the Retirement System. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the City's bonds are cautioned that the information and assumptions speak only as of the respective dates contained in the underlying source documents, and are therefore subject to change.

Recent Voter Approved Changes to the Retirement Plan

The levels of SFERS plan benefits are established under the Charter and approved directly by the voters, rather than through the collective bargaining process. Changes to retirement benefits require a voter-approved Charter amendment.

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

Recent changes to SFERS plan benefits have been intended to reduce pension costs associated with future City employees. For example, in November 2011, the voters of San Francisco approved Proposition C which provided the following:

- a) 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%;
- b) Employees commencing employment on or after January 7, 2012 otherwise eligible for membership in CalPERS may become members of SFERS;
- c) Cost-sharing provisions which increase or decrease employee contributions to SFERS on and after July 1, 2012 for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. For example, Miscellaneous employees who earn between \$50,000 and \$100,000 per year pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution

rate, while Miscellaneous employees who earn \$100,000 or more per year pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are also required from Safety employees; and

- d) 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 to be fully funded in order to pay the Supplemental COLA. In that case, *Protect our Benefits (POB) v. City of San Francisco* (1st DCA Case No. A140095), the Court of Appeals held that changes to the Supplemental COLA adopted by the voters in November 2011 under Proposition C could not be applied to current City and County employees and those who retired after November 1996 when the Supplemental COLA provisions were originally adopted, but could be applied to SFERS members who retired before November 1996. The decision is not final and both sides can appeal. If the Appellate ruling becomes the final judgment, it is estimated that the actuarial liabilities of the Plan will increase approximately 1.8% for back payment of the Supplemental COLAs payable for 2013 and 2014.

The impact of Proposition C is incorporated in the actuarial valuations beginning with the July 1, 2012 Actuarial Valuation report.

Since 2009, the voters of San Francisco have approved one other retirement plan amendment:

- Proposition D enacted in June 2010, which enacted new SFERS retirement plans for Miscellaneous and Safety employees commencing on or after July 1, 2010, which changed average final compensation used in the benefit formula from highest one-year average compensation to highest two-year average compensation, increased the employee contribution rate for City safety and CalPERS members hired on or after July 1, 2010 from 7.5% of covered pay to 9.0%, and provides that, in years when the City's required contribution to SFERS is less than the employer normal cost as described above, the amount saved would be deposited into the Retiree Health Care Trust Fund.

SFERS Recent Funding Performance and City Employer Contribution History

Fiscal year 2012-13 total City employer contributions to the Retirement System were \$423.3 million which included \$183.4 million from the general fund. Fiscal year 2013-14 total City employer contributions were \$507.6 million which included \$228 million from the general fund. For fiscal year 2014-15, total City employer contributions to the Retirement System are budgeted at \$571.2 million which includes \$255.1 million from the General Fund. These budgeted amounts are based upon the fiscal year 2014-15 employer contribution rate of 26.76% (estimated to be 22.4% after taking into account the 2011 Proposition C cost-sharing provisions). The fiscal year 2015-16 employer contribution rate is 22.80% per the July 1, 2014 actuarial valuation report. The decline in employer contribution rate from 26.76% to 22.80% results from 1) overall investment gains in the last five fiscal years between July 1, 2009 and June 30, 2014, and 2) large investment losses from the 2008-09 fiscal year being fully reflected in the actuarial value of assets after a five-year smoothing period.

Table A-17 shows total Retirement System assets, liabilities, and percent funded for the last five actuarial valuations as well as contributions for the fiscal years 2009-10 through 2013-14. Information is shown for all employers in the Retirement System (City and County of San Francisco, San Francisco Unified School District, San Francisco Community College District, and San Francisco Trial Courts). "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 value of assets held in trust adjusted according to the Retirement System's actuarial methods as summarized above. "Pension Benefit Obligation" reflects the actuarial accrued liability of the Retirement System. The "Market Percent Funded" column is determined by dividing the market value of assets by the Pension Benefit Obligation. The "Actuarial Percent Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligation. "Employee and Employer Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System in the fiscal year ended June 30th prior to the July 1st valuation date.

TABLE A-17

SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System (in \$000s)
Fiscal Years 2009-10 through 2013-14

As of <u>1-Jul</u>	Market Value <u>of Assets</u>	Actuarial Value <u>of Assets</u>	Pension Benefit <u>Obligation</u>	Market Percent <u>Funded</u>	Actuarial Percent <u>Funded</u>	Employee & Employer <u>Contribution</u>	Employer Contribution <u>Rates⁽¹⁾</u>
2010	\$13,136,786	\$16,069,100	\$17,643,400	74.5%	91.1%	\$413,562	9.49%
2011	15,598,839	16,313,100	18,598,700	83.9	87.7	490,578	13.56%
2012	15,293,700	16,027,700	19,393,900	78.9	82.6	608,957	18.09%
2013	17,011,500	16,303,400	20,224,800	84.1	80.6	701,596	20.71%
2014	19,920,600	18,012,100	21,122,600	94.3	85.3	821,902	24.82%

⁽¹⁾ Employer contribution rates for fiscal years 2014-15 and 2015-16 are 26.76% and 22.80%, respectively.

Sources: SFERS' audited financial statements and supplemental schedules June 30, 2013, 2012, 2011, 2010, and 2009.
SFERS' actuarial valuation report as of July 1, 2013, July 1, 2012, July 1, 2011, July 1, 2010, and July 1, 2009.

Table A-17 shows that the Actuarial Percent Funded ratio increased from 80.6% to 85.3%. In general, this indicates that for every dollar of benefits promised, the Retirement System has approximately \$0.85 of assets available for payment based on the actuarial value of assets as of July 1, 2014. The Market Percent Funded ratio increased from 84.1% to 94.3% and is now higher than the Actuarial Percent Funded ratio which does not yet fully reflect all asset gains from the last five fiscal years.

Asset Management and Actuarial Valuation

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. See page 70 of the CAFR, attached as Appendix B to this Official Statement, for a breakdown of the asset allocation as of June 30, 2014. The Fund did not hold hedge funds as of June 30, 2014. The Board approved a 5% allocation to hedge funds at its January 2015 meeting. The investments, their allocation, transactions and proxy votes are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System's investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System are available upon request from the Retirement System by writing to the San Francisco Retirement System, 1145 Market Street, 5th Floor, San Francisco, California 94103, or by calling (415) 487-7020. Certain documents are available at the Retirement System website at www.mysfers.org. These documents are not incorporated herein by reference.

The actuarial accrued liability of the Retirement System (the Pension Benefit Obligation) is measured annually 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.

Recent Changes in the Economic Environment and the Impact on the Retirement System

As of June 30, 2014, the audited market value of Retirement System assets was \$19.9 billion. This value represents, as of the date specified, the estimated value of the Retirement System's portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are audited at each fiscal year end as part of the annual audit of the Retirement System's financial statements.

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

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

Other Employee Retirement Benefits

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members, at rates determined by the CalPERS board. Such payment from the General Fund equaled \$19.2 million in fiscal year 2012-13 and \$20.0 million in fiscal year 2013-14. For fiscal year 2014-15, the City prepaid its annual CalPERS obligation at a level of \$25.2 million. Further discussion of the City's CalPERS plan obligations are summarized in Note 9 to the City's CAFR, as of June 30, 2014, attached to this Official Statement as Appendix B. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under "Medical Benefits – *Post-Employment Health Care Benefits and GASB 45.*"

Medical Benefits

Administration through Health Service System; Audited System Financial Statements

Medical benefits for eligible active City employees and eligible dependents, for retired City employees and eligible dependents, and for surviving spouses and domestic partners of covered City employees (the "City Beneficiaries") are administered by the City's Health Service System (the "Health Service System" or "HSS") pursuant to City Charter Sections 12.200 *et seq.* and A8.420 *et seq.* Pursuant to such Charter Sections, the Health Service System also administers medical benefits to active and retired employees of San Francisco Unified School District (SFUSD), San Francisco Community College District (SFCCD), and the San Francisco Superior Court (collectively the "System's Other Beneficiaries"). However, the City is not required to fund medical benefits for the System's Other Beneficiaries and therefore this section focuses on the funding by the City of medical and dental benefits for City Beneficiaries. The Health Service System is overseen by the City's Health Service Board (the "Health Service Board"). The seven member Health Service Board is composed of members including a seated member of the City's Board of Supervisors, appointed by the Board President; an individual who regularly consults in the health care field, appointed by the Mayor; a doctor of medicine, appointed by the Mayor; a member nominated by the Controller and approved by the Health Service Board, and three members of the Health Service System, active or retired, elected from among their members. The plans (the "HSS Medical Plans") for providing medical care to the City Beneficiaries and the System's Other Beneficiaries (collectively, the "HSS Beneficiaries") are determined annually by the Health Service Board and approved by the Board of Supervisors pursuant to Charter Section A8.422.

The 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 HSS Beneficiaries are funded. The Health Service System issues annually a publicly available, independently audited financial report that includes financial statements for the Health Service Trust Fund. This report may be obtained on the HSS website, or by writing to the San Francisco Health Service System, 1145 Market Street, Third Floor, San Francisco, California 94103, or by calling (415) 554-1727. Audited annual financial statements for several years are also posted on the HSS website. The information available on such website is not incorporated in this Official Statement by reference.

As presently structured under the City Charter, the Health Service Trust Fund is not a fund through which assets are accumulated to finance post-employment healthcare benefits (an "OPEB trust fund"). Thus, the Health Service Trust

Fund is not currently affected by Governmental Accounting Standards Board ("GASB") Statement Number 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* ("GASB 45"), which applies to OPEB trust funds.

Determination of Employer and Employee Contributions for Medical Benefits

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

In the June 2014 collective bargaining the Average was eliminated in the calculation of premiums for Active employees represented by most unions, in exchanged for a percentage based employee premium contribution. The long term impact of the premium contribution model is anticipated to be a reduction in the relative proportion of the projected increases in the City's contributions for Healthcare, stabilization of the medical plan membership and maintenance of competition among plans. The contribution amounts are paid by the City into the Health Service Trust Fund. The Average is still used as a basis for calculating all retiree premiums. To the extent annual medical premiums exceed the contributions made by the City as required by the Charter and union agreements, such excess must be paid by HSS Beneficiaries or, if elected by the Health Service Board, from net assets also held in the Health Service Trust Fund. Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g., surviving spouses and surviving domestic partners of City retirees) ("Nonemployee City Beneficiaries") are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under "*Post-Employment Health Care Benefits and GASB 45.*"

Contributions relating to Nonemployee City Beneficiaries are also based on the negotiated methodologies found in the most of the union agreements and, when applicable, the City contribution of the "average contribution" corresponding to such Nonemployee City Beneficiaries as described in Charter Section A8.423 along with the following:

Monthly contributions from Nonemployee City Beneficiaries in amounts equal to the monthly contributions required from active employees excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining. However, such monthly contributions from Nonemployee City Beneficiaries covered under Medicare are reduced by an amount equal to the amount contributed monthly by such persons to Medicare.

In addition to the average contribution the City contributes additional amounts in respect of the Nonemployee City Beneficiaries sufficient to defray the difference in cost to the Health Service System in providing the same health coverage to Nonemployee City Beneficiaries as is provided for active employee City Beneficiaries, excluding health coverage or subsidies for health coverage paid for active employees as a result of collective bargaining.

After application of the calculations described above, the City contributes 50% of monthly contributions required for the first dependent.

Health Care Reform

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (Public Law 111-114), and on March 30, 2010 signed the Health Care and Education Reconciliation of 2010 (collectively, the "Health Care Reform Law"). The Health Care Reform Law is intended to extend health insurance to over 32 million uninsured Americans by 2019, and includes other significant changes with respect to the obligation to carry health insurance by individuals and the provision of health care by private and public employers, such as the City. Due to the complexity of the Health Care Reform Law it is likely that additional legislation will be considered and enacted in future years.

The Health Care Reform Law is designed to be implemented in phases from 2010 to 2018. The provisions of the Health Care Reform Law include, the expansion of Medicaid, subsidies for health insurance for certain individuals, mandates that require most Americans obtain health insurance, and incentives for employers with over 50 employees to provide health insurance for their employees or pay a fine. Many aspects of the law have yet to be clarified and will require substantial regulation or subsequent legislative action. On June 28, 2012 the U.S. Supreme Court ruled to uphold the employer mandate, the individual mandate and the state Medicaid expansion requirements.

Provisions of Health Care Reform already implemented by HSS include discontinued eligibility for non-prescription drugs reimbursement through flexible spending accounts (FSAs) in 2011, eliminated copayments for wellness visits, eliminated life-time caps on coverage, and expanded eligibility to cover member dependent children up to age 26 in 2011, eliminated copayments for women's preventative health including contraception in 2012, W-2 reporting on total healthcare premium costs, implementation of a medical loss ratio rebate on self-insured plans, issuance of a separate summary of benefits to every member and provided to every new member and providing information on State Exchanges to both employees currently on COBRA and future COBRA recipients. As of 2014 and 2015, and beyond, healthcare flexible spending accounts (FSAs) are limited to \$2,500 annually.

The change to the definition of a full time employee will be implemented 2015. The City modified health benefit eligibility to employees who are employed, on average, at least 30 hours of service per week or 130 hours in a calendar month.

The Automatic Enrollment requirement in the Health Care Reform was deferred until 2016. This requires that employers automatically enroll new full-time employees in one of the employer's health benefit plans (subject to any waiting period authorized by law). Further it is required than employees be given adequate notice and the opportunity to opt out of any coverage in which they were automatically enrolled. It is uncertain when final guidance will be issued by the Department of Labor.

As a result of the federal Health Care Reform Law there are two direct fees and one tax that have been factored into the calculation of medical premium rates and premium equivalents for the 2015 plan year. The three fees are the Federal Health Insurer Tax (HIT), Patient Centered Outcomes Research Institute (PCORI) fee, and the Transitional Reinsurance Fee. The total impact on the CCSF in 2015 is \$15.06 million.

The Federal HIT tax is a fixed-dollar amount distributed across health insurance providers for fully insured plans. The 2015 plan year premiums for Kaiser Permanente and Blue Shield of California included the impact of the HIT tax. The impact on the CCSF only in 2015 is \$11.91 million.

Beginning in 2013, the Patient Center Outcomes Research Institute (PCORI) Fee was assessed at the rate of \$2.00 per enrollee per year was assessed per year to all participants in the Self-Insured medical-only plan (approximately 8,600). The fee is charged directly to the Health Service System. In 2014 the rate was \$2.10 and is approximately \$2.22 in 2015. The 2015 impact of PCORI is \$0.20 million, HSS pays this fee directly to the Internal Revenue Service (IRS) and the fee will increase with health care inflation until it sunsets in 2019.

The Transitional Reinsurance Fee decreases from \$63/year fee on each Health Service System beneficiary for plan year 2014. The Transitional Reinsurance Fee will be \$44.00 in 2015 and the impact on CCSF only is \$2.95 million.

Local Elections:

Proposition B (2008) Changing Qualification for Retiree Health and Pension Benefits and Establishing a Retiree Health Care Trust Fund

On June 3, 2008, the San Francisco voters approved Proposition B, a charter amendment that changed the way the City and current and future employees share in funding SFERS pension and health benefits. With regard to health benefits, elected officials and employees hired on or before January 9, 2009, contribute up to 2% of pre-tax compensation toward their retiree health care and the City contributes up to 1%. The impact of Proposition B on standard retirements occurred in 2014.

Proposition C (2011) City Pension and Health Care Benefit

On November 8, 2011, the San Francisco voters approved Proposition C, a charter amendment that made additional changes to the way the City and current and future employees share in funding SFERS pension and health benefits. The Proposition limits the 50% coverage for dependents to employees who left the workforces (without retiring) prior to 2001. The Health Service System is in the process of programming eligibility changes to comply with Proposition C.

Employer Contributions for Health Service System Benefits

For fiscal year 2013-14, based on the most recent audited financial statements, the Health Service System received approximately \$644.1 million from participating employers for Health Service System benefit costs. Of this total, the City contributed approximately \$540.3 million; approximately \$160.8 million of this \$540.3 million amount was for health care benefits for approximately 27,213 retired City employees and their eligible dependents and approximately \$379.5 million was for benefits for approximately 62,206 active City employees and their eligible dependents. For Plan Year 2015, the Health Service System has budgeted to receive approximately \$644.6 million from participating employers for Health Service System benefit costs.

The 2015 aggregate plan costs for the City decreased by 2.78%. This flattening of the healthcare cost curve is due to a number of factors including lower use of healthcare during recessions, aggressive contracting by HSS that maintains competition among our vendors, implementing Accountable Care Organizations (ACO's) that reduced utilization and increased use of generic prescription rates and changing our Blue Shield plan from a fully-funded to a flex-funded product. Flex-funding allows lower premiums to be set by our actuarial consultant, AON-Hewitt, without the typical margins added by Blue Shield; however, more risk is assumed by the City and reserves are required to protect against this risk. The Health Service Board also approved the use of \$8.8 million in Health Service Trust Fund assets to decrease both the employee and employer premium costs for the Blue Shield of California (Flex-Funded), The flatten trend is anticipated to continue.

Post-Employment Health Care Benefits and GASB 45

Eligibility of former City employees for retiree health care benefits is governed by the Charter. In general, employees hired before January 10, 2009 and a spouse or dependent are potentially eligible for health benefits following retirement at age 50 and completion of five years of City service. Proposition B, passed by San Francisco voters on June 3, 2008, tightened post-retirement health benefit eligibility rules for employees hired on or after January 10, 2009, and generally requires payments by the City and these employees equal to three percent of salary into a new retiree health trust fund.

Proposition A, passed by San Francisco voters on November 5, 2013 restricted the City's ability to withdraw funds from the retiree health trust fund. The restrictions allow payments from the fund only when two of the three following conditions are met:

- The City's account balance in any fiscal year is fully funded. The account is fully funded when it is large enough to pay then-projected retiree health care costs as they come due; and,
- The City's retiree health care costs exceed .10% of the City's total payroll costs in a fiscal year. The Controller, Mayor, Trust Board, and a majority of the Board of Supervisors must agree to allow payments from the Fund for that year. These payments can only cover retiree health care costs that exceed 10% of the City's total payroll cost. The payments are limited to no more than 10% of the City's account; or,
- The Controller, Mayor, Trust Board, and two-thirds of the Board of Supervisors approve changes to these limits.

GASB 45 Reporting Requirements. The City was required to begin reporting the liability and related information for unfunded post-retirement medical and other benefits ("OPEBs") in the City's financial statements for the fiscal year ending June 30, 2008. This reporting requirement is defined under Governmental Accounting Standards Board Statement 45 ("GASB 45"). GASB 45 does not require that the affected government agencies, including the City, actually fund any portion of this post-retirement health benefit liability – rather, GASB 45 requires government agencies to determine on an actuarial basis the amount of its total OPEB liability and the annual contributions

estimated to fund such liability over 30 years. Any underfunding in a year is recognized as a liability on the government agency's balance sheet.

City's Estimated Liability. The City is required by GASB 45 to prepare a new actuarial study of its post-retirement benefits obligation every two years. In its September 9, 2014 draft, Cheiron, Inc. estimated that the City's unfunded liability was approximately \$4.00 billion as of July 1, 2012. This estimate assumed a 4.45% return on investments and had an ARC for fiscal year 2013-14 of approximately \$341.4 million. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excesses) amortized over thirty years. The ARC was determined based on the July 1, 2012 actuarial valuation. The covered payroll (annual payroll of active employees covered by the plan) was \$2.5 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 162.0%.

The difference between the estimated ARC and the amount expended on post-retirement medical benefits in any year is the amount by which the City's overall liability for such benefits increases in that year. The City's most recent CAFR estimated that the 2013-14 annual OPEB cost was \$353.2 million, of which the City funded \$166.6million which caused, among other factors, the City's long-term liability to increase by \$186.6 million (as shown on the City's balance sheet and below). The annual OPEB cost consists of the ARC, one year of interest on the net OPEB obligation, and recognition of one year of amortization of the net OPEB obligation. While GASB 45 does not require funding of the annual OPEB cost, any differences between the amount funded in a year and the annual OPEB cost are recorded as increases or decreases in the net OPEB obligation. See Note 9(c) and (d) to the City's CAFR, as of June 30, 2014, included as Appendix B to this Official Statement. Four-year trend information is displayed in Table A-18 (dollars in thousands):

TABLE A-18

CITY AND COUNTY OF SAN FRANCISCO
Five-year Trend
(000s)

Fiscal Year Ended	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
6/30/2010	\$374,214	33.9%	\$852,782
6/30/2011	392,151	37.2%	1,099,177
6/30/2012	405,850	38.5%	1,348,883
6/30/2013	418,539	38.3%	1,607,130
6/30/2014	353,251	47.2%	1,793,753

The September 2014 draft Cheiron Report estimates that the total long-term actuarial liability will reach \$5.7 billion by 2030. The calculations in the Cheiron Report are sensitive to a number of critical assumptions, including, but not limited to, the projected rate of increase in health plan costs.

Actuarial projections of the City's OPEB liability will be affected by Proposition B as well as by changes in the other factors affecting that calculation. For example, the City's actuarial analysis shows that by 2031, Proposition B's three-percent of salary funding requirement will be sufficient to cover the cost of retiree health benefits for employees hired after January 10, 2009. See "Retirement System – Recent Voter Approved Changes to the Retirement Plan" above. As of June 30, 2014, the fund balance in the Retiree Health Care Trust Fund established by Proposition B was \$49.0 million. Future projections of the City's GASB 45 liability will be lowered by the HSS implementation of the Employer Group Waiver Plan (EGWP) prescription benefit program for City Plan retirees. See "– Local Elections: Proposition C (2011)."

Total City Employee Benefits Costs

The City budgets to pay its ARC for pension and has established a Retiree Health Care Trust Fund into which both the City and employees are required to contribute funds as retiree health care benefits are earned. Currently, these Trust deposits are only required on behalf of employees hired after 2009, and are therefore limited, but will grow as

the workforce retires and this requirement is extended to all employees in 2016. Proposition A, passed by San Francisco voters on November 5, 2013 restricted the City's ability to make withdrawals from the Retiree Health Care Trust Fund.

The balance in the Retiree Health Care Trust Fund as of June 30, 2014 is approximately \$49 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Table A-19 provides a five-year history for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. For all fiscal years shown, a "pay-as-you-go" approach was used by the City for health care benefits.

Table A-19 below provides a summary of the City's employee benefit actual and budgeted costs from fiscal years 2011-12 to fiscal year 2015-16.

TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO
Employee Benefit Costs, All Funds
Fiscal Years 2011-12 through 2015-16
(000s)

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
	Actual	Actual	Actual	Budget	Budget
SFERS and PERS Retirement Contributions	\$428,263	\$452,325	\$535,309	\$590,013	\$541,989
Social Security & Medicare	147,682	156,322	160,288	174,497	182,525
Health - Medical + Dental, active employees ¹	363,344	370,346	369,428	380,501	393,772
Health - Retiree Medical ¹	151,301	155,885	161,859	165,779	169,381
Other Benefits ²	21,766	16,665	16,106	20,775	21,506
Total Benefit Costs	\$1,112,355	\$1,151,543	\$1,242,990	\$1,331,565	\$1,309,172

FY 2008-09 through FY 2013-14 figures are audited actuals. FY 2014-15 and 2015-16 figures are original budget.

¹ Does not include Health Service System administrative costs. Does include flexible benefits that may be used for health insurance.

² "Other Benefits" includes unemployment insurance premiums, life insurance, and other miscellaneous employee benefits.

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

INVESTMENT OF CITY FUNDS

Investment Pool

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

Investment Policy

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

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. See "APPENDIX – City and County of San Francisco Office of

the Treasurer – Investment Policy" for a complete copy of the Treasurer's Investment Policy, dated October 2014. The Investment Policy is also posted at the Treasurer's website. The information available on such website is not incorporated herein by reference.

Investment Portfolio

As of February 28, 2015, the City's surplus investment fund consisted of the investments classified in Table A-20, and had the investment maturity distribution presented in Table A-21.

TABLE A-20

**City and County of San Francisco
Investment Portfolio
Pooled Funds
As of February 28, 2015**

<u>Type of Investment</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasuries	\$ 585,000,000	\$ 585,066,602	\$ 588,151,550
Federal Agencies	4,690,587,000	4,694,542,429	4,698,647,491
State and Local Obligations	169,110,000	171,100,019	169,738,571
Public Time Deposits	240,000	240,000	240,000
Negotiable Certificates of Deposit	455,500,000	455,486,775	455,545,317
Banker's Acceptances	-	-	-
Commercial Paper	100,000,000	99,997,472	99,997,917
Medium Term Notes	537,570,000	540,569,174	538,946,734
Money Market Funds	50,095,150	50,095,150	50,095,150
Total	\$ 6,588,102,150	\$ 6,597,097,621	\$ 6,601,362,730

February 2015 Earned Income Yield: 0.79%

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

TABLE A-21

**City and County of San Francisco
Investment Maturity Distribution
Pooled Funds
As of February 28, 2015**

<u>Maturity in Months</u>			<u>Par Value</u>	<u>Percentage</u>
0	to	1	\$217,114,150	3.30%
1	to	2	50,240,000	0.76%
2	to	3	115,425,000	1.75%
3	to	4	55,500,000	0.84%
4	to	5	44,665,000	0.68%
5	to	6	71,815,000	1.09%
6	to	12	847,986,000	12.87%
12	to	24	2,569,542,000	39.00%
24	to	36	1,838,940,000	27.91%
36	to	48	437,200,000	6.64%
48	to	60	339,675,000	5.16%
			\$6,588,102,150	100.00%

Weighted Average Maturity: 695 Days

Sources: Office of the Treasurer & 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, 2014 are described in Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2014," Notes 2(d) and 5.

CAPITAL FINANCING AND BONDS

Capital Plan

In October 2005, the Board of Supervisors adopted, and the Mayor approved, Ordinance No. 216-05, which established a new capital planning process for the City. The legislation requires that the City develop and adopt a ten-year capital expenditure plan for City-owned facilities and infrastructure. It also created the Capital Planning Committee ("CPC") and the Capital Planning Program ("CPP"). The CPC, composed of other City finance and capital project officials, makes recommendations to the Mayor and Board of Supervisors on all of the City's capital expenditures. To help inform CPC recommendations, the CPP staff, under the direction of the City Administrator, review and prioritize funding needs; project and coordinate funding sources and uses; and provide policy analysis and reports on interagency capital planning.

The City Administrator, in conjunction with the CPC, is directed to develop and submit a ten-year capital plan every other fiscal year for approval by the Board of Supervisors. The Capital Plan is a fiscally constrained long-term finance strategy that prioritizes projects based on a set of funding principles. It provides an assessment of the City's infrastructure needs over ten years, highlights investments required to meet these needs and recommends a plan of finance to fund these investments. Although the Capital Plan provides cost estimates and proposes methods to finance such costs, the document does not reflect any commitment by the Board of Supervisors to expend such amounts or to adopt any specific financing method. The Capital Plan is required to be updated and adopted biennially, along with the City's Five Year Financial Plan and the Five-Year Information & Communication Technology Plan. The CPC is also charged with reviewing the annual capital budget submission and all long-term financing proposals, and providing recommendations to the Board of Supervisors relating to the compliance of any such proposal or submission with the adopted Capital Plan.

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year. The fiscal year 2016-2025 Capital Plan was approved by the CPC on March 2, 2015 and was adopted by the Board of Supervisors in April 2015. The Capital Plan contains \$32 billion in capital investments over the coming decade for all City departments, including \$5.1 billion in projects for General Fund-supported departments. The Capital Plan proposes \$1.66 billion for General Fund pay-as-you-go capital projects over the next ten years. The amount for General Fund pay-as-you-go capital projects is assumed to grow to over \$200 million per year by fiscal year 2025-26. Major capital projects for General Fund-supported departments included in the Capital Plan consist of upgrades to public health, police, fire and park facilities; street and right-of-way improvements; the removal of barriers to accessibility; park improvements; the replacement of the Hall of Justice; and seismic upgrades to the Veteran's Memorial Building, among other capital projects. Approximately \$1.8 billion of the capital projects of General Fund supported departments are expected to be financed with general obligation bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, the General Fund, and other sources.

In addition to the City General Fund-supported capital spending, the Capital Plan recommends \$18.2 billion in enterprise fund department projects to continue major transit, economic development and public utility projects such as the Central Subway project, runway and terminal upgrades at San Francisco International Airport, Pier 70 infrastructure investments, and the Sewer System Improvement Program, among others. Approximately \$12.2 billion of enterprise fund department capital projects is financed with voter-approved revenue bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, user/operator fees, General Fund, and other sources.

While significant investments are proposed in the City's adopted ten-year capital plan, identified resources remain below those necessary to maintain and enhance the City's physical infrastructure. As a result, over \$8.5 billion in capital needs are deferred from the plan's horizon. Over two-thirds of these unfunded needs are for the City's transportation and waterfront infrastructure, where core maintenance investments have lagged for decades. Mayor Edwin Lee has convened a taskforce to recommend funding mechanisms to bridge a portion of the gaps in the City's transportation needs, but it is likely that significant funding gaps will remain even assuming the identification of significant new funding sources for these needs.

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

Tax-Supported Debt Service

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds") can only be authorized with a two-thirds approval of the voters. As of April 1, 2015, the City had approximately \$2.05 billion aggregate principal amount of general obligation bonds outstanding.

Table A-22 shows the annual amount of debt service payable on the City's outstanding general obligation bonds.

TABLE A-22

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds Debt Service
As of April 1, 2015 ^{1 2}

Fiscal Year	Principal	Interest	Annual Debt Service
2015	\$165,859,884	\$44,554,130	\$210,414,014
2016	123,173,046	86,766,286	209,939,332
2017	111,929,110	81,281,872	193,210,982
2018	108,828,225	75,766,419	184,594,644
2019	108,070,545	70,556,949	178,627,494
2020	106,636,232	65,251,012	171,887,244
2021	103,445,457	60,059,487	163,504,944
2022	108,633,401	55,282,324	163,915,725
2023	111,475,251	50,195,006	161,670,257
2024	113,201,206	44,789,781	157,990,987
2025	113,181,476	39,221,281	152,402,757
2026	107,681,279	33,662,671	141,343,950
2027	112,200,840	28,619,511	140,820,351
2028	116,384,035	23,391,846	139,775,881
2029	116,131,751	18,303,143	134,434,894
2030	111,590,095	13,269,617	124,859,712
2031	72,826,950	8,388,702	81,215,652
2032	75,415,000	5,494,800	80,909,800
2033	40,100,000	2,564,600	42,664,600
2034	14,875,000	912,250	15,787,250
2035	5,330,000	266,500	5,596,500
TOTAL ³	\$2,046,968,783	\$808,598,187¹	\$2,855,566,970

¹ This table does not reflect any debt other than City direct tax-supported debt, such as any assessment district indebtedness or any redevelopment agency indebtedness.

² Totals reflect rounding to nearest dollar.

³ Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all real and personal assessment district indebtedness or any redevelopment agency indebtedness.

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

General Obligation Bonds

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

In November 1992, voters approved Proposition A, which authorized the issuance of up to \$350.0 million in general obligation bonds to provide moneys to fund the City's Seismic Safety Loan Program (the "Loan Program"). The purpose of the Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued \$35.0 million in taxable general obligation bonds to fund the Loan Program and in October 2002, the City redeemed all outstanding bonds remaining from such issuance. In February 2007, the Board of Supervisors approved the issuance of additional indebtedness under this authorization in an amount not to exceed \$35.0 million. Such issuance would be achieved pursuant to the terms of a Credit Agreement with Bank of America, N.A. (the "Credit Bank"), under which the Credit Bank agreed to fund one or more loans to the City from time to time as evidenced by the City's issuance to the Credit Bank of the Taxable General Obligation Bond (Seismic Safety Loan Program), Series 2007A. The funding by the Credit Bank of the loans at the City's request and the terms of repayment of such loans are governed by the terms of the Credit Agreement. Loan funds received by the City from the Credit Bank are in turn used to finance loans to Seismic Safety Loan Program borrowers. In March 2007, the City initiated an initial borrowing of \$2.0 million, and in October 2007, the City borrowed approximately \$3.8 million from the Credit Bank. In January 2008, the City borrowed approximately \$3.9 million and in November 2008, the City borrowed \$1.3 million from the Credit Bank. Further borrowings under the Credit Agreement with the Credit Bank (up to the \$35.0 million not-to-exceed amount) are expected as additional loans to Seismic Safety Loan Program borrowers are approved.

In February 2008, voters approved Proposition A, which authorized the issuance of up to \$185.0 million in general obligation bonds for the construction, reconstruction, purchase, and/or improvement of park and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition A in the amount of approximately \$42.5 million in August 2008. The City issued the second series in the amount of approximately \$60.4 million in March 2010 and the third series in the amount of approximately \$73.4 million in March 2012.

In June 2010, voters approved Proposition B, which authorized the issuance of up to \$412.3 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement, and retrofitting of neighborhood fire and police stations, the auxiliary water supply system, a public safety building, and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds under Proposition B in the amount of \$79.5 million in December 2010 and the second series of bonds in the amount of \$183.3 million in March 2012. The City issued the third series in the amount of approximately \$38.3 million in August 2012 and the fourth series of bonds in the amount of \$31.0 million in June 2013, and the fifth series in the amount of \$54.9 million was issued in October 2014.

In November 2011, voters approved Proposition B, which authorized the issuance of up to \$248.0 million in general obligation bonds to provide funds to repair and repave City streets and remove potholes; strengthen and seismically upgrade street structures; redesign street corridors by adding or improving pedestrian signals, lighting, sidewalk extensions, bicycle lanes, trees and landscaping; construct and renovate curb ramps and sidewalks to increase accessibility and safety for everyone, including persons with disabilities; and add and upgrade traffic signals to improve MUNI service and traffic flow. The City issued the first series of bonds under Proposition B in the amount of approximately \$74.3 million in March 2012 and the second series of bonds in the amount of \$129.6 million in June 2013.

In November 2012, voters approved Proposition B, which authorized the issuance of up to \$195.0 million in general obligation bonds to provide funds for the construction, reconstruction, renovation, demolition, environmental remediation and/or improvement of park, open space, and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition B in the amount of approximately \$71.9 million in June 2013.

In June 2014, voters approved Proposition A, which authorized the issuance of up to \$400.0 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement, and retrofitting of

neighborhood fire and police stations, emergency firefighting water system, medical examiner facility, traffic company & forensic services division and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds in the amount of \$100.6 million in October 2014.

In November 2014, voters approved Proposition A, which authorized the issuance of up to \$500 million in general obligation bonds to provide funds to finance the construction, acquisition, and improvement of certain transportation and transit related improvements and other related costs.

Refunding General Obligation Bonds

The Board of Supervisors adopted Resolution No. 272-04 on May 11, 2004 (the "2004 Resolution"). The Mayor approved the 2004 Resolution on May 13, 2004. The 2004 Resolution authorized the issuance of not to exceed \$800.0 million aggregate principal amount of its General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding all or a portion of the City's then outstanding General Obligation Bonds. On November 1, 2011, the Board of Supervisors adopted, and the Mayor approved, Resolution No. 448-11 (the "2011 Resolution," and together with the 2004 Resolution, the "Refunding Resolutions"). The 2011 Resolution authorized the issuance of not to exceed \$1.356 billion aggregate principal amount of the City's General Obligation Refunding Bonds from time to time in one or more series for the purpose of refunding certain outstanding General Obligation Bonds of the City. The City has issued eight series of refunding bonds under the Refunding Resolutions, as shown on Table A-23.

TABLE A-23

CITY AND COUNTY OF SAN FRANCISCO General Obligation Refunding Bonds

Series Name	Date Issued	Principal Amount Issued (Millions)
2006-R1	October 2006	90.7
2006-R2	December 2006	66.6
2008-R1	May 2008	232.1
2008-R2	July 2008	39.3
2008-R3	July 2008	118.1
2011-R1 ¹	November 2011	339.4
2015-R1 ²	February 2015	293.9

¹ Series 2004-R1 Bonds were refunded by the 2011-R1 Bonds in November 2011

² Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015.

Series 2008-R3 Bonds were partially refunded.

CITY AND COUNTY OF SAN FRANCISCO General Obligation Refunding Bonds

Series Name	Date Issued	Principle Amount Issued (Millions)
2006-R1	October 2006	90.7
2006-R2	December 2006	66.6
2008-R1	May 2008	232.1
2008-R2	July 2008	39.3
2008-R3	July 2008	118.1
2011-R1 ¹	November 2011	339.4

¹ Series 2004-R1 Bonds were refunded by the 2011-R1 Bonds in November 2011

Table A-24 below lists for each of the City's voter-authorized general obligation bond programs the amount originally authorized, the amount issued and outstanding, and the amount of remaining authorization for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of April 1, 2015, the City had authorized and unissued general obligation bond authority of approximately \$1.285 billion.

TABLE A-24

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds (as of April 1, 2015)

<u>Description of Issue (Date of Authorization)</u>	<u>Series</u>	<u>Issued</u>	<u>Outstanding</u> ¹	<u>Authorized & Unissued</u> ²
Seismic Safety Loan Program (11/3/92)	2007A	\$30,315,450	\$25,193,783	\$284,684,550
Branch Library Facilities Improvement (11/7/00)	2008A	31,065,000	1,315,000	
Clean & Safe Neighborhood Parks (2/5/08)	2008B	42,520,000	1,805,000	
	2010B	24,785,000	11,960,000	
	2010D	35,645,000	35,645,000	
	2012B	73,355,000	58,010,000	8,695,000
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	25,210,000	
	2010A	120,890,000	58,335,000	
	2010C	173,805,000	173,805,000	
	2012D	251,100,000	184,380,000	
	2014A	209,955,000	198,680,000	
Earthquake Safety and Emergency Response Bond (6/8/10)	2010E	79,520,000	49,605,000	
	2012A	183,330,000	145,205,000	
	2012E	38,265,000	35,415,000	
	2013B	31,020,000	27,235,000	
	2014C	54,950,000	54,950,000	25,215,000
Road Repaving & Street Safety (11/8/11)	2012C	74,295,000	59,385,000	
	2013C	129,560,000	113,730,000	44,145,000
Clean & Safe Neighborhood Parks (11/6/12)	2013A	71,970,000	63,175,000	123,030,000
Earthquake Safety and Emergency Response Bond (6/3/14)	2014D	100,670,000	100,670,000	299,330,000
Transportation and Road Improvement (11/4/14)				500,000,000
SUB TOTALS		\$1,888,665,450	\$1,423,708,783	\$1,285,099,550
General Obligation Refunding Bonds:				
Series 2006-R1 issued 10/31/06		\$90,690,000	\$0	
Series 2006-R2 issued 12/18/06		66,565,000	-	
Series 2008-R1 issued 5/29/08		232,075,000	35,200,000	
Series 2008-R2 issued 5/29/08		39,320,000	21,195,000	
Series 2008-R3 issued 7/30/08		118,130,000	-	
Series 2011-R1 issued 11/9/12		339,475,000	272,955,000	
Series 2015-R1 issued 2/25/15		293,910,000	293,910,000	
SUB TOTALS		1,180,165,000	623,260,000	
TOTALS		\$3,068,830,450	\$2,046,968,783	\$1,285,099,550

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.

Lease Payments and Other Long-Term Obligations

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

Table A-25 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of April 1, 2015. Note that the annual payment obligations reflected in Table A-25 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

TABLE A-25

CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Bonds and Certificates of Participation
As of April 1, 2015

Fiscal Year	Principal	Interest	Annual Payment Obligation
2015	\$8,770,000	\$6,788,900	\$15,558,900
2016	64,585,000	48,009,207	112,594,207
2017	60,500,000	45,247,295	105,747,295
2018	59,015,000	42,476,466	101,491,466
2019	51,030,000	40,008,234	91,038,234
2020	42,310,000	37,896,276	80,206,276
2021	44,455,000	35,981,834	80,436,834
2022	44,250,000	34,011,070	78,261,070
2023	46,185,000	32,044,432	78,229,432
2024	47,685,000	30,007,359	77,692,359
2025	47,275,000	27,869,306	75,144,306
2026	46,975,000	25,791,909	72,766,909
2027	49,155,000	23,608,266	72,763,266
2028	49,630,000	21,330,462	70,960,462
2029	51,880,000	18,993,964	70,873,964
2030	51,410,000	16,578,701	67,988,701
2031	42,705,000	14,210,744	56,915,744
2032	31,950,000	12,050,087	44,000,087
2033	30,995,000	10,480,656	41,475,656
2034	32,465,000	8,852,743	41,317,743
2035	20,155,000	7,383,525	27,538,525
2036	18,420,000	6,313,469	24,733,469
2037	16,450,000	5,322,520	21,772,520
2038	17,180,000	4,404,563	21,584,563
2039	17,935,000	3,446,211	21,381,211
2040	18,735,000	2,441,919	21,176,919
2041	19,565,000	1,393,151	20,958,151
2042	11,490,000	499,473	11,989,473
2043	1,900,000	95,000	1,995,000
TOTAL ¹	\$1,045,055,000	\$563,537,742 ²	\$1,608,592,742

¹ Totals reflect rounding to nearest dollar.

² For purposes of this table, the interest rate on the Lease Revenue Bonds Series 2008-1, and 2008-2 (Moscone Center Expansion Project) is assumed to be 3.25%. These bonds are in variable rate mode.

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

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

In 1987, voters approved Proposition B, which authorizes the City to lease finance (without limitation as to maximum aggregate par amount) the construction of new parking facilities, including garages and surface lots, in eight of the City's neighborhoods. In July 2000, the City issued \$8.2 million in lease revenue bonds to finance the construction of the North Beach Parking Garage, which was opened in February 2002. There is no current plan to issue any more bonds under Proposition B.

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of April 1, 2015 the total authorized amount for such financings was \$64.5 million. The total principal amount outstanding as of April 1, 2015 was \$14.2 million.

In 1994, voters approved Proposition B, which authorized the issuance of up to \$60.0 million in lease revenue bonds for the acquisition and construction of a combined dispatch center for the City's emergency 911 communication system and for the emergency information and communications equipment for the center. In 1997 and 1998, the Corporation issued \$22.6 million and \$23.3 million of Proposition B lease revenue bonds, respectively, leaving \$14.0 million in remaining authorization. There is no current plan to issue additional series of bonds under Proposition B.

In June 1997, voters approved Proposition D, which authorized the issuance of up to \$100.0 million in lease revenue bonds for the construction of a new football stadium at Candlestick Park, the previous home of the San Francisco 49ers football team. If issued, the \$100.0 million of lease revenue bonds would be the City's contribution toward the total cost of the stadium project and the 49ers would be responsible for paying the remaining cost of the stadium construction project. There is no current plan to issue the Proposition D bonds.

On March 7, 2000, voters approved Proposition C, which extended a two and one half cent per \$100.0 in assessed valuation property tax set-aside for the benefit of the Recreation and Park Department (the "Open Space Fund"). Proposition C also authorizes the issuance of lease revenue bonds or other forms of indebtedness payable from the Open Space Fund. The City issued approximately \$27.0 million and \$42.4 million of such Open Space Fund lease revenue bonds in October 2006 and October 2007, respectively.

In November 2007, voters approved Proposition D, which amended the Charter and renewed the Library Preservation Fund. Proposition D continues the two and one half cent per \$100.0 in assessed valuation property tax set-aside and establishes a minimum level of City appropriations, moneys that are maintained in the Library Preservation Fund. Proposition D also authorizes the issuance of revenue bonds or other evidences of indebtedness. The City issued the first series of lease revenue bonds in the amount of approximately \$34.3 million in March 2009.

Commercial Paper Program

The Board authorized on March 17, 2009 and the Mayor approved on March 24, 2009 the establishment of a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "CP Program"). Commercial Paper Notes (the "CP Notes") are issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation, and construction of real property and the acquisition of capital equipment and vehicles in anticipation of long-term or other take-out financing to be issued when market conditions are favorable. Projects are eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project. In June 2010, the City obtained letters of credit securing the CP Notes issued by J.P. Morgan Chase Bank, N.A. with a maximum principal amount of \$50 million and by U.S. Bank, N.A. with a maximum principal amount of \$50 million. The letters of credit expire June 2016.

The Board authorized on July 16, 2013 and the Mayor approved on July 25, 2013 an additional \$100.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 3 and 3-T and Series 4 and 4-T that increases the total authorization of the CP Program to \$250.0 million. The Series 3 and 3-T and 4 and 4-T are secured by a letter of credit issued by State Street Bank and Trust Company expiring June 2016.

As of April 2015, the outstanding principal amount of CP Notes is \$156.6 million. The weighted average interest rate for the CP Notes is approximately 0.08%.

Board Authorized and Unissued Long-Term Obligations

The Board of Supervisors authorized on October 26, 2010 and the Mayor approved on November 5, 2010 the issuance of not to exceed \$38,000,000 in City and County of San Francisco certificates of participation to partially

finance the rebuilding of severely distressed public housing sites, while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (the HOPE SF Project). The City anticipates issuing the certificates in the Fall of 2015.

The Board of Supervisors authorized on July 26, 2011 and the Mayor approved on August 1, 2011 the issuance of not to exceed \$170,000,000 in City and County of San Francisco certificates of participation to finance the construction and installation of certain improvements in connection with the renovation of the San Francisco War Memorial Veterans Building. The City anticipates issuing the certificates in the Summer of 2015.

The Board of Supervisors authorized on February 12, 2013 and the Mayor approved on February 15, 2013 the issuance of not to exceed \$507.9 million of City and County of San Francisco Certificates of Participation (Moscone Expansion Project) payable from Moscone Expansion District assessments to finance the costs of additions and improvements to the George R. Moscone Convention Center. The City anticipates issuing the certificates in 2017.

The Board of Supervisors authorized October 8, 2013 and the Mayor approved October 11, 2013 the issuance of not to exceed \$13.5 million of City and County of San Francisco Certificates of Participation (Treasure Island Improvement Project) to finance the cost of additions and improvements to the utility infrastructure at Treasure island.

Overlapping Debt

Table A-26 shows bonded debt and long-term obligations as of April 1, 2015 sold in the public capital markets by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

TABLE A-26

CITY AND COUNTY OF SAN FRANCISCO
Statement of Direct and Overlapping Debt and Long-Term Obligations

2014-2015 Assessed Valuation (net of non-reimbursable & homeowner exemptions):	\$181,809,981,276	
	Outstanding	
	4/1/2015	
<u>DIRECT GENERAL OBLIGATION BOND DEBT</u>	\$2,046,968,783	
General City Purposes Carried on the Tax Roll	<hr/>	
GROSS DIRECT DEBT	\$2,046,968,783	
<u>DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS</u>		
San Francisco COPs, Series 2001A (30 Van Ness Ave. Property)	\$26,920,000	
San Francisco Finance Corporation, Equipment LRBs Series 2010A, 2011A, 2012A, and 2013A	14,225,000	
San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1	13,815,000	
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2	116,020,000	
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007	52,770,000	
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A	29,960,000	
San Francisco COPs, Series 2007A (City Office Buildings - Multiple Properties)	137,185,000	
San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital)	137,585,000	
San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project)	33,270,000	
San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt	29,560,000	
San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs	129,550,000	
San Francisco Refunding Certificates of Participation, Series 2010A	116,165,000	
San Francisco COPs, Refunding Series 2011AB (Moscone)	67,825,000	
San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project)	39,415,000	
San Francisco COPs, Series 2013A Moscone Center Improvement	22,135,000	
San Francisco COPs, Series 2013BC Port Facilities	34,355,000	
San Francisco COPs, Series 2014-R1 (Courthouse Project), 2014-R2 (Juvenile Hall Project)	44,300,000	
LONG-TERM OBLIGATIONS	\$1,045,055,000	
 GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS	 \$3,092,023,783	
 <u>OVERLAPPING DEBT & LONG-TERM OBLIGATIONS</u>		
Bayshore Hester Assessment District	\$625,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	86,486,667	
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B	105,251,150	
San Francisco Community College District General Obligation Bonds - Election of 2001, 2005	328,550,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 2011	40,635,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	858,437,852 ¹	
San Francisco Redevelopment Agency Obligations (Special Tax Bonds)	106,098,939	
Association of Bay Area Governments Obligations (Special Tax Bonds)	19,005,000	
San Francisco Unified School District General Obligation Bonds, Series Election of 2003, 2006, and 2011	613,130,000	
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	<hr/> \$2,158,219,608	
GROSS COMBINED TOTAL OBLIGATIONS	<hr/> \$5,250,243,391 <hr/>	
 <u>Ratios to Assessed Valuation:</u>	<u>Actual Ratio</u>	<u>Charter Req.</u>
Gross Direct Debt (General Obligation Bonds)	1.13%	< 3.00% ³
Gross Direct Debt & Long-Term Obligations	1.70%	n/a
Gross Combined Total Obligations	2.89%	n/a

¹ The accreted value as of July 1, 2014 is \$6,705,001

² Excludes revenue and mortgage revenue bonds and non-bonded third party financing lease obligations. Also excludes tax allocation bonds sold in August, 2009.

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 property within the City's boundaries that is subject to

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

On November 4, 2003, voters approved Proposition A. Proposition A of 2003 authorized the SFUSD to issue up to \$295.0 million of general obligation bonds to repair and rehabilitate school facilities, and various other improvements. The SFUSD issued \$58.0 million of such authorization in October 2004, \$130.0 million in October 2005, and \$92.0 million in October 2006, leaving \$15.0 million authorized but unissued. In March 2012, the SFUSD issued \$116.1 million in refunding general obligation bonds that refunded \$137.4 million in general obligation bonds authorized under Proposition A of 2003.

On November 2, 2004, voters approved Proposition AA. Proposition AA authorized the San Francisco BART to issue general obligation bonds in one or more series over time in an aggregate principal amount not to exceed \$980.0 million to strengthen tunnels, bridges, overhead tracks and the underwater Transbay Tube for BART facilities in Alameda and Contra Costa counties and the City. Of the \$980.0 million, the portion payable from the levy of *ad valorem* taxes on property within the City is approximately 29.0% or \$282.0 million. Of such authorization, BART issued \$100.0 million in May 2005 and \$400.0 million in July 2007, of which the allocable City portion is approximately \$29.0 million and \$116.0 million, respectively.

On November 7, 2006, voters approved Proposition A. Proposition A of 2006 authorized the SFUSD to issue an aggregate principal amount not to exceed \$450.0 million of general obligation bonds to modernize and repair up to 64 additional school facilities and various other improvements. The SFUSD issued the first series in the aggregate principal amount of \$100 million under the Proposition A authorization in February 2007. The SFUSD issued the second series in the aggregate principal amount of \$150.0 million under the Proposition A authorization in January 2009. The SFUSD issued the third series in the aggregate principal amount of \$185.0 million under the Proposition A authorization in May 2010.

On November 8, 2011, voters approved Proposition A. Proposition A of 2011 authorized the SFUSD to issue an aggregate principal amount not to exceed \$531.0 million of general obligation bonds to repair and rehabilitate school facilities to current accessibility, health, safety, and instructional standards, and where applicable, replace worn-out plumbing, electrical and other major building systems, replace aging heating, ventilation and air handling systems, renovate outdated classrooms and training facilities, construct facilities to replace aging modular classrooms. The SFUSD issued the first series in the aggregate principal amount of \$115.0 million under the Proposition A of 2011 authorization in March 2012.

MAJOR ECONOMIC DEVELOPMENT PROJECTS

Numerous development and construction projects are in progress throughout the City at any given time. This section describes several of the most significant privately owned and managed real estate developments currently under way in the City in which there is City participation, generally in the form of a public/private partnership. The information in this section has been prepared by the City based on City-approved plans as well as unofficial plans and representations of the developer in each case, and includes forward-looking statements. These forward-looking statements consist of expressions of opinion, estimates, predictions, projections, plans and the like; such forward-looking statements in this section are those of the developers and not of the City. The City makes no prediction, representation or assurance that the plans and projects described will actually be accomplished, or the time frame in which the developments will be completed, or as to the financial impact on City real estate taxes, developer fees, other tax and fee income, employment, retail or real estate activity, or other consequences that might be expected or projected to result from the successful completion of each development project. Completion of development in each case may depend on the local economy, the real estate market, the financial health of the developer and others involved in the project, specific features of each development and its attractiveness to buyers, tenants, and others, as well as the financial health of such buyers, tenants, and others. Completion and success of each development will also likely depend on other factors unknown to the City.

Hunters Point Shipyard (Phase 1 and 2) and Candlestick Point

The Hunters Point Shipyard Phase 1 and 2 and Candlestick Point project area will deliver approximately 12,100 new homes, approximately 32 percent of which will be below market rate and will include the rebuilding of the Alice Griffith public housing development consistent with the City's HOPE SF program, up to 3 million square feet of research and development space, and more than 350 acres of new parks in the southeast portion of San Francisco (the "Project"). In total, the Project will generate over \$6 billion of new economic activity to the City, more than

12,000 permanent jobs, hundreds of new construction jobs each year, new community facilities, new transit infrastructure, and provide approximately \$90 million in community benefits. The Project's full build out will occur over 20 to 30 years. In the next five years over 1,000 units of housing and 26 acres of parks will be completed in the first phase of the Shipyard.

The first phase of development has begun at the Hunters Point Shipyard site with over 300 units currently under construction, and an additional 150 units will begin construction in 2015-2016. In late 2014 construction of horizontal infrastructure began for the first 184 affordable units in the Candlestick Point area. Also, in 2015, the design process will begin for a 635,000 square foot mixed-use retail center, 150,000 square foot hotel at the former Candlestick Stadium site and an additional 1200 residential units, including 230 stand alone affordable units and up to 100 inclusionary units. Two hillside open space areas at the base of Bayview Hill will be improved and a new wedge park plaza will also be constructed, adding a total of 7.5 acres of open space adjacent to the new retail and residential development.

Treasure Island

Former Naval Station Treasure Island is located in the San Francisco Bay and connected to the City by the San Francisco-Oakland Bay Bridge. The former base, which ceased operations in 1997, consists of approximately 405 acres on Treasure Island and 90 acres on adjoining Yerba Buena Island. Development plans for the islands include up to 8,000 new homes, 25% of which will be offered at below-market rates; up to 500 hotel rooms; a 400 slip marina; restaurants; retail and entertainment venues; and a world-class 300-acre parks and open space system. The compact mixed-use transit-oriented development is centered around a new ferry terminal connecting the island to downtown San Francisco and is designed to prioritize walking, biking and public transit. The development plans include green building standards and best practices in low-impact development.

The first major land transfer from the Navy to the Treasure Island Development Authority (TIDA) will occur in early 2015 and will include the northern half of Yerba Buena Island and more than half of the area of Treasure Island. The developer, Treasure Island Community Development (TICD), is performing the preliminary engineering and pursuing the permits required to begin construction before the end of 2015. The first phase of development will include extensive horizontal infrastructure improvements (utilities, roadway improvements, site preparation, etc.) as well as the initial vertical developments. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

Mission Bay Blocks 29-32– Warriors Multipurpose Recreation and Entertainment Venue

The Golden State Warriors, a National Basketball Association (NBA) team, is proposing to develop a multipurpose recreation and entertainment venue and associated development the former Salesforce site in Mission Bay. The site is bordered by Third Street to the West, Terry Francois Boulevard to the East, 16th Street to the South and South Street to the North. The Warriors propose constructing a state-of-the-art multi-purpose recreation and entertainment venue for Warriors' home games, concerts, and family shows. The site will also have two live performance theatres, restaurants retail, office space, bike valet, public plazas and a limited amount of parking. The project will trigger the Mission Bay master developer's construction of a new 3.5 acre Bay Front Park between the new arena and the Bay. Environmental review is currently underway with the goal of opening in time for the 2018-2019 basketball season.

Transbay

The Transbay Project Redevelopment Project Area was adopted in 2005 with the purpose of redeveloping 10 acres of property owned by the State of California in order to generate funding for the new Transbay Transit Center. In 2012 the Transit Center District Plan, the guiding document for the area surrounding the Transit Center, was approved by the Planning Commission and by the Board of Supervisors. The Transit Center District Plan includes additional funding sources for the Transbay Transit Center. The Transbay Transit Center Project will replace the outdated Transbay Terminal at First and Mission Streets with a modern transit hub and extend the Caltrain commuter rail line underground 1.3 miles into the Financial District. The Transbay Transit Center broke ground on August 11, 2010, and is scheduled to open by the end of 2017. Demolition of existing structures on the site was completed in August 2011.

The area surrounding the Transbay Transit Center is being redeveloped with plans for 4,500 new homes, 1,200 to be affordable below-market rate homes, 6 million square feet of new office space, over 11 acres of new parks and open space, and a new retail boulevard on Folsom Street. Much of this new development will occur on the publicly-owned parcels within the district. Recently completed in the neighborhood is Rene Cazenave Apartments which is 120 units of permanent affordable housing for formerly homeless individuals. There are over 470 units currently under construction on Folsom and Beale Streets, with three new construction projects along Folsom Street totaling over 1,800 units expected to break ground within the next two years. There is also over 2 million square feet of commercial space currently under construction, with several new projects expected to break ground in the coming years.

The Pelli Clarke Pelli Architects-designed Transit Center will serve more than 100,000 people per day through nine transportation systems, including future California High Speed Rail, which will be designed to connect San Francisco to Los Angeles in less than 2-1/2 hours. The Center is designed to embrace the goals of green architecture and sustainability. The heart of the Transbay Transit Center, "City Park," a 5.4-acre public park that will sit atop the facility, and there will be a living green roof for the transit facility. The Center will have a LEED rating of Silver. The project is estimated to create more than 48,000 jobs in its first phase of construction, which will last seven years. The \$4.2 billion Transbay Transit Center Project is funded by various public and private funding partners, including the federal government, the State, the Metropolitan Transportation Commission, the San Francisco County and San Mateo County Transportation Authorities, and AC Transit, among others. In March 2013, the TJPA sold the TJPA property adjacent to the Transbay Transit Center to Hines Corporation and Boston Properties, paving the way for construction of the 61-story Transbay Transit Tower, which will contain 1.4 million square feet of office space, for \$190 million.

Mission Bay

The development plans for Mission Bay include a new University of California-San Francisco (UCSF) research campus containing 3.15 million square feet of building space on 46 acres of land, of which 43 acres were donated by the Mission Bay Master Developer and the City; UCSF's 550-bed hospital; 3.4 million square feet of biotech, 'cleantech' and health care office space; 6,400 housing units, with 1,850 (29%) affordable to moderate-, low-, and very low-income households; 425,000 square feet of retail space; a 250-room hotel with up to 25,000 square feet of retail entertainment uses; 49 acres of public open space, including parks along Mission Creek and San Francisco Bay and eight acres of open space within the UCSF campus; a new 500-student public school; and a new fire and police station and police headquarters. Mission Bay is approximately 50% complete.

Over 4,067 units have been completed with an additional 900 units under construction, along with several new parks. Another 550 housing units, a 250-room hotel and several new commercial buildings will break ground in 2015. As discussed above, the design development process has also begun for that Golden State Warriors project.

Seawall Lot (SWL) 337 and Pier 48 (Mission Rock)

Mission Rock is a proposed mixed-use development at Seawall Lot 337 and Pier 48, Port-owned property comprising approximately 25 acres. The Port, OEWD in its capacity as lead negotiator, and Mission Rock's competitively-selected master developer, Seawall Lot 337 Associates, LLC, have agreed on a development concept and corresponding financial terms for Mission Rock, which are reflected in a non-binding Term Sheet that the Port

Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following environmental review.

The proposed development plan for Mission Rock set forth in the term sheet includes: approximately 8 acres of public parks and open spaces, including a 5-acre regional waterfront park; 650 to 1,500 new housing units, 15 percent of which will be affordable to low-income households; 1.3 to 1.7 million square feet of commercial space; 150,000 to 250,000 square feet of retail space, approximately 3,000 parking spaces within mixed-use buildings and a dedicated parking structure, which will serve San Francisco Giants baseball team patrons as well as Mission Rock occupants and visitors; and the rehabilitation and reuse of historic Pier 48 as a new brewery/distillery for Anchor Steam Brewing Company.

In the wake of the passage of Proposition B on the June 2013 ballot, the developer, Port and OEWD staff have continued to engage relevant agencies and stakeholders to further refine the project plan. The environmental review process was initiated in January 2014 and is expected to last until early to mid-2016. That process will be accompanied by negotiation of transaction agreements and approval of any needed height limit and zoning changes which will likely determine the final approval schedule (currently expected on or after early 2017).

Pier 70

Plans for Pier 70 call for substantial development, including major parks and historic building rehabilitation, on this 69-acre site to achieve a number of goals, including preservation and adaptive reuse of historic structures; retention of the ship repair operations; provision of new open space; reactivation and economic development on the site; and needed infrastructure and site remediation. The Port, which controls Pier 70, and OEWD, in its capacity as lead negotiator, have initiated preliminary negotiations with Forest City, the developer selected to build a new mixed-use neighborhood on a 25-acre portion of Pier 70 known as the Waterfront Site. The parties have agreed on a development concept and corresponding financial terms for the Waterfront Site, which are reflected in a non-binding Term Sheet that the Port Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following community and environmental review. In November 2014, Proposition F was approved by the voters, authorizing an increase of height limits on Pier 70 from 40 feet to 90 feet.

Current development plans for the Pier 70 Waterfront Site call for 7 acres of parks and up to 3.25 million square feet of above-grade construction (not including parking) which may include up to 1.7 million square feet of office space; up to 400,000 square feet of retail, small-scale production, arts space intended to establish the new district as destination with unique character; and between 935 and 1825 housing units, with as many as 30% percent of them made available to low- and middle- income households. This built area includes three historic industrial buildings that will be rehabilitated as part of the Waterfront Site development.

Cruise Terminal

On September 25, 2014 the Port opened the new James R. Herman cruise ship terminal at Pier 27. Formerly the base for the America's Cup races in the summer of 2013, the Cruise Terminal includes 91,000 square feet in a two-story building with views to the Bay Bridge and back to the City skyline and Telegraph Hill. Sized for 2,600 passengers and able to handle ships with up to 4,000 passengers, the Cruise Terminal is designed for the evolving trends in the passenger cruise industry. It includes the latest passenger and perimeter security features while also transitioning to an event center for the City on non-cruise days. The site also includes a 2.5 acre Cruise Terminal Plaza along the Embarcadero, creating a new open space amenity and strengthening connection between the Bay and the base of Telegraph Hill.

The James R. Herman Cruise Terminal has been designed to meet modern ship and operational requirements of the cruise industry and expects to receive a LEED Silver designation for its environmental design.

The Cruise Terminal contributes to San Francisco's economy by attracting 40-80 cruise calls a year, bringing visitors and tax revenue to the City's General Fund. It is estimated that the cruise industry in San Francisco supports \$31.2 million annually in economic activity and generates 300 jobs within San Francisco. The facility will continue to be used for maritime events, such as Fleet Week, foreign naval diplomatic calls, Tall Ship festivals and visits by oceanic research vessels. When there are no cruise calls, the cruise terminal will provide approximately 60,000 square feet of designated space for shared uses, including meetings and special events.

San Francisco Public Works, along with the Port were responsible for construction management of the new cruise terminal. Contractor for the construction project was Turner Construction and Designers/Architects were KMD Kaplan McLaughlin Diaz, Pfau Long Architecture, JV Bermello Ajamil & Partners and cruise terminal design consultants.

Moscone Convention Center

The Moscone Center Expansion Project will add approximately 300,000 square feet and repurpose an additional 120,000 square feet to the portion of the existing Moscone Center located on Howard Street between 3rd and 4th Streets in the Yerba Buena Gardens neighborhood of San Francisco. Nearly 140,000 square feet of this additional space would be created by excavating and expanding the existing below-grade exhibition halls that connect the Moscone North and South buildings under Howard Street, with the remaining consisting of new and repurposed lobby area, new multi-purpose/meeting room area, and new and repurposed building support area.

In addition to adding new rentable square footage, the project architects propose an iconic sense of arrival that enhances Moscone's civic presence on Howard Street and reconnects it to the surrounding neighborhood through the creation of reintroduced lost mid-block passageways. As such, the project proposes a new mid-block pedestrian entrance from Third St and a replacement pedestrian bridge connecting Yerba Buena Gardens with the cultural facilities and children's playground to the south. An additional enclosed pedestrian bridge would provide enhanced circulation for Moscone convention attendees and reduce on-street congestion.

A May 2012 analysis by Jones Lang Lasalle Hotels estimated that the City would lose up to \$2 billion in foregone revenue over the next decade if Moscone was not expanded. The project allows the City to recover approximately \$734 million of this future revenue and create 3,480 local jobs through a phased construction schedule that keeps Moscone in continuous revenue generating operation.

The proposed project is a joint partnership between the City and the hotel industry, acting through the Tourist Improvement District Management Corporation, with the City paying approximately one-third of all expansion costs and the hotel community paying approximately two-thirds. The Board of Supervisors unanimously approved the creation of the Moscone Expansion District and the issuance of \$507 million in Certificates of Participation on February 5, 2013 and the Planning Commission unanimously approved the project on August 15, 2014. Pre-construction began in December 2014 with major construction scheduled to begin in the spring of 2015 and continue intermittently around existing convention reservations through 2018.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

Several constitutional and statutory limitations on taxes, revenues and expenditures exist under State law which limits 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 consumer price index or comparable data, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on 1) indebtedness approved by the voters prior to July 1, 1978, 2) any bonded indebtedness for the

acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or 3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district voting on the proposition, but only if certain accountability measures are included in the proposition.

The California Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher or lower than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate persons with disabilities and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII B of the California Constitution

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

Articles XIII C and XIII D of the California Constitution

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

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

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

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

Statutory Limitations

On November 4, 1986, California voters adopted Proposition 62, an initiative statute that, among other things, requires (i) that any new or increased general purpose tax be approved by a two-thirds vote of the local governmental entity's legislative body and by a majority vote of the voters, and (ii) that any new or increased special purpose tax be approved by a two-thirds vote of the voters.

In *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the "*Santa Clara* decision"), the California Supreme Court upheld a Court of Appeal decision invalidating a one-half cent countywide sales tax for transportation purposes levied by a local transportation authority. The California Supreme Court based its decision on the failure of the authority to obtain a two-thirds vote for the levy of a "special tax" as required by Proposition 62. The *Santa Clara* decision did not address the question of whether it should be applied retroactively. In *McBrearty v. City of Brawley*, 59 Cal. App. 4th 1441 (1997), the Court of Appeal, Fourth District, concluded that the *Santa Clara* decision is to be applied retroactively to require voter approval of taxes enacted after the adoption of Proposition 62 but before the *Santa Clara* decision.

The *Santa Clara* decision also did not decide, and the California Supreme Court has not otherwise decided, whether Proposition 62 applies to charter cities. The City is a charter city. Cases decided by the California Courts of Appeal have held that the voter approval requirements of Proposition 62 do not apply to certain taxes imposed by charter cities. See *Fielder v. City of Los Angeles*, 14 Cal. App. 4th 137 (1993) and *Fisher v. County of Alameda*, 20 Cal. App. 4th 120 (1993).

Proposition 62, as an initiative statute, does not have the same level of authority as a constitutional initiative, but is analogous to legislation adopted by the State Legislature, except that it may be amended only by a vote of the State's electorate. Since it is a statute, it is subordinate to the authority of charter cities to impose taxes derived from the State Constitution. Proposition 218 (discussed above), however, incorporates the voter approval requirements initially imposed by Proposition 62 into the State Constitution.

Even if a court were to conclude that Proposition 62 applies to charter cities, the City's exposure under Proposition 62 may not be significant. The effective date of Proposition 62 was November 1986. Proposition 62 contains provisions that apply to taxes imposed on or after August 1, 1985. Since August 1, 1985, the City has collected taxes on businesses, hotel occupancy, utility use, parking, property transfer, stadium admissions and vehicle rentals. See "OTHER CITY TAX REVENUES" herein. Only the hotel and stadium admissions taxes have been increased since that date. The increases in these taxes were ratified by the voters on November 3, 1998 pursuant to the requirements of Proposition 218. With the exception of the vehicle rental tax, the City continues to collect all of the taxes listed above. Since these remaining taxes were adopted prior to August 1, 1985, and have not been increased, these taxes would not be subject to Proposition 62 even if Proposition 62 applied to a charter city.

Proposition 1A

Proposition 1A, a constitutional amendment proposed by the State Legislature and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate, or change the allocation of local sales tax revenues, subject to certain exceptions.

As set forth under the laws in effect as of November 3, 2004, Proposition 1A generally prohibits the State from shifting any share of property tax revenues allocated to local governments for any fiscal year to schools or community colleges. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

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

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

Proposition 22

Proposition 22 ("Proposition 22") which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. In addition, Proposition 22 generally eliminates the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase a school and community college district's share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties. Proposition 22 prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies (but see "San Francisco Redevelopment Agency Dissolution" above). While Proposition 22 will not change overall State and local government costs or revenues by the express terms thereof, it will cause the State to adopt alternative actions to address its fiscal and policy objectives.

Due to the prohibition with respect to the State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A (2004). However, borrowings and reallocations from local governments during 2009 are not subject to Proposition 22 prohibitions. In addition, Proposition 22 supersedes Proposition 1A of 2006. Accordingly, the State is prohibited from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local governments except pursuant to specified procedures involving public notices and hearings.

Proposition 26

On November 2, 2010, the voters approved Proposition 26 ("Proposition 26"), revising certain provisions of Articles XIII A and XIII C of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes, requires local governments to obtain two-thirds voter approval for taxes levied by local governments, and requires the State to obtain the approval of two-thirds of both houses of the State Legislature to approve State laws that increase taxes. Furthermore, pursuant to Proposition 26, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require a two-thirds vote. In addition, for State-imposed charges, any tax or fee adopted after January 1, 2010 with a majority vote which would

have required a two-thirds vote if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a "tax" means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law, including late payment fees, fees imposed under administrative citation ordinances, parking violations, etc.; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218. Fees, charges and payments that are made pursuant to a voluntary contract that are not "imposed by a local government" are not considered taxes and are not covered by Proposition 26.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of property owners.

Future Initiatives and Changes in Law

The laws and Constitutional provisions described above were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

On April 25, 2013, the California Supreme Court in *McWilliams v. City of Long Beach* (April 25, 2013, No. S202037), held that the claims provisions of the Government Claims Act (Government Code Section 900 *et. seq.*) govern local tax and fee refund actions (absent another State statute governing the issue), and that local ordinances were without effect. The effect of the *McWilliams* case is that local governments could face class actions over disputes involving taxes and fees. Such cases could expose local governments to significant refund claims in the future. The City cannot predict whether any such class claims will be filed against it in the future, the outcome of any such claim or its impact on the City.

LITIGATION AND RISK MANAGEMENT

Pending Litigation

There are a number of lawsuits and claims routinely pending against the City, including those summarized in Note 16 to the City's CAFR as of June 30, 2014, attached as Appendix B to this Official Statement. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not impair the ability of the City to make debt service payments or otherwise meet its General Fund lease or debt obligations, nor materially impair the City's ability to fund current operations.

Risk Retention Program

Citywide risk management is coordinated by the Office of Risk Management Division within the City's General Services Agency, which is under the supervision of the City Administrator. With certain exceptions, it is the general policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed but rather to first evaluate self-insurance for such risks. The City's policy in this regard is based on its analysis that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing covenants and for other limited purposes. The City actuarially determines liability and workers' compensation risk exposures as permitted under State law. The City does not maintain commercial earthquake coverage, with certain minor exceptions.

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

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

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

The City's estimated liability and workers' compensation risk exposures are summarized in Note 16 to the City's CAFR, attached to this Official Statement as Appendix B.

OFFICE OF THE MAYOR
SAN FRANCISCO



RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO

EDWIN M. LEE
MAYOR

2015 MAY -5 PM 4:43

BJ

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: *Edwin M. Lee* Mayor Edwin M. Lee *NW*
RE: *Edwin M. Lee* Resolution Approving Sale Documents for Refunding Certificates of Participation, Series 2015-1 – Not to Exceed \$188,700,000
DATE: May 5, 2015

Attached for introduction to the Board of Supervisors is a resolution approving the form of an Official Statement in preliminary and final form; approving the form of a Continuing Disclosure Certificate; authorizing City officials to take necessary actions in connection with the authorization, sale execution and delivery of the Refunding Certificates of Participation Series 2015-R1 (City Office Buildings – Multiple Properties Project); and ratifying previous actions taken in connection therewith.

I respectfully request that this item be calendared in Budget & Finance Committee on May 13th, 2015.

Should you have any questions, please contact Nicole Elliott (415) 554-7940.

Wong, Linda (BOS)

From: Querubin, Jamie (CON)
Sent: Tuesday, May 12, 2015 4:54 PM
To: Wheaton, Nicole (MYR); Wong, Linda (BOS)
Cc: Blake, Mark (CAT); Sesay, Nadia (CON); Trivedi, Vishal (CON)
Subject: RE: File No. 150468 - Refunding Certificates of Participation, Series 2015-R-1

Hi Linda,

Yes – all of the documents listed and referenced in the legislation are submitted.

Thank you,
Jamie

From: Wheaton, Nicole (MYR)
Sent: Tuesday, May 12, 2015 4:43 PM
To: Wong, Linda (BOS)
Cc: Blake, Mark (CAT); Sesay, Nadia (CON); Trivedi, Vishal (CON); Querubin, Jamie (CON)
Subject: RE: File No. 150468 - Refunding Certificates of Participation, Series 2015-R-1

Thanks Linda. Looping in the Office of Public Finance to respond to your first question, and deferring to Mark Blake on the second question.

Nicole A. Elliott
Legislative Director
Commission & Board Liaison
Office of Mayor Edwin M. Lee
(415) 554-7940

From: Wong, Linda (BOS)
Sent: Tuesday, May 12, 2015 4:29 PM
To: Wheaton, Nicole (MYR)
Cc: Blake, Mark (CAT)
Subject: File No. 150468 - Refunding Certificates of Participation, Series 2015-R-1
Importance: High

Nicole,

Please see attached proposed Resolution regarding the subject matter referenced above.

Page 3, Line 5 states:

“SECTION 3. File Documents. The documents referenced herein and presented to this Board are on file with the Clerk of the Board or her designee (collectively, the “Clerk”) in File No. _____. ”

Are the following documents submitted to our office all the documents referenced in the legislation?

- Official Notice of Sale and Office Bid Form
- Notice of Intention to Sell
- Preliminary Official Statement dated June __, 2015
- Form of Continuing Disclosure Certificate
- Appendix A

