

File No. 140812

Committee Item No. 23  
Board Item No. 40

### COMMITTEE/BOARD OF SUPERVISORS AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Sub-Committee

Date July 23, 2014

Board of Supervisors Meeting

Date July 29, 2014

#### Cmte Board

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| <input type="checkbox"/>            | <input type="checkbox"/>            | Motion                                       |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Resolution                                   |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Ordinance                                    |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Legislative Digest                           |
| <input type="checkbox"/>            | <input checked="" type="checkbox"/> | Budget and Legislative Analyst Report        |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Youth Commission Report                      |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Introduction Form                            |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/>            | <input type="checkbox"/>            | MOU  |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Budget                                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Subcontract Budget                           |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Contract/Agreement                           |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Form 126 – Ethics Commission                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Award Letter                                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Application                                  |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Public Correspondence                        |

OTHER (Use back side if additional space is needed)

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| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <u>official Notice of Sale and official Bid Form</u> |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <u>Preliminary Official Statement</u>                |
| <input type="checkbox"/>            | <input type="checkbox"/>            | _____  |
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Completed by: Linda Wong Date July 18, 2014  
Completed by: Linda Wong Date 7/23/14

1 [General Obligation Bonds - Earthquake Safety and Emergency Response - Not to Exceed  
2 \$57,840,000]

3 **Resolution authorizing and directing the sale of not to exceed \$57,840,000 aggregate**  
4 **principal amount of City and County of San Francisco General Obligation Bonds**  
5 **(Earthquake Safety and Emergency Response Bonds, 2010), Series 2014C; prescribing**  
6 **the form and terms of said bonds; authorizing the execution, authentication, and**  
7 **registration of said bonds; providing for the appointment of depositories and other**  
8 **agents for said bonds; providing for the establishment of accounts related to said**  
9 **bonds; providing for the manner of sale of said bonds by competitive sale; approving**  
10 **the forms of Official Notice of Sale and Notice of Intention to Sell Bonds; directing the**  
11 **publication of the Notice of Intention to Sell Bonds; approving the form of the**  
12 **Preliminary Official Statement and the form and execution of the Official Statement**  
13 **relating to the sale of said bonds; approving the form of the Continuing Disclosure**  
14 **Certificate; authorizing and approving modifications to documents; declaring the City's**  
15 **intent to reimburse certain expenditures; ratifying certain actions previously taken; and**  
16 **granting general authority to City officials to take necessary actions in connection with**  
17 **the authorization, issuance, sale, and delivery of said bonds.**

18  
19 WHEREAS, By Resolution No. 47-10, adopted by the Board of Supervisors (the "Board  
20 of Supervisors") of the City and County of San Francisco (the "City") on February 9, 2010, and  
21 signed by the Mayor of the City (the "Mayor") on February 26, 2010, it was determined that  
22 public interest and necessity demands the construction, acquisition, improvement, and  
23 retrofitting of earthquake safety and emergency responsiveness facilities and infrastructure  
24 therein described (the "Project"); and  
25

1           WHEREAS, By Ordinance No. 40-10, finally passed by the Board of Supervisors on  
2 February 23, 2010, and signed by the Mayor on February 26, 2010 (the "Bond Ordinance"),  
3 the Board of Supervisors duly called a special election to be held on June 8, 2010 (the "Bond  
4 Election"), for the purpose of submitting to the electors of the City a proposition to incur  
5 bonded indebtedness in the amount of \$412,300,000 to finance the Project, and such  
6 proposition was approved by not less than a two-thirds vote of the qualified electors of the  
7 City voting on such proposition; and

8           WHEREAS, By Resolution No 516-10 (the "Authorizing Resolution"), adopted by the  
9 Board of Supervisors on November 2, 2010, and signed by the Mayor on November 5, 2010,  
10 the City authorized the issuance of its General Obligation Bonds (Earthquake Safety and  
11 Emergency Response Bonds, 2010) (the "Bonds"); and

12           WHEREAS, By Resolution No. 515-10, adopted by the Board of Supervisors on  
13 November 2, 2010, and signed by the Mayor on November 5, 2010, the City was authorized  
14 to issue two series of Bonds in an aggregate principal amount not to exceed \$85,000,000  
15 aggregate principal amount of said General Obligation Bonds (Earthquake Safety and  
16 Emergency Response Bonds, 2010) Series 2010E (Tax-Exempt), which Series 2010E Bonds  
17 were subsequently issued in the principal amount of \$79,520,000, and said General  
18 Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010), Series 2010F  
19 (Federally Taxable Build America Bonds), which Series 2010F Bonds were not issued; and

20           WHEREAS, By Resolution No. 17-12, adopted by the Board of Supervisors on January  
21 24, 2012, and signed by the Mayor on February 2, 2012, the City was authorized to issue  
22 said General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010),  
23 Series 2012A in an aggregate principal amount not to exceed \$192,000,000, which Series  
24 2012A Bonds were subsequently issued in the aggregate principal amount of \$183,330,000;  
25 and

1           WHEREAS, By Resolution No. 231-12, adopted by the Board of Supervisors on June  
2 12, 2012, and signed by the Mayor on June 18, 2012, the City was authorized to issue said  
3 General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010),  
4 Series 2012E in an aggregate principal amount not to exceed \$40,410,000, which Series  
5 2012E Bonds were subsequently issued in the aggregate principal amount of \$38,265,000;  
6 and

7           WHEREAS, By Resolution No. 155-13, adopted by the Board of Supervisors on  
8 May 21, 2013, and signed by the Mayor on May 28, 2013, the City was authorized to issue  
9 said General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010),  
10 Series 2013B in an aggregate principal amount not to exceed \$31,905,000, which Series  
11 2013B Bonds were subsequently issued in the aggregate principal amount of \$31,020,000;  
12 and

13           WHEREAS, The City has issued and sold, to date, a total of \$332,135,000 of the  
14 Bonds; and there remains \$80,165,000 of authorized and unissued Bonds; and

15           WHEREAS, It is necessary and desirable to issue an additional aggregate principal  
16 amount of the Bonds not to exceed \$57,840,000 (the "Series 2014C Bonds"), to finance a  
17 portion of the costs of the Project (as defined in the Authorizing Resolution); and

18           WHEREAS, The Series 2014C Bonds are being issued pursuant to the Authorizing  
19 Resolution and Title 5, Division 2, Part 1, Chapter 3, Article 4.5 of the California Government  
20 Code, the Charter of the City (the "Charter"), the Bond Ordinance and the Bond Election; and

21           WHEREAS, The City has paid and expects to pay certain expenditures in connection  
22 with the Project to be financed by the Series 2014C Bonds prior to the issuance and sale of  
23 the Series 2014C Bonds, and the City intends to reimburse itself and to pay third parties for  
24 such prior expenditures from the proceeds of the Series 2014C Bonds; and  
25

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

5           WHEREAS, The Reimbursement Regulations require that any reimbursement  
6 allocation of proceeds of the Series 2014C Bonds to be made with respect to expenditures  
7 incurred prior to the issuance of the Series 2014C Bonds will occur not later than eighteen  
8 (18) months after the later of (i) the date on which the expenditure is paid or (ii) the date on  
9 which the facilities are placed in service, but in no event later than three (3) years after the  
10 expenditure is paid; and

11           WHEREAS, The Citizens' General Obligation Bond Oversight Committee shall conduct  
12 an annual review of bond spending and shall provide an annual report on the management of  
13 the program to the Mayor and the Board, and, to the extent permitted by law, one-tenth of one  
14 percent (0.1%) of the gross proceeds of the Series 2014C Bonds shall be deposited in a fund  
15 established by the Controller's Office and appropriated by the Board at the direction of the  
16 Citizens' General Obligation Bond Oversight Committee to cover the costs of such Committee  
17 and its review process; now, therefore, be it

18           RESOLVED by the Board of Supervisors of the City and County of San Francisco, as  
19 follows:

20           Section 1. Recitals. All of the recitals in this Resolution are true and correct.

21           Section 2. Conditions Precedent. All conditions, things and acts required by law to  
22 exist, to happen and to be performed precedent to and in connection with the issuance of the  
23 Series 2014C Bonds exist, have happened and have been performed in due time, form and  
24 manner in accordance with applicable law, and the City is now authorized pursuant to the  
25

1 Bond Election, the Charter and applicable law to incur indebtedness in the manner and form  
2 provided in this Resolution.

3 Section 3. Documents. The documents presented to the Board and on file with the  
4 Clerk of the Board of Supervisors or his or her designee (the "Clerk of the Board of  
5 Supervisors") are contained in File No. 140812.

6 Section 4. Issuance and Sale of Series 2014C Bonds; Determination of Certain Terms;  
7 Designation. The Board authorizes the issuance and sale of not to exceed \$57,840,000 in  
8 aggregate principal amount of Bonds to be designated as "City and County of San Francisco  
9 General Obligation Bonds, Series 2014C," for the purposes set forth in the Bond Election  
10 Ordinance and Proposition A approved by the voters at the Bond Election.

11 The Director of Public Finance of the City or designee thereof (the "Director of Public  
12 Finance") is authorized to determine, for the Series 2014C Bonds, the sale date, the interest  
13 rates, the definitive principal amount, the maturity dates and the redemption dates, if any, and  
14 the terms of any optional or mandatory redemption, subject to the other specific provisions of  
15 this Resolution, including the following terms and conditions: (i) the Series 2014C Bonds shall  
16 not have a true interest cost in excess of 12% (as such term is defined in the Official Notice of  
17 Sale (as defined in Section 17)); and (ii) the Series 2014C Bonds shall not have a final  
18 maturity date after June 15, 2035. The Director of Public Finance is further authorized to give  
19 the Series 2014C Bonds such additional or other series designation, or to modify such series  
20 designation, as may be necessary or appropriate to distinguish the Series 2014C Bonds from  
21 every other series of Bonds and from other bonds issued by the City.

22 Section 5. Execution, Authentication and Registration of the Series 2014C Bonds.  
23 Each of the Series 2014C Bonds shall be in fully registered form without coupons in  
24 denominations of \$5,000 or any integral multiple of that amount. The officers of the City are  
25 directed to cause the Series 2014C Bonds to be prepared in sufficient quantity for delivery to

1 or for the account of their purchaser and the Controller is directed to cause the blanks in the  
2 Series 2014C Bonds to be completed in accordance with the Authorizing Resolution and the  
3 Bond Award (as defined in Section 13), to procure their execution by the proper officers of the  
4 City (including by facsimile signature if necessary or convenient) and authentication as  
5 provided in this Section, and to deliver the Series 2014C Bonds when so executed and  
6 authenticated to said purchaser in exchange for their purchase price, all in accordance with  
7 the Authorizing Resolution.

8 The Series 2014C Bonds and the certificate of authentication and registration, to be  
9 manually executed by the Treasurer of the City or designee thereof (the "City Treasurer"), and  
10 the form of assignment to appear on the Series 2014C Bonds shall be substantially in the  
11 form attached as Exhibit A (a copy of which is on file with the Clerk of the Board of  
12 Supervisors and which is declared to be a part of this Resolution as if fully set forth in this  
13 Resolution), with necessary or appropriate variations, omissions and insertions as permitted  
14 or required by this Resolution.

15 Only Series 2014C Bonds bearing a certificate of authentication and registration  
16 executed by the City Treasurer shall be valid or obligatory for any purpose or entitled to the  
17 benefits of the Authorizing Resolution and this Resolution, and such certificate of the City  
18 Treasurer, executed as provided in this Resolution, shall be conclusive evidence that the  
19 Series 2014C Bonds so authenticated have been duly authenticated and delivered under, and  
20 are entitled to the benefits of, the Authorizing Resolution and this Resolution.

21 The Controller shall assign a distinctive letter, or number, or letter and number to each  
22 Series 2014C Bond authenticated and registered by the City Treasurer and shall maintain a  
23 record thereof which shall be available for inspection.

24 Section 6. Registration Books. The City Treasurer shall keep or cause to be kept, at  
25 the office of the City Treasurer or at the designated office of any registrar appointed by the

1 City Treasurer, separate and sufficient books for the registration and transfer of Series 2014C  
2 Bonds, which books shall at all times be open to inspection, and upon presentation for such  
3 purpose, the City Treasurer shall, under such reasonable regulations as he or she may  
4 prescribe, register or transfer or cause to be registered or transferred, on said books, Series  
5 2014C Bonds as provided in this Resolution. The City and the City Treasurer may treat the  
6 registered owner of each Series 2014C Bond as its absolute owner for all purposes, and the  
7 City and the City Treasurer shall not be affected by any notice to the contrary.

8 Section 7. Transfer or Exchange of Series 2014C Bonds. Any Series 2014C Bond  
9 may, in accordance with its terms, be transferred upon the books required to be kept pursuant  
10 to the provisions of Section 6, by the person in whose name it is registered, in person or by  
11 the duly authorized attorney of such person in writing, upon surrender of such Series 2014C  
12 Bond for cancellation, accompanied by delivery of a duly executed written instrument of  
13 transfer in a form approved by the City Treasurer.

14 Any Series 2014C Bond may be exchanged at the office of the City Treasurer for a like  
15 aggregate principal amount of other authorized denominations of the same interest rate and  
16 maturity.

17 Whenever any Series 2014C Bond shall be surrendered for transfer or exchange, the  
18 designated City officials shall execute (as provided in Section 5) and the City Treasurer shall  
19 authenticate and deliver a new Series 2014C Bond of the same interest rate and maturity in a  
20 like aggregate principal amount. The City Treasurer shall require the payment by any bond  
21 owner requesting any such transfer of any tax or other governmental charge required to be  
22 paid with respect to such transfer or exchange.

23 No transfer or exchange of Series of 2014C Bonds shall be required to be made by the  
24 City Treasurer during the period from the Record Date (as defined in Section 8(b)) next  
25



1 preceding each interest payment date to such interest payment date or after a notice of  
2 redemption shall have been mailed with respect to such Series 2014C Bonds.

3 Section 8. Terms of the Series 2014C Bonds; General Redemption Provisions.

4 (a) Date of the Series 2014C Bonds. The Series 2014C Bonds shall be dated the  
5 date of their delivery or such other date (the "Dated Date") as is specified in the Bond Award.

6 (b) Payment of the Series 2014C Bonds. The principal of the Series 2014C Bonds  
7 shall be payable in lawful money of the United States of America to their owners, upon  
8 surrender at maturity or earlier redemption at the office of the City Treasurer. The interest on  
9 the Series 2014C Bonds shall be payable in like lawful money to the person whose name  
10 appears on the bond registration books of the City Treasurer as the owner as of the close of  
11 business on the last day of the month immediately preceding an interest payment date (the  
12 "Record Date"), whether or not such day is a Business Day (as defined below).

13 Except as may be otherwise provided in connection with any book-entry only system  
14 applicable to the Series 2014C Bonds, payment of the interest on any Series 2014C Bond  
15 shall be made by check mailed on the interest payment date to such owner at such owner's  
16 address as it appears on the registration books as of the Record Date; provided, that if any  
17 interest payment date occurs on a day that banks in California or New York are closed for  
18 business or the New York Stock Exchange is closed for business, then such payment shall be  
19 made on the next succeeding day that banks in both California and New York are open for  
20 business and the New York Stock Exchange is open for business (each, a "Business Day");  
21 and provided, further, that the registered owner of an aggregate principal amount of at least  
22 \$1,000,000 of Series 2014C Bonds may submit a written request to the City Treasurer on or  
23 before a Record Date preceding an interest payment date for payment of interest on the next  
24 succeeding interest payment date and thereafter by wire transfer to a commercial bank  
25 located within the United States of America.

1 For so long as any Series 2014C Bonds are held in book-entry form by a securities  
2 depository selected by the City pursuant to Section 11, payment shall be made to the  
3 registered owner of the Series 2014C Bonds designated by such securities depository by wire  
4 transfer of immediately available funds.

5 (c) Interest on the Series 2014C Bonds. The Series 2014C Bonds shall bear  
6 interest at rates to be determined upon the sale of the Series 2014C Bonds, calculated on the  
7 basis of a 360-day year comprised of twelve 30-day months, payable on June 15, 2015 (or  
8 such other date as may be designated in the Bond Award), and semiannually thereafter on  
9 June 15 and December 15 of each year. Each Series 2014C Bond shall bear interest from the  
10 interest payment date next preceding the date of its authentication unless it is authenticated  
11 as of a day during the period from the Record Date next preceding any interest payment date  
12 to the interest payment date, inclusive, in which event it shall bear interest from such interest  
13 payment date, or unless it is authenticated on or before the first Record Date, in which event it  
14 shall bear interest from the Dated Date; provided, that if, at the time of authentication of any  
15 Series 2014C Bond, interest is in default on the Series 2014C Bonds, such Series 2014C  
16 Bond shall bear interest from the interest payment date to which interest has previously been  
17 paid or made available for payment on the Series 2014C Bonds or from the Dated Date if the  
18 first interest payment is not made.

19 (d) Optional Redemption. The Series 2014C Bonds shall be subject to optional  
20 redemption prior to maturity as provided in the Official Notice of Sale or the Bond Award.

21 (e) Mandatory Redemption. The Series 2014C Bonds shall be subject to  
22 mandatory redemption at par, by lot, in any year in which the purchaser has designated that  
23 the principal amount payable with respect to that year shall constitute a mandatory sinking  
24 fund payment as permitted by the Official Notice of Sale. Any Series 2014C Bonds subject to  
25

1 mandatory redemption shall be designated as such in the Official Notice of Sale or the Bond  
2 Award.

3 The principal of and interest on the Series 2014C Bonds subject to mandatory  
4 redemption shall be paid from the Series 2014C Bond Account (as defined in Section 9),  
5 pursuant to Section 9. In lieu of any such mandatory redemption for Series 2014C Bonds, at  
6 any time prior to the selection of Series 2014C Bonds for mandatory redemption, the City may  
7 apply amounts on deposit in the Series 2014C Bond Account to make such payment to the  
8 purchase, at public or private sale, of Series 2014C Bonds subject to such mandatory  
9 redemption, and when and at such prices not in excess of the principal amount thereof  
10 (including sales commission and other charges but excluding accrued interest), as the City  
11 may determine.

12 (f) Selection of Series 2014C Bonds for Redemption. Whenever less than all of the  
13 outstanding Series 2014C Bonds are called for redemption on any date, the City Treasurer  
14 will select the maturities of the Series 2014C Bonds to be redeemed in the sole discretion of  
15 the City Treasurer. Whenever less than all of the outstanding Series 2014C Bonds maturing  
16 on any one date are called for redemption on any one date, the City Treasurer will select the  
17 Series 2014C Bonds or portions thereof, in denominations of \$5,000 or any integral multiple  
18 thereof, to be redeemed from the outstanding Series 2014C Bonds maturing on such date not  
19 previously selected for redemption, by lot, in any manner which the City Treasurer deems fair.

20 (g) Notice of Redemption. The date on which Series 2014C Bonds that are called  
21 for redemption are to be presented for redemption is called the "Redemption Date." The City  
22 Treasurer shall mail, or cause to be mailed, notice of any redemption of Series 2014C Bonds,  
23 postage prepaid, to the respective registered owners at the addresses appearing on the bond  
24 registration books not less than twenty (20) nor more than sixty (60) days prior to the  
25 Redemption Date. The notice of redemption shall (a) state the Redemption Date; (b) state the

1 redemption price; (c) state the maturity dates of the Series 2014C Bonds to be redeemed and,  
2 if less than all of any such maturity is called for redemption, the distinctive numbers of the  
3 Series 2014C Bonds of such maturity to be redeemed, and in the case of any Series 2014C  
4 Bonds to be redeemed in part only, the respective portions of the principal amount to be  
5 redeemed; (d) state the CUSIP number, if any, of each Series 2014C Bond to be redeemed;  
6 (e) require that such Series 2014C Bonds be surrendered by the owners at the office of the  
7 City Treasurer or his or her agent; and (f) give notice that interest on such Series 2014C  
8 Bonds or portions of Series 2014C Bonds to be redeemed will cease to accrue after the  
9 Redemption Date. Notice of optional redemption may be conditional upon receipt of funds or  
10 other event specified in the notice of redemption as provided in subsection (j) of this  
11 Section 8.

12 The actual receipt by the owner of any Series 2014C Bond of notice of such  
13 redemption shall not be a condition precedent to redemption, and failure to receive such  
14 notice, or any defect in such notice so mailed, shall not affect the validity of the proceedings  
15 for the redemption of such Series 2014C Bonds or the cessation of accrual of interest on such  
16 Series 2014C Bonds on the Redemption Date.

17 Notice of redemption also shall be given, or caused to be given by the City Treasurer,  
18 by (i) registered or certified mail, postage prepaid, (ii) confirmed facsimile transmission, (iii)  
19 overnight delivery service, or (iv) to the extent acceptable to the intended recipient, email or  
20 similar electronic means, to (a) all organizations registered with the Securities and Exchange  
21 Commission as securities depositories and (b) such other services or organizations as may  
22 be required in accordance with the Continuing Disclosure Certificate described in Section 19.

23 The notice or notices required for redemption shall be given by the City Treasurer or  
24 any agent appointed by the City. A certificate of the City Treasurer or such other appointed  
25 agent of the City that notice of redemption has been given to the owner of any Series 2014C

1 Bond to be redeemed in accordance with this Resolution shall be conclusive against all  
2 parties.

3 (h) Series 2014C Redemption Account. At the time the City Treasurer or the  
4 Controller of the City or his or her designee (the "Controller") determines to optionally call and  
5 redeem any of the Series 2014C Bonds, the City Treasurer or his or her agent shall establish  
6 a redemption account to be described or known as the "General Obligation Bonds, Series  
7 2014C Redemption Account" (the "Series 2014C Redemption Account"), and prior to or on the  
8 Redemption Date there must be set aside in the Series 2014C Redemption Account moneys  
9 available for the purpose and sufficient to redeem, as provided in this Resolution, the Series  
10 2014C Bonds designated in said notice of redemption, subject to the provisions of subsection  
11 (j) of this Section. Said moneys must be set aside in the Series 2014C Redemption Account  
12 solely for the purpose of, and shall be applied on or after the Redemption Date to, payment of  
13 the redemption price of the Series 2014C Bonds to be redeemed upon presentation and  
14 surrender of such Series 2014C Bonds. Any interest due on or prior to the Redemption Date  
15 may be paid from the Series 2014C Bond Account as provided in Section 9 or from the Series  
16 2014C Redemption Account. Moneys held from time to time in the Series 2014C Redemption  
17 Account shall be invested by the City Treasurer pursuant to the City's policies and guidelines  
18 for investment of moneys in the General Fund of the City. If, after all of the Series 2014C  
19 Bonds have been redeemed and canceled or paid and canceled, there are moneys remaining  
20 in the Series 2014C Redemption Account, said moneys shall be transferred to the General  
21 Fund of the City or to such other fund or account as required by applicable law; provided, that  
22 if said moneys are part of the proceeds of refunding bonds, said moneys shall be transferred  
23 pursuant to the resolution authorizing such refunding bonds.

24 (i) Effect of Redemption. When notice of optional redemption has been given  
25 substantially as provided in this Resolution, and when the amount necessary for the

1 redemption of the Series 2014C Bonds called for redemption (principal, premium, if any, and  
2 accrued interest to such Redemption Date) is set aside for that purpose in the Series 2014C  
3 Redemption Account, the Series 2014C Bonds designated for redemption shall become due  
4 and payable on the Redemption Date, and upon presentation and surrender of said Series  
5 2014C Bonds at the place specified in the notice of redemption, such Series 2014C Bonds  
6 shall be redeemed and paid at said redemption price out of said Series 2014C Redemption  
7 Account. No interest will accrue on such Series 2014C Bonds called for redemption after the  
8 Redemption Date and the registered owners of such Series 2014C Bonds shall look for  
9 payment of such Series 2014C Bonds only to the Series 2014C Redemption Account. All  
10 Series 2014C Bonds redeemed shall be canceled immediately by the City Treasurer and shall  
11 not be reissued.

12 (j) Conditional Notice of Redemption; Rescission of Redemption. Any notice of  
13 optional redemption given as provided in Section 8(g) may provide that such redemption is  
14 conditioned upon: (i) deposit in the Series 2014C Redemption Account of sufficient moneys to  
15 redeem the Series 2014C Bonds called for optional redemption on the anticipated  
16 Redemption Date, or (ii) the occurrence of any other event specified in the notice of  
17 redemption. If conditional notice of redemption has been given substantially as provided in  
18 this subsection (j), and on the scheduled Redemption Date (i) sufficient moneys to redeem the  
19 Series 2014C Bonds called for optional redemption on the Redemption Date have not been  
20 deposited in the Series 2014C Redemption Account, or (ii) any other event specified in the  
21 notice of redemption as a condition to the redemption has not occurred, then (y) the Series  
22 2014C Bonds for which conditional notice of redemption was given shall not be redeemed on  
23 the anticipated Redemption Date and shall remain Outstanding for all purposes of this  
24 Resolution, and (z) the redemption not occurring shall not constitute a default under this  
25 Resolution or the Authorizing Resolution.

1           The City may rescind any optional redemption and notice of it for any reason on any  
2 date prior to any Redemption Date by causing written notice of the rescission to be given to  
3 the owners of all Series 2014C Bonds so called for redemption. Notice of any such rescission  
4 of redemption shall be given in the same manner notice of redemption was originally given.  
5 The actual receipt by the owner of any Series 2014C Bond of notice of such rescission shall  
6 not be a condition precedent to rescission, and failure to receive such notice or any defect in  
7 such notice so mailed shall not affect the validity of the rescission.

8           Section 9. Series 2014C Bond Account. There is established with the City Treasurer a  
9 special subaccount in the General Obligation Bonds (Earthquake Safety and Emergency  
10 Response General Obligation Bonds, 2010) Bond Account (the "Bond Account") created  
11 pursuant to the Authorizing Resolution to be designated the "General Obligation Bonds,  
12 Series 2014C Bond Subaccount" (the "Series 2014C Bond Account"), to be held separate and  
13 apart from all other accounts of the City. All interest earned on amounts on deposit in the  
14 Series 2014C Bond Account shall be retained in the Series 2014C Bond Account.

15           On or prior to the date on which any payment of principal of or interest on the Series  
16 2014C Bonds is due, including any Series 2014C Bonds subject to mandatory redemption on  
17 said date, the City Treasurer shall allocate to and deposit in the Series 2014C Bond Account,  
18 from amounts held in the Bond Account, an amount which, when added to any available  
19 moneys contained in the Series 2014C Bond Account, is sufficient to pay principal of and  
20 interest on the Series 2014C Bonds on such date

21           On or prior to the date on which any Series 2014C Bonds are to be redeemed at the  
22 option of the City pursuant to this Resolution, the City Treasurer may allocate to and deposit  
23 in the Series 2014C Redemption Account, from amounts held in the Bond Account pursuant  
24 to Section 8 of the Authorizing Resolution, an amount which, when added to any available  
25 moneys contained in the Series 2014C Redemption Account, is sufficient to pay principal,

1 interest and premium, if any, with respect to such Series 2014C Bonds on such date. The  
2 City Treasurer may make such other provision for the payment of principal of and interest and  
3 any redemption premium on the Series 2014C Bonds as is necessary or convenient to permit  
4 the optional redemption of the Series 2014C Bonds.

5 Amounts in the Series 2014C Bond Account may be invested in any investment of the  
6 City in which moneys in the General Fund of the City are invested. The City Treasurer may (i)  
7 commingle any of the moneys held in the Series 2014C Bond Account with other City moneys  
8 or (ii) deposit amounts credited to the Series 2014C Bond Account into a separate fund or  
9 funds for investment purposes only; provided, that all of the moneys held in the Series 2014C  
10 Bond Account shall be accounted for separately notwithstanding any such commingling or  
11 separate deposit by the City Treasurer.

12 Section 10. Series 2014C Project Account. There is established with the City  
13 Treasurer a special subaccount in the General Obligation Bonds (Earthquake Safety and  
14 Emergency Response General Obligation Bonds, 2010) Project Account (the "Project  
15 Account") created pursuant to the Authorizing Resolution to be designated the "General  
16 Obligation Bonds, Series 2014C Project Subaccount" (the "Series 2014C Project Account"), to  
17 be held separate and apart from all other accounts of the City. All interest earned on amounts  
18 on deposit in the Series 2014C Project Account shall be retained in the Series 2014C Project  
19 Account. Amounts in the Series 2014C Project Account shall be expended in accordance  
20 with the provisions of the Authorizing Resolution for the acquisition, construction or  
21 reconstruction of the Project (as defined in the Authorizing Resolution).

22 Amounts in the Series 2014C Project Account may be invested in any investment of  
23 the City in which moneys in the General Fund of the City are invested. The City Treasurer  
24 may (i) commingle any of the moneys held in the Series 2014C Project Account with other  
25 City moneys or (ii) deposit amounts credited to the Series 2014C Project Account into a



1 separate fund or funds for investment purposes only; provided, that all of the moneys held in  
2 the Series 2014C Project Account (including interest earnings) shall be accounted for  
3 separately notwithstanding any such comingling or separate deposit by the City Treasurer.

4 The City Treasurer is authorized to pay or cause to be paid from the proceeds of the  
5 Series 2014C Bonds, on behalf of the City, the costs of issuance associated with the Series  
6 2014C Bonds. Costs of issuance of the Series 2014C Bonds shall include, without limitation,  
7 bond and financial printing expenses, mailing and publication expenses, rating agency fees,  
8 the fees and expenses of paying agents, registrars, financial consultants, disclosure counsel  
9 and co-bond counsel, and the reimbursement of departmental expenses in connection with  
10 the issuance of the Series 2014C Bonds.

11 Section 11. Appointment of Depositories and Other Agents. The City Treasurer is  
12 authorized and directed to appoint one or more depositories as he or she may deem desirable  
13 and the procedures set forth in Section 6, Section 7 and Section 8 relating to registration of  
14 ownership of the Series 2014C Bonds and payments and redemption notices to owners of the  
15 Series 2014C Bonds may be modified to comply with the policies and procedures of such  
16 depository. The City will not have any responsibility or obligation to any purchaser of a  
17 beneficial ownership interest in any Series 2014C Bonds or to any participants in such a  
18 depository with respect to (i) the accuracy of any records maintained by such securities  
19 depository or any participant therein; (ii) any notice that is permitted or required to be given to  
20 the owners of Series 2014C Bonds under this Resolution; (iii) the selection by such securities  
21 depository or any participant therein of any person to receive payment in the event of a partial  
22 redemption of Series 2014C Bonds; (iv) the payment by such securities depository or any  
23 participant therein of any amount with respect to the principal or redemption premium, if any,  
24 or interest due with respect to Series 2014C Bonds; (v) any consent given or other action  
25

1 taken by such securities depository as the owner of Series 2014C Bonds; or (vi) any other  
2 matter.

3 The Depository Trust Company ("DTC") is appointed as depository for the Series  
4 2014C Bonds. The Series 2014C Bonds shall be initially issued in book-entry form. Upon  
5 initial issuance, the ownership of each Series 2014C Bond shall be registered in the bond  
6 register in the name of Cede & Co., as nominee of DTC. So long as each Series 2014C Bond  
7 is registered in book-entry form, each Series 2014C Bond shall be registered in the name of  
8 Cede & Co. or in the name of such successor nominee as may be designated from time to  
9 time by DTC or any successor as depository.

10 The City Treasurer is also authorized and directed to appoint one or more agents as he  
11 or she may deem necessary or desirable. To the extent permitted by applicable law and  
12 under the supervision of the City Treasurer, such agents may serve as paying agent, fiscal  
13 agent, rebate calculation agent, escrow agent or registrar for the Series 2014C Bonds or may  
14 assist the City Treasurer in performing any or all of such functions and such other duties as  
15 the City Treasurer shall determine. Such agents shall serve under such terms and conditions  
16 as the City Treasurer shall determine. The City Treasurer may remove or replace agents  
17 appointed pursuant to this paragraph at any time.

18 Section 12. Defeasance Provisions. Payment of all or any portion of the Series 2014C  
19 Bonds may be provided for prior to such Series 2014C Bonds' respective stated maturities by  
20 irrevocably depositing with the Treasurer (or any commercial bank or trust company  
21 designated by the Treasurer to act as escrow agent with respect thereto):

22 (a) An amount of cash equal to the principal amount of all of such Series 2014C  
23 Bonds or a portion thereof, and all unpaid interest thereon to maturity, except that in the case  
24 of Series 2014C Bonds which are to be redeemed prior to such Series 2014C Bonds'  
25 respective stated maturities and in respect of which notice of such redemption shall have

1 been given as provided in Section 8 hereof or an irrevocable election to give such notice shall  
2 have been made by the City, the amount to be deposited shall be the principal amount  
3 thereof, all unpaid interest thereon to the redemption date, and any premium due on such  
4 redemption date; or

5 (b) Defeasance Securities (as herein defined) not subject to call, except as provided  
6 below in the definition thereof, maturing and paying interest at such times and in such  
7 amounts; together with interest earnings and cash, if required, as will, without reinvestment,  
8 as certified by an independent certified public accountant, be fully sufficient to pay the  
9 principal and all unpaid interest to maturity, or to the redemption date, as the case may be,  
10 and any premium due on the Series 2014C Bonds to be paid or redeemed, as such principal  
11 and interest come due; provided, that, in the case of the Series 2014C Bonds which are to be  
12 redeemed prior to maturity, notice of such redemption shall be given as provided in Section 8  
13 hereof or an irrevocable election to give such notice shall have been made by the City; then,  
14 all obligations of the City with respect to said outstanding Series 2014C Bonds shall cease  
15 and terminate, except only the obligation of the City to pay or cause to be paid from the funds  
16 deposited pursuant to paragraphs (a) or (b) of this Section 12, to the owners of said Series  
17 2014C Bonds all sums due with respect thereto; provided, that the City shall have received an  
18 opinion of nationally recognized bond counsel, that provision for the payment of said Series  
19 2014C Bonds has been made in accordance with this Section 12.

20 For purpose of this Section 12, "Defeasance Securities" shall mean any of the following  
21 which at the time are legal investments under the laws of the State of California for the  
22 moneys proposed to be invested therein:

- 23 (1) United States Obligations (as defined below); and  
24 (2) Pre-refunded fixed interest rate municipal obligations meeting the following  
25 conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the

1 trustee has been given irrevocable instructions concerning their calling and redemption and  
2 the issuer has covenanted not to redeem such obligations other than as set forth in such  
3 instructions; (b) the municipal obligations are secured by cash and/or United States  
4 Obligations; (c) the principal of and interest on the United States Obligations (plus any cash in  
5 the escrow fund or the redemption account) are sufficient to meet the liabilities of the  
6 municipal obligations; (d) the United States Obligations serving as security for the municipal  
7 obligations are held by an escrow agent or trustee; (e) the United States Obligations are not  
8 available to satisfy any other claims, including those against the trustee or escrow agent; and  
9 (f) the municipal obligations are rated (without regard to any numerical modifier, plus or minus  
10 sign or other modifier), at the time of original deposit to the escrow fund, by any two of the  
11 three Rating Agencies (as defined herein) not lower than the rating then maintained by the  
12 respective Rating Agency on United States Obligations

13 For purposes of this Section 12, "United States Obligations" shall mean (i) direct and  
14 general obligations of the United States of America, or obligations that are unconditionally  
15 guaranteed as to principal and interest by the United States of America, including without  
16 limitation, the interest component of Resolution Funding Corporation (REFCORP) bonds  
17 which have been stripped by request to the Federal Reserve Bank of New York in book-entry  
18 form or (ii) any security issued by an agency or instrumentality of the United States of America  
19 which is selected by the Director of Public Finance that results in the escrow fund being rated  
20 by any two of the three Rating Agencies (as defined herein), at the time of the initial deposit to  
21 the escrow fund and upon any substitution or subsequent deposit to the escrow fund, no  
22 lower than the rating then maintained by the respective Rating Agency on United States  
23 Obligations described in (i) herein.

24 For purposes of this Section 12, "Rating Agencies" shall mean Moody's Investors  
25 Service Inc. ("Moody's"), Fitch Ratings ("Fitch"), and Standard and Poor's Rating Services, a

1 division of The McGraw-Hill Companies, Inc. ("S&P"), or any other nationally-recognized bond  
2 rating agency which is the successor to any of the foregoing rating agencies.

3 For purposes of this Section 12, "Rating Agencies" means Moody's Investors Service,  
4 Inc., Fitch Ratings, and Standard and Poor's Rating Services, a division of The McGraw-Hill  
5 Companies, Inc., or any other nationally recognized bond rating agency that is the successor  
6 to any of the foregoing rating agencies or that is otherwise established after the date hereof.

7 Section 13. Official Notice of Sale; Receipt of Bids; Bond Award.

8 (a) Official Notice of Sale. The form of proposed Official Notice of Sale inviting bids  
9 for the Series 2014C Bonds (the "Official Notice of Sale") submitted to the Board is approved  
10 and adopted as the Official Notice of Sale inviting bids for the Series 2014C Bonds, with such  
11 changes, additions and modifications as may be made in accordance with Section 20. The  
12 Director of Public Finance is authorized and directed to cause to be mailed or otherwise  
13 circulated to prospective bidders for the Series 2014C Bonds copies of the Official Notice of  
14 Sale, subject to such corrections, revisions or additions as may be acceptable to the Director  
15 of Public Finance.

16 (b) Receipt of Bids. Bids shall be received on the date designated by the Director  
17 of Public Finance pursuant to Section 4.

18 (c) Bond Award. As provided in the Official Notice of Sale, the City may reject any  
19 and all bids received for any reason. The Controller is authorized to award the Series 2014C  
20 Bonds to the responsible bidder whose bid (a) is timely received and conforms to the Official  
21 Notice of Sale, except to the extent informalities and irregularities are waived by the City as  
22 permitted by the Official Notice of Sale, and (b) represents the lowest true interest cost to the  
23 City in accordance with the procedures described in the Official Notice of Sale. The award, if  
24 made, shall be set forth in a certificate signed by the Controller setting forth the terms of the  
25 Series 2014C Bonds and the original purchasers (the "Bond Award"). The Controller shall

1 provide a copy of the Bond Award as soon as practicable to the Clerk of the Board of  
2 Supervisors and the Director of Public Finance; provided, that failure to provide such copy  
3 shall not affect the validity of the Bond Award.

4 Section 14. Publication of Notice of Intention to Sell Bonds. The form of proposed  
5 Notice of Intention to Sell the Series 2014C Bonds (the "Notice of Intention to Sell Bonds")  
6 submitted to the Board is approved and adopted as the Notice of Intention to Sell the Series  
7 2014C Bonds, and the Director of Public Finance is authorized and directed to cause the  
8 Notice of Intention to Sell Bonds, subject to such corrections, revisions or additions as may be  
9 made in accordance with Section 20, to be published once in *The Bond Buyer* or another  
10 financial publication generally circulated throughout the State of California.

11 Section 15. Sale of Series 2014C Bonds; Solicitation of Competitive Bids. The Board  
12 authorizes the sale of the Series 2014C Bonds by solicitation of competitive bids for the  
13 purchase of the Series 2014C Bonds on the date and at the place determined in accordance  
14 with the Official Notice of Sale and Section 4.

15 Section 16. Disposition of Proceeds of Sale. The proceeds of sale of the Series  
16 2014C Bonds shall be applied by the City Treasurer as follows: (a) accrued interest, if any,  
17 shall be deposited into the Series 2014C Bond Account; (b) premium, if any, shall be  
18 deposited into the Series 2014C Bond Account; and (iii) remaining proceeds of sale shall be  
19 deposited into the Series 2014C Project Account.

20 Section 17. Official Statement. The form of proposed Preliminary Official Statement  
21 describing the Series 2014C Bonds (the "Preliminary Official Statement") submitted to the  
22 Board is approved and adopted as the Preliminary Official Statement describing the Series  
23 2014C Bonds, with such additions, corrections and revisions as may be determined to be  
24 necessary or desirable made in accordance with Section 20. The Controller is authorized to  
25 cause the distribution of a Preliminary Official Statement deemed final for purposes of

1 Securities and Exchange Commission Rule 15c2-12 promulgated under the Securities  
2 Exchange Act of 1934, as amended (the "Rule"), and to sign a certificate to that effect. The  
3 Director of Public Finance is authorized and directed to cause to be printed and mailed or  
4 electronically distributed to prospective bidders for the Series 2014C Bonds the Preliminary  
5 Official Statement in substantially the form of the Preliminary Official Statement approved and  
6 adopted by this Resolution, as completed, supplemented, corrected or revised. The  
7 Controller is authorized and directed to approve, execute, and deliver the final Official  
8 Statement with respect to the Series 2014C Bonds, which final Official Statement shall be in  
9 the form of the Preliminary Official Statement, with such additions, corrections and revisions  
10 as may be determined to be necessary or desirable made in accordance with Section 20 and  
11 as are permitted under the Rule. The Director of Public Finance is authorized and directed to  
12 cause to be printed and mailed or electronically distributed the final Official Statement to all  
13 actual initial purchasers of the Series 2014C Bonds.

14 Section 18. Tax Covenants.

15 (a) General. The City covenants with the holders of the Series 2014C Bonds that,  
16 notwithstanding any other provisions of this Resolution, it shall not take any action, or fail to  
17 take any action, if any such action or failure to take action would adversely affect the  
18 exclusion from gross income of interest on the Series 2014C Bonds under Section 103 of the  
19 Code, and the regulations issued thereunder, as the same may be amended from time to  
20 time, and any successor provisions of law. Reference to a particular section of the Code shall  
21 be deemed to be a reference to any successor to any such section. The City shall not,  
22 directly or indirectly, use or permit the use of proceeds of the Series 2014C Bonds or any of  
23 the property financed or refinanced with proceeds of the Series 2014C Bonds, or any portion  
24 thereof, by any person other than a governmental unit (as such term is used in Section 141 of  
25

1 the Code), in such manner or to such extent as would result in the loss of exclusion of interest  
2 on the Series 2014C Bonds from gross income for federal income tax purposes.

3 (b) Use of Proceeds. The City shall not take any action, or fail to take any action, if  
4 any such action or failure to take action would cause the Series 2014C Bonds to be "private  
5 activity bonds" within the meaning of Section 141 of the Code, and in furtherance thereof,  
6 shall not make any use of the proceeds of the Series 2014C Bonds or any of the property  
7 financed or refinanced with proceeds of the Series 2014C Bonds, or any portion thereof, or  
8 any other funds of the City, that would cause the Series 2014C Bonds to be "private activity  
9 bonds" within the meaning of Section 141 of the Code. To that end, so long as any Series  
10 2014C Bonds are outstanding, the City, with respect to such proceeds and property and such  
11 other funds, will comply with applicable requirements of the Code and all regulations of the  
12 United States Department of the Treasury issued thereunder, to the extent such requirements  
13 are, at the time, applicable and in effect. The City shall establish reasonable procedures  
14 necessary to ensure continued compliance with Section 141 of the Code and the continued  
15 qualification of the Series 2014C Bonds as "governmental bonds."

16 (c) Arbitrage. The City shall not, directly or indirectly, use or permit the use of any  
17 proceeds of the Series 2014C Bonds, or of any property financed or refinanced by the Series  
18 2014C Bonds, or other funds of the City, or take or omit to take any action, that would cause  
19 the Series 2014C Bonds to be "arbitrage bonds" within the meaning of Section 148 of the  
20 Code. To that end, the City shall comply with all requirements of Section 148 of the Code and  
21 all regulations of the United States Department of the Treasury issued thereunder to the  
22 extent such requirements are, at the time, in effect and applicable to the Series 2014C Bonds.

23 (d) Federal Guarantee. The City shall not make any use of the proceeds of the  
24 Series 2014C Bonds or any other funds of the City, or take or omit to take any other action,  
25



1 that would cause the Series 2014C Bonds to be “federally guaranteed” within the meaning of  
2 Section 149(b) of the Code.

3 (e) Information Reporting. The City shall take or cause to be taken all necessary  
4 action to comply with the information reporting requirement of Section 149(e) of the Code with  
5 respect to the Series 2014C Bonds.

6 (f) Hedge Bonds. The City shall not make any use of the proceeds of the Series  
7 2014C Bonds or any other amounts or property, regardless of the source, or take any action  
8 or refrain from taking any action that would cause the Series 2014C Bonds to be considered  
9 “hedge bonds” within the meaning of Section 149(g) of the Code unless the City takes all  
10 necessary action to assure compliance with the requirements of Section 149(g) of the Code.

11 (g) Compliance with Tax Certificate. In furtherance of the foregoing tax covenants  
12 of this Section 18, the City covenants that it will comply with the provisions of the Tax  
13 Certificate to be executed by the City with respect to the Series 2014C Bonds, dated the date  
14 of issuance of the Series 2014C Bonds, as such Tax Certificate may be amended from time to  
15 time. This covenant shall survive payment in full or defeasance of the Series 2014C Bonds.

16 Section 19. Continuing Disclosure Certificate. The form of Continuing Disclosure  
17 Certificate (the “Continuing Disclosure Certificate”), to be signed by the City to permit the  
18 original purchasers of the Series 2014C Bonds to comply with the Rule, submitted to the  
19 Board is approved and adopted as the Continuing Disclosure Certificate, with such additions,  
20 corrections and revisions as may be determined to be necessary or desirable made in  
21 accordance with Section 20. The Controller is authorized and directed to execute the  
22 Continuing Disclosure Certificate on behalf of the City and deliver the Continuing Disclosure  
23 Certificate to the original purchasers of the Series 2014C Bonds.

24 Section 20. Modification to Documents. Any City official authorized by this Resolution  
25 to execute any document is further authorized, in consultation with the City Attorney and co-

1 bond counsel, to approve and make such changes, additions, amendments or modifications  
2 to the document or documents such official is authorized to execute as may be necessary or  
3 advisable (provided, that such changes, additions, amendments or modifications shall not  
4 authorize an aggregate principal amount of Series 2014C Bonds in excess of \$57,840,000 or  
5 conflict with the provisions of Section 4). The approval of any change, addition, amendment  
6 or modification to any of the aforementioned documents shall be evidenced conclusively by  
7 the execution and delivery of the document in question.

8 Section 21. Ratification. All actions previously taken by officials, employees and  
9 agents of the City with respect to the sale and issuance of the Series 2014C Bonds are  
10 approved, confirmed and ratified.

11 Section 22. Relationship to Authorizing Resolution. In the event of any conflict  
12 between this Resolution and the Authorizing Resolution, the terms of this Resolution shall  
13 control. Without limiting the foregoing and notwithstanding the provisions of the Authorizing  
14 Resolution, the City is not obligated to transfer money from the General Fund of the City to  
15 the Bond Account to pay the principal of or interest on the Series 2014C Bonds.

16 Section 23. Reimbursement. The City declares its official intent to reimburse prior  
17 expenditures of the City incurred prior to the issuance and sale of the Series 2014C Bonds in  
18 connection with the Project or portions thereof to be financed by the Series 2014C Bonds.  
19 The Board declares the City's intent to reimburse the City with the proceeds of the Series  
20 2014C Bonds for the expenditures with respect to the Project (the "Expenditures" and each an  
21 "Expenditure") made on and after that date that is no more than 60 days prior to adoption of  
22 this Resolution. The City reasonably expects on the date of adoption of this Resolution that it  
23 will reimburse the Expenditures with the proceeds of the Series 2014C Bonds.

24 Each Expenditure was and will be either (a) of a type properly chargeable to a capital  
25 account under general federal income tax principles (determined in each case as of the date

1 of the Expenditure), (b) a cost of issuance with respect to the Series 2014C Bonds, (c) a  
2 nonrecurring item that is not customarily payable from current revenues, or (d) a grant to a  
3 party that is not related to or an agent of the City so long as such grant does not impose any  
4 obligation or condition (directly or indirectly) to repay any amount to or for the benefit of the  
5 City. The maximum aggregate principal amount of the Series 2014C Bonds expected to be  
6 issued for the Project is \$57,840,000. The City shall make a reimbursement allocation, which  
7 is a written allocation by the City that evidences the City's use of proceeds of the Series  
8 2014C Bonds to reimburse an Expenditure, no later than 18 months after the later of the date  
9 on which the Expenditure is paid or the Project is placed in service or abandoned, but in no  
10 event more than three years after the date on which the Expenditure is paid. The City  
11 recognizes that exceptions are available for certain "preliminary expenditures," costs of  
12 issuance, certain de minimis amounts, expenditures by "small issuers" (based on the year of  
13 issuance and not the year of expenditure) and expenditures for construction projects of at  
14 least 5 years.

15 Section 24. Accountability Reports. The Series 2014C Bonds are subject to  
16 accountability requirements under the City's Administrative Code and the Bond Election  
17 Ordinance. Accountability report(s) with respect to the Series 2014C Bonds shall be  
18 submitted at the time(s) and in the manner required by the Administrative Code and the Bond  
19 Election Ordinance.

20 Section 25. Citizens' Oversight Committee. The Series 2014C Bonds are subject to,  
21 and incorporate by reference, the applicable provisions of the San Francisco Administrative  
22 Code Sections 5.30-5.36 (the "Citizens' General Obligation Bond Oversight Committee"), and,  
23 to the extent permitted by law, one tenth of one percent (0.1%) of the gross proceeds of the  
24 Series 2014C Bonds shall be deposited into a fund established by the Controller's Office and  
25

1 appropriated by the Board at the direction of the Citizens' General Obligation Bond Oversight  
2 Committee to cover the costs of such committee.

3 Section 26. CEQA Determination. The Board hereby reaffirms and incorporates by  
4 reference the CEQA findings and determinations set forth in Ordinance 40-10 as if set forth in  
5 full herein. The use of bond proceeds to finance any identified project or portion of any  
6 identified project will be subject, as necessary, to approval of the Board upon completion of  
7 planning and any further required environmental review under CEQA for the individual  
8 facilities and projects.

9 Section 27. General Authority. The Clerk of the Board of Supervisors, the Mayor, the  
10 City Treasurer, the Director of Public Finance, the City Attorney and the Controller are each  
11 authorized and directed in the name and on behalf of the City to take any and all steps and to  
12 issue, deliver or enter into any and all certificates, requisitions, agreements, notices,  
13 consents, and other documents as may be necessary to give effect to the provisions of this  
14 Resolution, including but not limited to letters of representations to any depository or  
15 depositories, which they or any of them might deem necessary or appropriate in order to  
16 consummate the lawful issuance, sale and delivery of the Series 2014C Bonds.

17 APPROVED AS TO FORM:

18 DENNIS J. HERRERA City Attorney

19  
20  
21 By:

  
Mark D. Blake  
Deputy City Attorney

1 Exhibit A

2 Unless this bond is presented by an authorized representative of The Depository Trust  
3 Company, a New York corporation ("DTC"), to City or its agent for registration of transfer,  
4 exchange, or payment, and any bond issued is registered in the name of Cede & Co. or in  
5 such other name as is requested by an authorized representative of DTC (and any payment is  
6 made to Cede & Co. or to such other entity as is requested by an authorized representative of  
7 DTC), ANY TRANSFER, PLEDGE, OR OTHER USE OF THIS BOND FOR VALUE OR  
8 OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner  
9 hereof, Cede & Co., has an interest herein.

10 Number R-\_\_ UNITED STATES OF AMERICA Amount

11 STATE OF CALIFORNIA

12  
13  
14 CITY AND COUNTY OF SAN FRANCISCO

15 GENERAL OBLIGATION BONDS

16 (EARTHQUAKE SAFETY AND EMERGENCY RESPONSE BONDS, 2010),

17  
18 SERIES 2014C

19 Interest Rate Maturity Date Dated CUSIP Number  
20 \_\_\_\_% June 15, 20\_\_ \_\_\_\_\_, 2014 \_\_\_\_\_

21 REGISTERED OWNER: Cede & Co.

22 PRINCIPAL AMOUNT: \_\_\_\_\_ Dollars

24 The City and County of San Francisco, State of California (the "City"), acknowledges  
25 itself indebted to and promises to pay to the Registered Owner specified above or registered

1 assigns, on the Maturity Date specified above, the Principal Amount of this bond specified  
2 above in lawful money of the United States of America, and to pay interest on the Principal  
3 Amount in like lawful money from the interest payment date next preceding the date of  
4 authentication of this bond (unless this bond is authenticated as of the day during the period  
5 from the last day of the month next preceding any interest payment date (the "Record Date")  
6 to such interest payment date, inclusive, in which event it shall bear from such interest  
7 payment date, or unless this bond is authenticated on or before [May 30, 2014], in which  
8 event it shall bear interest from its dated date) until payment of such Principal Amount, at the  
9 Interest Rate per year specified above calculated on the basis of a 360-day year comprised of  
10 twelve 30-day months, payable on [June 15], 2015 and semiannually thereafter on June 15  
11 and December 15 in each year; *provided*, that if any interest payment date occurs on a day  
12 that banks in California or New York are closed for business or the New York Stock Exchange  
13 is closed for business, then such payment shall be made on the next succeeding day that  
14 banks in both California and New York are open for business and the New York Stock  
15 Exchange is open for business (a "Business Day"). The principal of this bond is payable to  
16 the Registered Owner of this bond upon the surrender of this bond at the office of the  
17 Treasurer of the City (the "City Treasurer"). The interest on this bond is payable to the  
18 person whose name appears on the bond registration books of the City Treasurer as the  
19 Registered Owner of this bond as of the close of business on the Record Date immediately  
20 preceding an interest payment date, whether or not such day is a Business Day, such interest  
21 to be paid by check mailed on the interest payment date to such Registered Owner at the  
22 owner's address as it appears on such registration books; *provided*, that the Registered  
23 Owner of bonds in an aggregate principal amount of at least \$1,000,000 may submit a written  
24 request to the City Treasurer on or before the Record Date preceding any interest payment  
25 date for payment of interest by wire transfer to a commercial bank located in the United States

1 of America.

2 This bond is one of a duly authorized issue of bonds (the "**Bonds**") of like tenor (except  
3 for such variations, if any, as may be required to designate varying numbers, denominations,  
4 interest rates and maturities), in the aggregate principal amount of \$ \_\_\_\_\_, which is  
5 part of a bond authorization in the aggregate original principal amount of \$412,300,000  
6 authorized by the affirmative votes of more than two-thirds of the voters voting at a special  
7 election duly and legally called, held and conducted in the City on June 8, 2010 and is issued  
8 and sold by the City pursuant to and in strict conformity with the provisions of the Constitution  
9 and laws of the State of California, the Charter of the City and resolutions adopted by the  
10 Board of Supervisors of the City (the "**Board of Supervisors**") on November 2, 2010, and  
11 \_\_\_\_\_, 2014 (collectively, together with the related Certificate of Award, the  
12 "**Resolutions**").

13 The Bonds are issuable as fully registered bonds without coupons in the  
14 denominations of \$5,000 or any integral multiple of such amount, *provided* that no bond shall  
15 have principal maturing on more than one principal maturity date. Subject to the limitations  
16 and conditions and upon payment of the charges, if any, provided in the Resolutions, the  
17 Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized  
18 denominations of the same interest rate and maturity.

19 This bond is transferable by its registered owner, in person or by its attorney duly  
20 authorized in writing, at the office of the City Treasurer, but only in the manner, subject to the  
21 limitations and upon payment of the charges provided in the Resolutions, and upon surrender  
22 and cancellation of this bond. Upon such transfer, a new bond or bonds of authorized  
23 denomination or denominations for the same interest rate and same aggregate principal  
24 amount will be issued to the transferee in exchange for this bond.

25 The City Treasurer will not be required to exchange or register the transfer of this bond

1 during the period (a) from the Record Date for an interest payment date to the opening of  
2 business on such interest payment date or (b) after notice of redemption of this bond or any  
3 portion of this bond has been mailed.

4 Bonds maturing on and before June 15, 20\_\_, are not redeemable prior to their  
5 maturity.

6 Bonds maturing on and after June 15, 20\_\_, are subject to optional redemption from  
7 any available funds, in whole or in part, on any date on or after June 15, 20\_\_, at a price  
8 equal to their principal amount plus in each case accrued interest to the date of redemption,  
9 without redemption premium. If less than all of the outstanding Bonds are to be redeemed,  
10 they may be redeemed in any order of maturity as determined by the City. If less than all of  
11 the outstanding Bonds of a maturity are to be redeemed, the Bonds or portions of Bonds of  
12 such maturity to be redeemed shall be selected by the City Treasurer, in authorized  
13 denominations of \$5,000 or integral multiples of that amount, from among Bonds of that  
14 maturity not previously called for redemption, by lot, in any manner which the City Treasurer  
15 deems fair.

16 Bonds maturing on June 15, 20\_\_, are subject to mandatory sinking fund redemption  
17 on June 15 of each of the years 20\_\_ through 20\_\_, inclusive, and at maturity in the  
18 respective amounts provided in the Resolutions.

19 Bonds maturing on June 15, 20\_\_, are subject to mandatory sinking fund redemption  
20 on June 15 of each of the years 20\_\_ through 20\_\_, inclusive, and at maturity in the  
21 respective amounts provided in the Resolutions.

22 Notice of the redemption of Bonds which by their terms shall have become subject to  
23 redemption shall be given or caused to be given to the registered owner of each bond or  
24 portion of a bond called for redemption not less than 20 or more than 60 days before any date  
25 established for redemption of Bonds, by the City Treasurer on behalf of the City, first class



1 mail, postage prepaid, sent to the registered owner's last address, if any, appearing on the  
2 registration books kept by the City Treasurer. Official notices of redemption will contain the  
3 information specified in the Resolutions.

4 On or prior to any redemption date, the City is required to deposit an amount of money  
5 sufficient to pay the redemption price of all of the Bonds or portions of Bonds which are to be  
6 redeemed on that date or, in the case of optional redemptions only, the optional redemption  
7 and notice of it will be rescinded and the City's failure to deposit such amount will not be a  
8 default. In addition, the City may at its option rescind any optional redemption and notice of it  
9 for any reason on any date prior to the applicable redemption date. Notice of rescission of an  
10 optional redemption shall be given in the same manner as notice of redemption was originally  
11 given,

12 Official notice of redemption having been given as aforesaid, the Bonds or portions of  
13 Bonds so to be redeemed shall, on the redemption date, become due and payable at the  
14 redemption price therein specified, and from and after such date (unless such redemption and  
15 notice of it shall have been rescinded or unless the City shall default in the payment of the  
16 redemption price), such Bonds or portions of Bonds shall cease to bear interest. Neither the  
17 failure to mail such redemption notice, nor any defect in any notice so mailed, to any particular  
18 registered owner, shall affect the sufficiency of such notice with respect to other Bonds.

19 Notice of redemption, or notice of rescission of an optional redemption, having been  
20 properly given, failure of a registered owner to receive such notice shall not be deemed to  
21 invalidate, limit or delay the effect of the notice or redemption action described in the notice.

22 The City and the City Treasurer may treat the registered owner of this bond as the  
23 absolute owner of this bond for all purposes, and the City and the City Treasurer shall not be  
24 affected by any notice to the contrary.

25 The City Treasurer may appoint agents to serve as bond registrar or paying agent, as

1 provided in the Resolutions.

2 The Board of Supervisors certifies, recites and declares that the total amount of  
3 indebtedness of the City, including the amount of this bond, is within the limit provided by law,  
4 that all acts, conditions and things required by law to be done or performed precedent to and  
5 in the issuance of this bond have been done and performed in strict conformity with the laws  
6 authorizing the issuance of this bond, that this bond is in the form prescribed by order of the  
7 Board of Supervisors duly made and entered on its minutes, and the money for the payment  
8 of principal of this bond, and the payment of interest thereon, shall be raised by taxation upon  
9 the taxable property of the City as provided in the Resolutions.

10 This bond shall not be entitled to any benefit under the Resolutions, or become valid or  
11 obligatory for any purpose, until the certificate of authentication and registration on this bond  
12 shall have been signed by the City Treasurer.

13 IN WITNESS WHEREOF the Board of Supervisors has caused this bond to be  
14 executed by the Mayor of the City and to be countersigned by the Clerk of the Board of  
15 Supervisors, all as of August \_\_, 2014.

16  
17 \_\_\_\_\_  
18 Mayor of the City and  
County of San Francisco

19 Countersigned:

20  
21  
22 \_\_\_\_\_  
Clerk of the Board of Supervisors

CERTIFICATE OF REGISTRATION AND AUTHENTICATION

This is one of the bonds described in the within-mentioned Resolutions, which has been authenticated on the date set forth below.

Date of Authentication: \_\_\_\_\_

\_\_\_\_\_  
Treasurer of the City and  
County of San Francisco

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1 ASSIGNMENT

2 The following abbreviations, when used in the inscription on this Bond, shall be  
3 construed as though they were written out in full according to applicable laws or regulations:

4 Unif Gift Min Act - \_\_\_\_\_ Custodian \_\_\_\_\_  
5 (Cust) (Minor)  
6 under Uniform Gifts to Minors Act \_\_\_\_\_  
7 (State)

7 TEN COM - as tenants in common  
8 TEN ENT - as tenants by the entireties  
9 JT TEN - as joint tenants with right of survivorship and not  
10 as tenants in common

11 \_\_\_\_\_  
12 (Name and Address of Assignee)

13 the within Bond and does irrevocably constitute and appoint \_\_\_\_\_  
14 attorney to transfer the said Bond on the books kept for registration thereof with full power of  
15 substitution in the premises.

16 \_\_\_\_\_  
17 /s/ \_\_\_\_\_

18 Dated:

19 Signature guaranteed:

20 **Notice:** The signature to this assignment must correspond with the name of the  
21 registered owner as it appears upon the face of the within Bond in every  
22 particular, without alteration or enlargement or any change whatever.

23 **Notice:** The signature(s) should be guaranteed by an eligible guarantor institution  
24 (banks, stockbrokers, savings and loan associations and credit unions with  
25 membership in approved Signature Guarantee Medallion Program).



**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE CONTROLLER**

**Ben Rosenfield**  
**Controller**

**Monique Zmuda**  
**Deputy Controller**

**Nadia Sesay**  
**Director**  
**Office of Public Finance**

**MEMORANDUM**

**TO:** Honorable Members, Board of Supervisors

**FROM:** Nadia Sesay, Director of Public Finance

**SUBJECT:** City and County of San Francisco General Obligation Bonds, Earthquake Safety and Emergency Response Bonds, Series 2014C (2010) and 2014D (2014)

**DATE:** Tuesday, July 15, 2014

I respectfully request that the Board of Supervisors consider for review and adoption the resolution authorizing the sale and issuance of general obligation bonds financing the Earthquake Safety and Emergency Response (ESER) program.

In connection with this request, legislation approving the sale and issuance of the bonds, supplemental appropriation ordinances to appropriate the bond proceeds, and related supporting documents are expected to be introduced at the Board of Supervisors meeting on Tuesday, July 15, 2014, and we respectfully request that the items be heard at the earliest available meeting of the Budget and Finance Committee.

**Background:**

A two-thirds majority of voters of the City approved Proposition B in June 2010 (the "2010 Proposition B"), which authorized the issuance of not to exceed \$412,300,000 in general obligation bonds to finance the construction, acquisition, improvement, retrofitting, rehabilitation and completion of earthquake safety and emergency responsiveness facilities and infrastructure (the "Earthquake Safety Projects"). Of the \$412,300,000 authorized to be issued by the 2010 Proposition B, \$332,135,000 has been issued to date. In June 2014, voters approved Proposition A (the "2014 Proposition A"), which authorized the issuance of up to an additional \$400,000,000 in general obligation bonds for the completion of these Earthquake Safety Projects.

The proposed resolutions authorize the issuance of not to exceed \$57,840,000 of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010), Series 2014C (the "2014C Bonds"), as well as the issuance of not to exceed \$106,095,000 of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2014), Series 2014D (the "2014D Bonds", and together with the 2014C Bonds, the "Bonds"). The 2014C Bonds will be the fifth series of bonds to be issued under the 2010 Proposition B, and the 2014D Bonds

will be the first series of bonds to be issued under the 2014 Proposition A. The two series authorized by the proposed resolutions represent a not to exceed aggregate principal amount of \$163,935,000.

As described more fully in the 2010 Proposition B Accountability Report dated April 16, 2014, and the 2014 Proposition A Bond Report, Safeguarding San Francisco report dated January 24, 2014, proceeds from the 2014C and 2014D Bonds will finance the following:

- Auxiliary Water Supply System (AWSS) project – planning, design, and construction of pipeline, tunnel and cistern projects.
- Neighborhood Fire Stations project – complete construction of focused scope projects and the design of Fire Station 5 and construction of Station 16.
- Public Safety Building project – complete construction of the Public Safety Building.
- District Police Stations – rehabilitate and seismically upgrade selected police district stations throughout the City.
- Medical Examiner Facility – relocate the Medical Examiner Facility from the seismically vulnerable Hall of Justice at 850 Bryant Street to a seismically safe facility.
- Traffic Company & Forensic Services Division – relocate the motorcycle police and crime lab from the seismically vulnerable Hall of Justice and the Hunters Point Shipyard to a safe facility.

The remaining authorization under the 2010 Proposition B and 2014 Proposition A will be issued subject to review by the Capital Planning Committee, the consideration and adoption by the Board of Supervisors and approval by the Mayor of subsequent authorizing resolutions.

#### **Financing Parameters:**

The proposed resolution authorizes the issuance of not to exceed aggregate par amount of \$163,935,000. Based on current project cost estimates and schedules, the Office of Public Finance expects to issue \$156,205,000 under conservative assumptions of market conditions prevailing at the expected time of sale. The additional authorized amount above the expected issuance amount allows for fluctuations in market conditions from the date of authorization by the Board to the time of the sale of the Bonds.

The Bonds are anticipated to contribute approximately \$154.30 million to the ESER projects. Table 1 outlines anticipated sources and uses for the Bonds.

**Table 1: Anticipated Sources and Uses for the Bonds.**

Par Amount	ESER (2010)	ESER (2014)	Aggregate
	Series 2014C	Series 2014D	
<b>Total Estimated Sources</b>	<u>\$ 55,170,000</u>	<u>\$101,035,000</u>	<u>\$156,205,000</u>
<b>Estimated Uses</b>			
Project Fund Deposit	<u>\$ 54,494,738</u>	<u>\$ 99,805,046</u>	<u>\$154,299,784</u>
Emergency Firefighting Water System (AWSS)	31,003,224	20,000,000	51,003,224
Neighborhood Fire Stations	11,600,000	8,150,600	19,750,600
Public Safety Building	11,782,742	-	11,782,742
District Police Stations	-	6,882,939	6,882,939
Traffic Company & Forensic Services Division	-	14,264,674	14,264,674
Medical Examiner Facility	-	50,307,621	50,307,621
Controller's Audit Fund	108,772	199,212	307,818
Other Costs of Issuance	<u>675,262</u>	<u>1,229,954</u>	<u>1,905,216</u>
Costs of Issuance	233,902	421,674	655,576
Underwriter's Discount	386,190	707,245	1,093,435
CGOBOC	55,170	101,035	156,205
<b>Total Estimated Uses</b>	<u>\$ 55,170,000</u>	<u>\$101,035,000</u>	<u>\$156,205,000</u>

Based upon a conservative estimate of 5.02% interest rate, OPF estimates that average fiscal year debt service on the Bonds is approximately \$12.41 million. The anticipated total par value of \$156,205,000 is estimated to result in approximately \$91.90 million in interest payments over the life of the Bonds. The total principal and interest payment over the approximate 20- year life of the Bonds is approximately \$248.10 million. Based on market conditions expected to exist at the time of the sale coupled with the Capital Planning Committee constraints, the Bonds could be structured with a 25-year life.

In addition, a portion of the Bonds will pay certain expenses incurred in connection with their issuance and delivery and the periodic oversight and review of the Projects by the Citizens' General Obligation Bond Oversight Committee ("CGOBOC"). Detailed descriptions of the Projects financed with proceeds of the Bonds are included in the ESER Accountability Reports and Bond Reports prepared by the Department of Public Works.

**Financing Timeline:**

The Bonds are expected to be issued and delivered in September 2014. Schedule milestones in connection with the financing may be summarized as follows:

Milestone	Date*
Introduction of authorizing legislation and supporting materials to the Board	July 15, 2014
Consideration by the Capital Planning Committee	July 21, 2014
Issuance and delivery of the Bonds	September 2014

\*Please note that dates are estimated unless otherwise noted.

**Debt Limit:**

The City Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is 3.00% of the assessed value of property in the City. As of July 15, 2014, there are \$1.94 billion in general obligation bonds outstanding or approximately 1.12% of the net assessed value of property in the City. If all of the City's authorized and unissued bonds were issued, the total debt burden would be 1.44% of the net assessed value of property in the City. If the Board of Supervisors approves the issuance of the Bonds, the debt ratio would increase by 0.09% to 1.21%—within the 3.00% legal debt limit.

**Capital Plan:**

The Capital Planning Committee approved a financial constraint regarding the City's planned use of general obligation bonds such that debt service on approved and issued general obligation bonds would not increase property owners' long-term property tax rates above fiscal year 2006 levels. The fiscal year 2006 property tax rate for the general obligation bond fund was \$0.1201 per \$100 of assessed value. If the Board of Supervisors approves the issuance of the Bonds, the property tax rate for general obligation bonds for fiscal year 2014-15 would be maintained below the fiscal year 2006 rate and within the Capital Planning Committee's approved financial constraint.

**Additional Information:**

The legislation is expected to be introduced at the Board of Supervisors meeting on Tuesday, July 15, 2014. The related financing documents—including the Notice of Intention to Sell, Official Notice of Sale, Official Statement, Appendix A and Continuing Disclosure Certificate and related documents—will also be submitted.

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

Exhibit A to the Official Notice of Sale is the form of the official bid for the purchase of the Bonds. Pursuant to the Resolutions, the Controller is authorized to award the Bonds to the bidder whose bid represents the lowest true interest cost to the City in accordance with the procedures described in the Official Notice of Sale.

*Notice of Intention to Sell:* The Notice of Intention to Sell provides legal notice to prospective bidders of the City's intention to sell City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response, 2010), Series 2014C and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response, 2014), Series 2014D. Such Notice of Intention to Sell will be published once in "The Bond Buyer" or another financial publication generally circulated throughout the State of California.

*Official Statement:* The Official Statement provides information for prospective bidders and investors in connection with the public offering by the City of the Bonds. The Official Statement describes the Bonds, including sources and uses of funds; security for the Bonds; risk factors; and tax and other legal matters, among other information. 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 Bonds.

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

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

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

*Continuing Disclosure Certificate:* The City covenants to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the fiscal year and to provide notices of the occurrence of certain enumerated events, if material. The Continuing Disclosure Certificate describes the nature of the information to be contained in the Annual Report or the notices of material events. These covenants have been made in order to assist initial purchasers of the Bonds in complying with the Securities and Exchange Commission Rule 15c2-12(b)(5).

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

CC: Angela Calvillo, Clerk of the Board  
(via email) Gabriella Judd Cirelli, Department of Public Works  
Jason Elliott, Mayor's Office  
Charles A. Higuera, Department of Public Works  
Kate Howard, Mayor's Budget Office  
Richard Morales, Public Utilities Commission  
David Myerson, AWSS Project Manager  
Harvey Rose, Budget Analyst  
Ben Rosenfield, Controller  
Magdalena Ryor, Department of Public Works  
Mark Blake, Deputy City Attorney



NOTICE OF INTENTION TO SELL

\$ \_\_\_\_\_\*  
CITY AND COUNTY OF SAN FRANCISCO  
GENERAL OBLIGATION BONDS

consisting of

\$ \_\_\_\_\_\*  
GENERAL OBLIGATION BONDS  
(EARTHQUAKE SAFETY AND EMERGENCY  
RESPONSE BONDS, 2010)  
SERIES 2014C

\$ \_\_\_\_\_\*  
GENERAL OBLIGATION BONDS  
(EARTHQUAKE SAFETY AND EMERGENCY  
RESPONSE BONDS, 2014)  
SERIES 2014D

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

\_\_\_\_\_ day, \_\_\_\_\_, 2014 at 8:30 a.m. (California time)\*

by sealed bids at the Controller's Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, City Hall, Room 336, San Francisco, California 94102, and by electronic bids through Ipreo LLC's BIDCOMP™/PARITY® System ("Parity"), \$ \_\_\_\_\_\* aggregate principal amount of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010), Series 2014C and \$ \_\_\_\_\_\* aggregate principal amount of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2014), Series 2014D (collectively, the "Bonds").

The City reserves the right to postpone or cancel the sale of the Bonds, or change the terms thereof, upon notice given through Bloomberg News ("Bloomberg") and/or Parity. In the event that no bid is awarded for the Bonds, the City will reschedule the sale of the Bonds to another date or time by providing notification through Bloomberg and/or Parity.

The Bonds will be offered for public sale subject to the terms and conditions of the Official Notice of Sale dated \_\_\_\_\_, 2014 relating to the Bonds. Further information regarding the proposed sale of the Bonds, including copies of the Preliminary Official Statement for the Bonds and the Official Notice of Sale, are available through Bloomberg or may be obtained from either of the City's Co-Financial Advisors: Stifel, Nicolaus & Company, Incorporated, One Montgomery Street, 35th Floor, San Francisco, California 94104; telephone (415) 364-6877 (office), Attention: Anna C. Van Degna (e-mail: [avandegna@stifel.com](mailto:avandegna@stifel.com)); and (ii) TKG & Associates LLC, 48 Colin P. Kelly Jr. Street, 2nd Floor, San Francisco, California 94107; telephone (415) 538-8480 (office), Attention: Charlotte Knight-Marshall (e-mail: [ckm@tkgadvisors.net](mailto:ckm@tkgadvisors.net)).

The Preliminary Official Statement for the Bonds and the Official Notice of Sale for the Bonds will be posted electronically at Ipreo Prospectus at [www.i-dealprospectus.com](http://www.i-dealprospectus.com) on or around \_\_\_\_\_ day, \_\_\_\_\_, 2014. Failure of any bidder to receive either document shall not affect the legality of the sale.

Other than with respect to postponement or cancellation as described above, the City reserves the right to modify or amend the Official Notice of Sale relating to the Bonds in any respect, as more fully described in the Official Notice of Sale; provided, however, that any such modification or amendment

will be communicated to potential bidders solely through Bloomberg 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 shall not affect the sufficiency of any such notice or the legality of the sale.

Date: \_\_\_\_\_, 2014

---

\*Preliminary, subject to change.

**OFFICIAL NOTICE OF SALE**

**AND**

**OFFICIAL BID FORM**

\_\_\_\_\_ \*  
\$ \_\_\_\_\_ \*

**CITY AND COUNTY OF SAN FRANCISCO  
GENERAL OBLIGATION BONDS**

consisting of

\$ \_\_\_\_\_ \*

**GENERAL OBLIGATION BONDS  
(EARTHQUAKE SAFETY AND  
EMERGENCY RESPONSE  
BONDS, 2010) SERIES 2014C**

\$ \_\_\_\_\_ \*

**GENERAL OBLIGATION BONDS  
(EARTHQUAKE SAFETY AND  
EMERGENCY RESPONSE BONDS,  
2014) SERIES 2014D**

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

SALE DATE:

\_\_\_\_\_ day, \_\_\_\_\_, 2014.

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

TIME:

8:30 a.m. (California time)

PLACE:

Controller's Office of Public Finance  
1 Dr. Carlton B. Goodlett Place, Room 336,  
San Francisco, California 94102

DELIVERY DATE:

\_\_\_\_\_, 2014\*

\_\_\_\_\_  
\* Preliminary, subject to change.

OFFICIAL NOTICE OF SALE

\$ \_\_\_\_\_<sup>\*</sup>  
CITY AND COUNTY OF SAN FRANCISCO  
GENERAL OBLIGATION BONDS

consisting of

\$ \_\_\_\_\_<sup>\*</sup>  
GENERAL OBLIGATION BONDS  
(EARTHQUAKE SAFETY AND EMERGENCY  
RESPONSE BONDS, 2010)  
SERIES 2014C

\$ \_\_\_\_\_<sup>\*</sup>  
GENERAL OBLIGATION BONDS  
(EARTHQUAKE SAFETY AND EMERGENCY  
RESPONSE BONDS, 2014)  
SERIES 2014D

NOTICE IS HEREBY GIVEN that electronic bids and sealed bids will be received in the manner described below, and in the case of electronic bids, through the Ipreo LLC's BiDCOMP™/PARITY® System ("Parity") by the City and County of San Francisco (the "City") for the purchase of \$ \_\_\_\_\_<sup>\*</sup> aggregate principal amount of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010), Series 2014C (the "Series 2014C Bonds") and \$ \_\_\_\_\_<sup>\*</sup> aggregate principal amount of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2014), Series 2014D (the "Series 2014D Bonds" and, collectively with the Series 2014C Bonds, the "Bonds"), more particularly described hereinafter, at the Controller's Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102 on:

\_\_\_\_\_, 2014, at 8:30 a.m. (California time)<sup>\*</sup>  
(subject to postponement or cancellation in accordance with this Official Notice of Sale)

See "TERMS OF SALE-Form of Bids; Delivery of Bids" hereinafter for information regarding the terms and conditions under which bids will be received through electronic transmission.

**THE RECEIPT OF BIDS ON \_\_\_\_\_ DAY, \_\_\_\_\_, 2014,<sup>\*</sup> MAY BE POSTPONED OR CANCELLED AT OR PRIOR TO THE TIME BIDS ARE TO BE RECEIVED. NOTICE OF SUCH POSTPONEMENT OR CANCELLATION WILL BE COMMUNICATED BY THE CITY THROUGH BLOOMBERG BUSINESS NEWS ("BLOOMBERG") AND PARITY AS SOON AS PRACTICABLE FOLLOWING SUCH POSTPONEMENT OR CANCELLATION.** Notice of the new date and time for receipt of bids will be given through Bloomberg and Parity as soon as practicable following a postponement and no later than 1:00 p.m. (California time) on the business day preceding the original or new date for receiving bids.

<sup>\*</sup> Preliminary, subject to change.

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 the co-municipal advisors to the City: (i) Stifel, Nicolaus & Company, Incorporated, One Montgomery Street, 35th Floor, San Francisco, California 94104; telephone (415) 364-6877 (office), Attention: Anna C. Van Degna (e-mail: [avandegna@stifel.com](mailto:avandegna@stifel.com)); and (ii) TKG & Associates LLC, 48 Colin P. Kelly Jr. Street, 2nd Floor, San Francisco, California 94107; telephone (415) 538-8480 (office), Attention: Charlotte Knight-Marshall (e-mail: [ckm@tkgadvisors.net](mailto:ckm@tkgadvisors.net)) (collectively, "Co-Municipal Advisors"), *provided*, that failure of any bidder to receive such supplemental notice shall not affect the sufficiency of any such notice or the legality of the sale. See "TERMS OF SALE-Postponement or Cancellation of Sale."

The City reserves the right to modify or amend this Official Notice of Sale in any respect; *provided*, that any such modification or amendment will be communicated to potential bidders through Bloomberg 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 sales. See "TERMS OF SALE-Right to Modify or Amend."

Bidders are referred to the Preliminary Official Statement, dated \_\_\_\_\_, 2014, of the City with respect to the Bonds (the "Preliminary Official Statement") for additional information regarding the City, the Bonds, the security for the Bonds and other matters. See "CLOSING PROCEDURES AND DOCUMENTS-Official Statement." Capitalized terms used and not defined in this Official Notice of Sale shall have the meanings ascribed to them in the Preliminary Official Statement.

This Official Notice of Sale will be submitted for posting to the Parity bid delivery system. If the summary of the terms of sale of the Bonds posted by Parity conflicts with this Official Notice of Sale in any respect, the terms of this Official Notice of Sale will control, unless a notice of an amendment is given as described herein.

## TERMS RELATING TO THE BONDS

**IMPORTANT INFORMATION REGARDING THE BONDS, INCLUDING THE SECURITY AND SOURCES OF PAYMENT THEREFOR, AND THE CITY IS PRESENTED IN THE PRELIMINARY OFFICIAL STATEMENT, WHICH EACH BIDDER MUST REVIEW AND WILL BE DEEMED TO HAVE REVIEWED, PRIOR TO BIDDING FOR THE BONDS. THIS OFFICIAL NOTICE OF SALE GOVERNS ONLY THE TERMS OF SALE, BIDDING, AWARD AND CLOSING PROCEDURES FOR THE BONDS. THE DESCRIPTION OF THE BONDS CONTAINED IN THIS OFFICIAL NOTICE OF SALE IS QUALIFIED IN ALL RESPECTS BY THE DESCRIPTION CONTAINED IN THE PRELIMINARY OFFICIAL STATEMENT.**

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

Issue. The Bonds will be issued as fully registered bonds without coupons in book-entry form in denominations of \$5,000 or any integral multiple of that amount, as designated by the successful bidder (the "Purchaser"), all dated the date of delivery, which is

expected to be \_\_\_\_\_, 2014\*. If the sale is postponed, notice of the new date of the sale will also set forth the new expected date of delivery of the Bonds.

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

Interest Rates. The interest on the Bonds will be payable on June 15 and December 15 of each year, beginning [December 15, 2015] (each an “Interest Payment Date”). Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months, from the dated date of the Bonds.

Bidders may specify any number of separate rates, and the same rate or rates may be repeated as often as desired, provided:

- (i) each interest rate specified in any bid must be a multiple of one-eighth or one-twentieth of one percent (1/8 or 1/20 of 1%) per annum;
- (ii) the maximum interest rate bid for any maturity may not exceed twelve percent (12%) per annum;
- (iii) no Bond may bear a zero rate of interest;
- (iv) each Bond must bear interest from its dated date to its stated maturity date at the single rate of interest specified in the bid; and
- (v) all Bonds maturing at any one time must bear the same rate of interest.

Premium Bids; No Net Discount Bids. Bids may include a net premium on the par value of the Bonds; provided that the amount of total net premium with respect to the Bonds may not exceed [twelve percent (12%)] of the aggregate principal amount of the Bonds. No net discount bids will be accepted.

Principal Payments. The Bonds will be serial and/or term Bonds, as specified by each bidder, and principal will be payable on June 15 of each year, commencing on June 15, 20\_\_ as shown below. The final maturity of the Bonds will be June 15, 20\_\_. The principal amount of the Bonds maturing or subject to mandatory sinking fund redemption in any year must be in integral multiples of \$5,000. For any term Bonds specified, the principal amount for a given year may be allocated only to a single term Bond and must be part of an

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\* Preliminary, subject to change.



uninterrupted annual sequence from the first mandatory sinking fund payment to the term Bond maturity. The aggregate amount of the principal amount of the serial maturity or mandatory sinking fund payment for the individual series of Bonds is shown below for information purposes only. **Bidders will provide bids on the Total Principal Amount only.** Subject to adjustment as hereinafter provided, the aggregate principal amount of the serial maturity or mandatory sinking fund payment for the Bonds in each year is as follows:

<b>Principal Payment Date (June 15)</b>	<b>Series 2014C Bonds Principal Amount*</b>	<b>Series 2014D Bonds Principal Amount*</b>	<b>Total Principal Amount*</b>
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2027			
2029			
2030			
2031			
2032			
2033			
2034			
		TOTAL	\$ _____*

Adjustment of Principal Payments. The principal amounts set forth in this Official Notice of Sale reflect certain estimates of the City with respect to the likely interest rates of the winning bid and the premium contained in the winning bid. **The City reserves the right to change the principal payment schedule set forth above after the determination of the winning bidder, by adjusting one or more of the principal payments of the Bonds in increments of \$5,000, as determined in the sole discretion of the City. Any such adjustment of principal payments on the Bonds will be based on the schedule of principal payments provided by the City to be used as the basis of bids for the Bonds. Any such adjustment will not change the average per Bond dollar amount of underwriter's discount. 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.**

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\* Preliminary, subject to change.

**THE PURCHASER WILL NOT BE PERMITTED TO WITHDRAW ITS BID OR CHANGE THE INTEREST RATES IN ITS BID AS A RESULT OF ANY CHANGES MADE TO THE PRINCIPAL PAYMENTS OF THE BONDS IN ACCORDANCE WITH THIS OFFICIAL NOTICE OF SALE.**

Redemption. (a) Optional Redemption. The Bonds maturing on or before June 15, 20\_\_, will not be subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after June 15, 20\_\_, are subject to optional redemption prior to their respective stated maturity dates, at the option of the City, from any source of available funds (other than mandatory sinking fund payments), as a whole or in part on any date (with the maturities to be redeemed to be determined by the City and by lot within a maturity), on or after June 15, 20\_\_, at the redemption price equal to the principal amount of the Bonds redeemed, together with accrued interest to the date fixed for redemption, without premium.

(b) Mandatory Sinking Fund Redemption. Term Bonds, if any, are also subject to redemption prior to their respective stated maturity dates, in part, by lot, from mandatory sinking fund payments, on each June 15 on or after June 15, 20\_\_, designated by the successful bidder as a date upon which a mandatory sinking fund payment is to be made, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption, without premium. No term Bonds may be redeemed from mandatory sinking fund payments until all term Bonds maturing on preceding term maturity dates, if any, have been retired.

**TERMS OF SALE**

Par and Premium Bids. All bids must be for par or better; no net discount bids will be accepted. [No bid may have a premium of more than twelve percent (12%) of par.]

Form of Bids; Delivery of Bids. Each bid for the Bonds must be: (1) for not less than all of the Bonds, (2) unconditional, and (3) either (i) submitted on the Official Bid Form attached as *Exhibit A* and signed by the bidder, or (ii) submitted via Parity, along with a facsimile transmission by the winning bidder, after the verbal award, of the completed and signed applicable Official Bid Form conforming to the Parity bid, with any adjustments made by the City pursuant hereto, by not later than 11:00 a.m. California time on the sale date. Electronic bids must conform to the procedures established by Parity. [Sealed bids must be enclosed in a sealed envelope, delivered to the City and County of San Francisco c/o Nadia Sesay at the address set forth on the cover and clearly marked "Bid for the City and County of San Francisco Taxable General Obligation Bonds" or words of similar import, as hereinafter described, and received by 8:30 a.m. California time, at the Controller's Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 94102; phone: (415) 554-5956. No bid submitted to the City may be withdrawn or modified by the bidder.]

**All bids will be deemed to incorporate all of the terms of this Official Notice of Sale. If the sale of the Bonds is canceled or postponed, all bids will be rejected. No bid submitted to the City may be withdrawn or modified by the bidder. No bid will be accepted after the time for receiving bids. The City retains absolute discretion to determine whether any bidder is a responsible bidder and whether any bid is timely, legible and complete and**

conforms to this Official Notice of Sale. The City takes no responsibility for informing any bidder prior to the time for receiving bids that its bid is incomplete, illegible or nonconforming with this Official Notice of Sale or has not been received.

Solely as an accommodation to bidders, electronic bids will be received exclusively through Parity in accordance with this Official Notice of Sale. For further information about Parity, potential bidders may contact either of the Co-Municipal Advisors or Parity, phone: (212) 404-8107.

**Warnings Regarding Electronic Bids.** Bids for the Bonds [may] be submitted electronically via Parity. The City will attempt to accommodate bids submitted electronically via Parity. None of the City, the City Attorney, the Co-Municipal Advisors or Co-Bond Counsel (defined below) assumes any responsibility for any error contained in any bid submitted electronically or for the failure of any bid to be transmitted, received or opened by the time for receiving bids, and each bidder expressly assumes the risk of any incomplete, illegible, untimely or nonconforming bid submitted by electronic transmission by such bidder including, without limitation, by reason of garbled transmissions, mechanical failure, engaged telecommunications lines, or any other cause arising from submission by electronic transmission. The time for receiving bids will be determined by the City at the place of bid opening, and the City will not be required to accept the time kept by Parity.

If a bidder submits an electronic bid for the Bonds through Parity, such bidder thereby agrees to the following terms and conditions: (1) if any provision in this Official Notice of Sale with respect to the Bonds conflicts with information or terms provided or required by Parity, this Official Notice of Sale, including any amendments or modifications issued through Parity, will control; (2) each bidder will be solely responsible for making necessary arrangements to access Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale; (3) the City will not have any duty or obligation to provide or assure access to Parity to any bidder, and the City will not be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by use of Parity or any incomplete, inaccurate or untimely bid submitted by any bidder through Parity; (4) the City is permitting use of Parity as a communication mechanism, and not as an agent of the City, to facilitate the submission of electronic bids for the Bonds; Parity is acting as an independent contractor, and is not acting for or on behalf of the City; (5) the City is not responsible for ensuring or verifying bidder compliance with any procedures established by Parity; (6) the City may regard the electronic transmission of a bid through Parity (including information regarding the purchase price for the Bonds or the interest rates for any maturity of the Bonds) as though the information were submitted on the Official Bid Form and executed on the bidder's behalf by a duly authorized signatory; (7) if the bidder's bid is accepted by the City, the signed, completed and conforming Official Bid Form submitted by the bidder by facsimile transmission after the verbal award, this Official Notice of Sale and the information that is transmitted electronically through Parity will form a contract, and the bidder will be bound by the terms of such contract; and (8) information provided by Parity to bidders will form no part of any bid or of any contract between the Purchaser and the

**City unless that information is included in this Official Notice of Sale or the Official Bid Form.**

Process of Award. The City will take final action awarding the Bonds 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 five (5) steps constitute the City's process for a final award of the Bonds:

(1) The Co-Municipal 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) 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 has given notice of such verbal award, fax or email to the City (in c/o its Co-Municipal 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 A), executed on the Apparent Winning Bidder's behalf by duly authorized signatory;

(3) The Apparent Winning Bidder shall provide the Good Faith Deposit by wire transfer, as described under "--Good Faith Deposit;"

(4) The Co-Municipal Advisors will fax or email to the Apparent Winning Bidder confirmation of the final principal amortization schedule and purchase price for the Bonds, after adjustments, if any, are made, as described under "TERMS RELATING TO THE BONDS--Adjustment of Principal Payments;" and

(5) The City will fax or email to the Apparent Winning Bidder its written final award.

Upon completion of all five (5) steps described above, the Apparent Winning Bidder will be deemed the Purchaser of the Bonds and will be bound by the terms of the contract to purchase the Bonds, 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 RELATING TO THE BONDS--Adjustment of Principal Payments;" 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. The City reserves the right to reject all the bids or postpone the bids for any reason. Unless all bids are rejected, the Bonds will be awarded to the responsible

bidder which timely submits a conforming bid that represents the lowest true interest cost (“TIC”) to the City and which timely provides the Good Faith Deposit as described under “–Good Faith Deposit” below. The TIC will be that nominal interest rate that, when compounded semiannually and applied to discount all payments of principal and interest payable on the Bonds to the dated date of the Bonds, results in an amount equal to the principal amount of the Bonds plus the amount of any net premium. For the purpose of calculating the TIC, mandatory sinking fund payments for any term Bonds specified by each bidder will be treated as Bonds maturing on the dates of such mandatory sinking fund payments. If two or more bidders offer bids for the Bonds at the same lowest TIC, the City will determine by lot which bidder will be awarded the Bonds. Bid evaluations or rankings made by Parity are not binding on the City.

Estimate of TIC. Each bidder is requested, but not required, to supply an estimate of the TIC based upon its bid, which will be considered as informative only and not binding on either the bidder or the City.

Multiple Bids. If multiple bids are received from a single bidder by any means or combination of means, the City will accept the bid representing the lowest TIC to the City. Each bidder agrees by submitting multiple bids to be bound by the bid representing the lowest TIC to the City.

Good Faith Deposit. A good faith deposit (a “**Good Faith Deposit**”) satisfying the requirements set forth below is required for each bid. The amount of the Good Faith Deposit for the Bonds is \$ \_\_\_\_\_.

Except as otherwise provided below, a Good Faith Deposit in the form of a certified, treasurer’s or cashier’s check drawn on a solvent commercial bank or trust company in the United States of America or a financial surety bond (the “**Financial Surety Bond**”) issued by an insurance company licensed to issue such surety bond in the State of California and made payable to the order of the City and County of San Francisco, to secure the City from any loss resulting from the failure of the bidder to comply with the terms of its bid, is required for any bid to be accepted. If a check is used, it must accompany each bid. If a Financial Surety Bond is used, such surety bond must be submitted to the City or its Co-Municipal Advisors prior to the opening of the bids. The Financial Surety Bond must identify each bidder whose Good Faith Deposit is guaranteed by such Financial Surety Bond. If the winning bidder on the Bonds is determined to be a bidder utilizing a Financial Surety Bond, then that bidder is required to submit its Good Faith Deposit to the City in the form of a cashier’s check (or to wire transfer such amount as instructed by the City or its Co-Municipal Advisors) not later than 10:00 a.m. (California time) on the next business day following the bid opening. If such Good Faith Deposit is not received by that time, the Financial Surety Bond may be drawn by the City to satisfy the Good Faith Deposit requirement. If the apparent winning bidder on the Bonds is determined to be a bidder which has not submitted a Good Faith Deposit in the form of a Financial Surety Bond or check, as provided above, the Co-Municipal Advisors will request the apparent winning bidder to immediately wire the Good Faith Deposit to the City and the winning bidder will provide the Federal wire reference number of such Good Faith Deposit to the Co-Municipal Advisors within 60 minutes of such request by the Co-Municipal Advisors. The Bonds will not be officially awarded to a bidder which has not submitted a Good Faith Deposit in the form of a

Financial Surety Bond or check, as provided above, until such time as the bidder has provided a Federal wire reference number for the Good Faith Deposit to the Co-Municipal Advisors.

No interest on the Good Faith Deposit will accrue to any bidder. The City will deposit the Good Faith Deposit of the Purchaser. The Good Faith Deposit (without accruing interest) of the Purchaser will be applied to the purchase price of the Bonds. In the event the Purchaser fails to honor its accepted bid, the Good Faith Deposit plus any interest accrued on the Good Faith Deposit will be retained by the City. Good Faith Deposits accompanying bids other than the bid which is accepted will be returned promptly upon the determination of the best bidder.

Electronic Bids; Delivery of Form of Bids. If the City accepts a bidder's bid that was submitted through Parity, the successful bidder must submit a signed, completed and conforming Official Bid Form by facsimile transmission to the Director of Public Finance, fax: (415) 554-4864, as soon as practicable, but not later than one hour after the verbal award of the Bonds.

Right of Rejection and Waiver of Irregularity. The City reserves the right, in its sole discretion, to reject any and all bids and to waive any irregularity or informality in any bid which does not materially affect such bid or change the ranking of the bids.

Right to Modify or Amend. 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 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.

Postponement or Cancellation of Sale. The City may postpone or cancel the sale of the Bonds at or prior to the time for receiving bids. Notice of such postponement or cancellation will be given through Parity and Bloomberg as soon as practicable following such postponement or cancellation. If the sale is postponed, notice of a new sale date will be given through Parity and Bloomberg as soon as practicable following a postponement and no later than 1:00 p.m. (California time) on the business day preceding the new date for receiving bids. Failure of any potential bidder to receive notice of postponement or cancellation will not affect the sufficiency of any such notice.

Time for Award. The Controller of the City (the "**Controller**") will take official action awarding the Bonds 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.

Legal Opinion and Tax Matters. Upon delivery of the Bonds, Co-Bond Counsel, Schiff Hardin LLP and Jackmon Law (collectively, "**Co-Bond Counsel**"), will each deliver an opinion to the effect that under present California law, interest on the Bonds is exempt from State of California personal income taxes. See "TAX MATTERS" in the Preliminary Official Statement.

A copy of the proposed form of the opinions of Co-Bond Counsel is set forth in Appendix F to the Preliminary Official Statement. The approving legal opinions of Co-Bond Counsel will be furnished to the Purchaser upon delivery of the Bonds. Copies of the opinions will be filed with the Controller.

Equal Opportunity. Pursuant to the spirit and intent of the City's Local Business Enterprise ("LBE") Ordinance, Chapter 14B of the Administrative Code of the City, the City strongly encourages the inclusion of Local Business Enterprises certified by the San Francisco Human Rights Commission in prospective bidding syndicates. A list of certified LBEs may be obtained from the San Francisco Human Rights Commission, 25 Van Ness Avenue, Room 800, San Francisco, California 94102; phone: (415) 252-2500.

### CLOSING PROCEDURES AND DOCUMENTS

Delivery and Payment. Delivery of the Bonds will be made through the facilities of DTC in New York, New York, and is presently expected to take place on or about \_\_\_\_\_, 2014.\* Payment for the Bonds (including any premium) must be made to the Treasurer of the City at the time of delivery in immediately available funds. Any expense for making payment in immediately available funds shall be borne by the Purchaser. The City will deliver to the Purchaser, dated as of the delivery date, the legal opinions with respect to the Bonds described in APPENDIX F—"PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL" to the Official Statement.

Qualification for Sale. The City will furnish such information and take such action not inconsistent with law as the Purchaser may request and the City may deem necessary or appropriate to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States of America as may be designated by the Purchaser; *provided*, that the 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 Bonds, the Purchaser assumes all responsibility for qualifying the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of the states and jurisdictions in which the Purchaser offers or sells the Bonds, including the payment of fees for such qualification. Under no circumstances may the Bonds be sold or offered for sale or any solicitation of an offer to buy the Bonds be made in any jurisdiction in which such sale, offer or solicitation would be unlawful under the securities laws of the jurisdiction.

No Litigation. The City will deliver a certificate stating that no litigation is pending with service of process having been accomplished or, to the knowledge of the officer of the City executing such certificate, threatened, concerning the validity of the Bonds, the ability of the City to levy and collect the *ad valorem* tax required to pay debt service on the Bonds, the corporate existence of the City, or the title to their respective offices of the officers of the City who will execute the Bonds.

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\* Preliminary, subject to change.

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

CUSIP Numbers. It is anticipated that CUSIP numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto will constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this contract. The Purchaser, at its sole cost, will obtain separate CUSIP numbers for each maturity of each series of the Bonds. CUSIP data is provided by Standard and 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 take no responsibility for the accuracy of such numbers.

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 sixty (60) days from the sale date the statutory fee for the Bonds purchased.

Official Statement. Copies of the Preliminary Official Statement with respect to the Bonds will be furnished or electronically transmitted to any potential bidder upon request to the Office of Public Finance or to either of the Co-Municipal Advisors. 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. The contact information for the Co-Municipal Advisors is set forth on the first page of this Official Notice of Sale. Within seven business days after the date of award of the Bonds, the Purchaser will be furnished with a reasonable number of copies (not to exceed 200) of the final Official Statement, without charge, for distribution in connection with the resale of the Bonds. The Purchaser must notify the City in writing within two days of the sale of the Bonds if the Purchaser requires additional copies of the Official Statement to comply with applicable regulations. The cost for such additional copies will be paid by the Purchaser requesting such copies.

By submitting a bid for the Bonds, the Purchaser agrees: (1) to disseminate to all members of the underwriting syndicate, if any, copies of the final Official Statement, including any supplements, (2) to file promptly a copy of the final Official Statement, including any supplements, with the Municipal Securities Rulemaking Board, and (3) to take any and all other actions necessary to comply with applicable rules of the Securities and Exchange Commission and the Municipal Securities Rulemaking Board governing the offering, sale and delivery of the Bonds to the Purchaser, including without limitation, the delivery of a final Official Statement to each investor who purchases Bonds.

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

Certificate of the City Regarding Official Statement. At the time of delivery of the Bonds, the Purchaser will receive a certificate, signed by an authorized representative of the



City, confirming to the Purchaser that, to the best of the knowledge of such authorized representative, the Official Statement (except for information regarding DTC and its book-entry system, as to which no view will be expressed), as of the date of sale of the Bonds and as of the date of their delivery, 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 the light of the circumstances under which they were made, not misleading.

Purchaser's Certificates Concerning Official Statement. As a condition of delivery of the Bonds, the Purchaser will be required to execute and deliver to the City, prior to the delivery date of the Bonds, a certificate to the effect that while the Purchaser has not undertaken any responsibility for the contents of the Official Statement, the Purchaser, in accordance with and as part of its responsibilities under federal securities laws, had an opportunity to review the information in the Official Statement and to speak to officials and staff of the City and has not notified the City or its officials or staff of the need to modify or supplement the Official Statement.

Continuing Disclosure. In order to assist bidders in complying with Rule 15c2-12, the City will undertake, pursuant to a Continuing Disclosure Certificate, to provide certain annual financial information, operating data and notices of the occurrence of certain events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be included in the final Official Statement. The City has not failed, in the prior five years, to comply in all material respects with any previous undertakings with regard to Rule 15c2-12 to provide annual reports or notices of listed events.

Dated: \_\_\_\_\_, 2014

**EXHIBIT A**

BID TIME: 8:30 A.M. (California time)

\_\_\_\_ day, \_\_\_\_\_, 2014

**OFFICIAL BID FORM FOR THE PURCHASE OF**

\$ \_\_\_\_\_ \*  
**CITY AND COUNTY OF SAN FRANCISCO**  
**GENERAL OBLIGATION BONDS**

consisting of

\$ \_\_\_\_\_ \*  
**General Obligation Bonds**  
**(Earthquake Safety and Emergency Response Bonds, 2010)**  
**Series 2014C**

\$ \_\_\_\_\_ \*  
**General Obligation Bonds**  
**(Earthquake Safety and Emergency Response Bonds, 2014)**  
**Series 2014D**

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

BIDDING FIRM'S NAME:

\_\_\_\_\_

Subject to the provisions and in accordance with the terms of the Official Notice of Sale dated \_\_\_\_\_, 2014, which is incorporated herein and made a part of this proposal, we have reviewed the Preliminary Official Statement relating to the above-referenced Bonds (the "Bonds") and hereby offer to purchase all of the \$ \_\_\_\_\_ aggregate principal amount of the Bonds dated the date of their delivery on the following terms, including the submission of the required Good Faith Deposit in the amount of \$ \_\_\_\_\_ within the time and in the manner specified in the Official Notice of Sale; and to pay therefor the price of \$ \_\_\_\_\_, which is equal to the aggregate principal amount of the Bonds plus a net premium of \$ \_\_\_\_\_ (not to exceed 12%) (such amount being the "Purchase Price"). The Bonds will mature and will be subject to mandatory sinking fund redemption commencing no earlier than June 15, 20\_\_ (if term bonds are specified below) in the amounts and years, and bear interest at the rates per annum (in multiples of 1/8 or 1/20 of 1%), as set forth in the schedules below.

**Maturity Schedule**

(Check one) <sup>(1)</sup>					(Check one) <sup>(1)</sup>				
Principal Payment Date (June 15)	Annual Principal Payment*	Serial Maturity	Mandatory Sinking Fund Redemption <sup>(2)</sup>	Interest Rate	Principal Payment Date (June 15)	Annual Principal Payment*	Serial Maturity	Mandatory Sinking Fund Redemption <sup>(2)</sup>	Interest Rate

TOTAL \_\_\_\_\_

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

<sup>(1)</sup> Circle the final maturity of each term bond specified.

<sup>(2)</sup> There may not be serial maturities for dates after the first mandatory sinking fund redemption payment.

\_\_\_\_\_  
Authorized Signatory

Title: \_\_\_\_\_

Phone Number: \_\_\_\_\_

Fax Number: \_\_\_\_\_

TIC (optional and not binding): \_\_\_\_\_

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



PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2014

**NEW ISSUE – BOOK-ENTRY ONLY**

**RATINGS: Moody's: \_\_\_\_\_**  
**S&P: \_\_\_\_\_**  
**Fitch: \_\_\_\_\_**  
**(See "Ratings" herein)**

*Subject to compliance by the City and County of San Francisco with certain covenants, in the separate opinions of Schiff Hardin LLP and Amira Jackmon, Attorney at Law, Co-Bond Counsel, under present law, interest on the Bonds is excludable from the gross income of their owners for federal income tax purposes and thus will be exempt from present federal income taxes based upon gross income. Such interest is not included as an item of tax preference in computing the federal alternative minimum tax on individuals and corporations, but will be taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Co-Bond Counsel are further of the opinion that interest on the Bonds is exempt from present California personal income taxes under present California law. See "TAX MATTERS" in this Official Statement for a more complete discussion of these matters.*



**\$(Par Amount)\***  
**CITY AND COUNTY OF SAN FRANCISCO**  
**GENERAL OBLIGATION BONDS**  
**(EARTHQUAKE SAFETY AND**  
**EMERGENCY RESPONSE BONDS, 2010),**  
**SERIES 2014C**

**\$(Par Amount)\***  
**CITY AND COUNTY OF SAN FRANCISCO**  
**GENERAL OBLIGATION BONDS**  
**(EARTHQUAKE SAFETY AND**  
**EMERGENCY RESPONSE BONDS, 2014),**  
**SERIES 2014D**

**Dated: Date of Delivery**

**Due: June 15, as shown in 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 Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010), Series 2014C (the "2014C Bonds") and the City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010), Series 2014D (the "2014D Bonds," and together with the 2014C Bonds, the "Bonds") are being issued under the Government Code of the State of California and the Charter of the City and County of San Francisco (the "City"). The issuance of the Bonds has been authorized by certain resolutions adopted by the Board of Supervisors of the City and duly approved by the Mayor of the City, as described under "THE BONDS – Authority for Issuance; Purposes."

The Board of Supervisors has the power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) for the payment of the Bonds and the interest thereon when due. See "SECURITY FOR THE BONDS."

The proceeds of the Bonds will be used to finance improvements to earthquake safety and emergency responsiveness facilities and infrastructure as described herein, and to pay certain costs related to the issuance of the Bonds. See "PLAN OF FINANCE" and "SOURCES AND USES OF FUNDS."

The Bonds will be issued only in fully registered form without coupons, and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). Individual purchases of the Bonds will be made in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Payments of principal of and interest on the Bonds will be made by the City Treasurer, as paying agent, to DTC, which in turn is required to remit such principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – Form and Registration." The Bonds will be dated and bear interest from their date of delivery until paid in full at the rates shown in the maturity schedule on the inside cover hereof. Interest on the Bonds will be payable on June 15 and December 15 of each year, commencing December 15, 2014. Principal will be paid at maturity as shown on the inside cover. See "THE BONDS – Payment of Interest and Principal."

**The Bonds will be subject to redemption prior to maturity, as described herein. See "THE BONDS – Redemption."**

**MATURITY SCHEDULE**  
(See Inside Cover)

The Bonds are offered when, as and if issued by the City and accepted by the initial purchaser, subject to the approval of legality by Schiff Hardin LLP, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by its City Attorney and by Hawkins Delafield & Wood LLP, San Francisco, California, Disclosure Counsel. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about \_\_\_\_\_, 2014.

\* Preliminary, subject to change.

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.

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.

Dated: \_\_\_\_\_, 2014.

**PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2014**

Hawkins Delafield & Wood LLP  
Draft of 7/10/2014

**MATURITY SCHEDULE**  
(Base CUSIP Number: 797646<sup>†</sup>)

**\$(Par Amount)\***  
**2014C Serial Bonds**

Maturity Date (June 15)	Principal Amount	Interest Rate	Price/Yield	CUSIP Suffix*	Maturity Date (June 15)	Principal Amount	Interest Rate	Price/Yield	CUSIP Suffix*
----------------------------	------------------	---------------	-------------	---------------	----------------------------	------------------	---------------	-------------	---------------

**\$(Par Amount)\***  
**2014D Serial Bonds**

Maturity Date (June 15)	Principal Amount	Interest Rate	Price/Yield	CUSIP Suffix*	Maturity Date (June 15)	Principal Amount	Interest Rate	Price/Yield	CUSIP Suffix*
----------------------------	------------------	---------------	-------------	---------------	----------------------------	------------------	---------------	-------------	---------------

<sup>†</sup> 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 initial purchaser take any responsibility for the accuracy of such numbers.

\* Preliminary, subject to change.

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 Bonds, 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 Bonds. 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 initial purchaser of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts.

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

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



**CITY AND COUNTY OF SAN FRANCISCO**

**MAYOR**

Edwin M. Lee

**BOARD OF SUPERVISORS**

David Chiu, *Board President, District 3*

Eric Mar, *District 1*  
Mark Farrell, *District 2*  
Katy Tang, *District 4*  
London Breed, *District 5*  
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**

**Paying Agent and Registrar**

Treasurer of the City and County of San Francisco

**Co-Bond Counsel**

Schiff Hardin LLP  
*San Francisco, California*

Amira Jackmon, Attorney at Law  
*Berkeley, California*

**Co-Financial Advisors**

Stifel, Nicolaus & Company, Incorporated  
*San Francisco, California*

TKG & Associates LLC  
*San Francisco, California*

**Disclosure Counsel**

Hawkins Delafield & Wood LLP  
*San Francisco, California*



**TABLE OF CONTENTS**

INTRODUCTION ..... 1

THE CITY AND COUNTY OF SAN FRANCISCO ..... 1

RECENT DEVELOPMENTS ..... 3

THE BONDS ..... 3

    Authority for Issuance; Purposes ..... 3

    Form and Registration ..... 4

    Payment of Interest and Principal ..... 4

    Redemption ..... 4

    Defeasance ..... 6

SOURCES AND USES OF FUNDS ..... 7

    Deposit and Investment of Bond Proceeds ..... 7

DEBT SERVICE SCHEDULE ..... 9

SECURITY FOR THE BONDS ..... 10

    General ..... 12

    Factors Affecting Property Tax Security for the Bonds ..... 12

    City Long-Term Challenges ..... 13

    Seismic Risks ..... 14

TAX MATTERS ..... 15

    Federal Income Tax ..... 15

    State and Local Taxes ..... 16

    Basis of Co-Bond Counsel Opinions ..... 17

    Risk of Audit ..... 17

    Legislation ..... 17

    Backup Withholding ..... 17

OTHER LEGAL MATTERS ..... 18

PROFESSIONALS INVOLVED IN THE OFFERING ..... 18

ABSENCE OF LITIGATION ..... 19

CONTINUING DISCLOSURE ..... 19

RATINGS ..... 19

SALE OF THE BONDS ..... 20

MISCELLANEOUS ..... 20

**APPENDICES**

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, 2013

APPENDIX C – CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE TREASURER –  
INVESTMENT POLICY

APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE

APPENDIX E – DTC AND THE BOOK ENTRY ONLY SYSTEM

APPENDIX F – PROPOSED FORMS OF OPINIONS OF CO-BOND COUNSEL



**OFFICIAL STATEMENT**

**\$(Par Amount)\*  
CITY AND COUNTY OF SAN FRANCISCO  
GENERAL OBLIGATION BONDS  
(EARTHQUAKE SAFETY AND EMERGENCY  
RESPONSE BONDS, 2010),  
SERIES 2014C**

**\$(Par Amount)\*  
CITY AND COUNTY OF SAN FRANCISCO  
GENERAL OBLIGATION BONDS  
(EARTHQUAKE SAFETY AND EMERGENCY  
RESPONSE BONDS, 2014),  
SERIES 2014D**

**INTRODUCTION**

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information in connection with the public offering by the City and County of San Francisco (the "City") of its City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010), Series 2014C (the "2014C Bonds") and the City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2014), Series 2014D (the "2014D Bonds," and together with the 2014C Bonds, the "Bonds"). The Board of Supervisors of the City has the power and is obligated to levy ad valorem taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds when due. See "SECURITY FOR THE BONDS" herein.

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 with respect to the Bonds, 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 Bonds, the resolutions providing for the issuance and payment of the Bonds, and provisions of the constitution and statutes of the State of California (the "State"), the charter of the City (the "Charter") and City 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 Bonds are available from the City through the Office of Public Finance, 1 Dr. Carlton B. Goodlett Place, Room 336, San Francisco, California 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 2013 population is approximately 839,100.

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\* Preliminary, subject to change.

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 CAFR estimates that per-capita personal income of the City for fiscal year 2012-13 was \$73,197. The San Francisco Unified School District operates 5 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 13 independent charter schools. Higher education institutions located in the City include the University of San Francisco, California State University – San Francisco, University of California – San Francisco (a medical school and health science campus), the University of California Hastings College of the Law, the University of the Pacific's School of Dentistry, Golden Gate University, City College of San Francisco (a public community college), the Art Institute of California – San Francisco, the San Francisco Conservatory of Music, the California Culinary Academy, and the Academy of Art University.

San Francisco International Airport ("SFO"), located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County and owned and operated by the City, is the principal commercial service airport for the Bay Area and one of the nation's principal gateways for Pacific traffic. In fiscal year 2012-13, SFO serviced approximately 44.7 million passengers and handled 370,195 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 43<sup>rd</sup> and current Mayor of the City, having been elected by the voters of the City in November 2011. The City's proposed budget for fiscal years 2014-15 and 2015-16 totals \$\_\_\_ billion and \$\_\_\_ billion, respectively. The General Fund portion of each year's proposed budget is \$\_\_\_ billion in fiscal year 2014-15 and \$\_\_\_ 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 28,387 full-time-equivalent employees at the end of fiscal year 2012-13. According to the Controller of the City (the "Controller"), fiscal year 2013-14 total net assessed valuation of taxable property in the City is approximately \$172.5 billion.

More detailed information about the City's governance, organization and finances may be found in APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and

## RECENT DEVELOPMENTS

*[To be updated, if necessary.]*

### THE BONDS

#### Authority for Issuance; Purposes

The Bonds will be issued under the Government Code of the State and the Charter. The City authorized the issuance of the 2014C Bonds by Resolution No. 516-10 and Resolution No. \_\_\_-14, adopted by the Board of Supervisors of the City on November 2, 2010 and \_\_\_\_\_, 2014, respectively, and duly approved by the Mayor of the City on November 5, 2010 and \_\_\_\_\_, 2014, respectively (together, the "2014C Resolution"). The City authorized the issuance of the 2014D Bonds by Resolution No. \_\_\_-14 and Resolution No. \_\_\_-14, adopted by the Board of Supervisors of the City on \_\_\_\_\_, 2014 and \_\_\_\_\_, 2014, respectively, and duly approved by the Mayor of the City on \_\_\_\_\_, 2014 and \_\_\_\_\_, 2014, respectively (together, the "2014D Resolution," and with the 2014C Resolution, the "Resolutions").

The 2014C Bonds will constitute the fourth series of bonds to be issued from an aggregate authorized amount of \$412,300,000 of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010), duly approved by at least two-thirds of the voters voting on Proposition B at an election held on June 8, 2010 ("Proposition B (2010)"), to provide funds for the purposes authorized in Proposition B (2010), which are summarized as follows: to improve fire, earthquake and emergency response and ensure firefighters a reliable water supply for fires and disasters, through projects including: improving deteriorating pipes, hydrants, reservoirs, water cisterns and pumps built after the 1906 earthquake; improving neighborhood fire stations; replacing the seismically unsafe emergency command center with an earthquake-safe building; and to pay related costs necessary or convenient for these purposes. The City previously issued \$79,520,000 of the bonds authorized by Proposition B (2010) on December 15, 2010, \$183,330,000 of the bonds authorized by Proposition B (2010) on March 8, 2012, and \$31,020,000 of the bonds authorized by Proposition B (2010) on June 20, 2013.

The 2014D Bonds will constitute the first series of bonds to be issued from an aggregate authorized amount of \$400,000,000 City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2014), duly approved by at least two-thirds of the voters voting on Proposition A at an election held on June 3, 2014 ("Proposition A (2014)"), to provide funds for the purposes authorized in Proposition A (2014), which are summarized as follows: to improve fire, earthquake and emergency response by improving and/or replacing deteriorating cisterns, pipes, and tunnels, and related facilities to ensure firefighters a reliable water supply for incurring indebtedness of fires and disasters; improving and/or replacing neighborhood fire and police stations; replacing certain seismically unsafe police and medical examiner facilities with earthquake-safe buildings and to pay related costs.

The Administrative Code of the City (the "Administrative Code") and Proposition B (2010) and Proposition A (2014) provide that, to the extent permitted by law, 0.1% of the gross proceeds of all proposed bonds, including the Bonds, be deposited by the Controller and used to fund the costs of the City's independent citizens' general obligation bond oversight committee. The committee was created by the Administrative Code and is appointed by the Board of Supervisors of the City to inform the public concerning the expenditure of general obligation bond proceeds in accordance with the voter authorization.

## **Form and Registration**

The Bonds will be issued in the principal amounts set forth on the inside cover hereof, in the denomination of \$5,000 each or any integral multiple thereof, and will be dated their date of delivery. The Bonds will be issued in fully registered form, without coupons. The Bonds will be initially registered in the name of Cede & Co. as registered owner and nominee for The Depository Trust Company ("DTC"), which is required to remit payments of principal and interest to the DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See APPENDIX E – "DTC AND THE BOOK-ENTRY ONLY SYSTEM."

## **Payment of Interest and Principal**

The City Treasurer will act as paying agent and registrar with respect to the Bonds. Interest on the Bonds will be payable on each June 15 and December 15 to maturity or prior redemption, commencing December 15, 2014, at the interest rates shown on the inside cover hereof. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The interest on the Bonds will be payable in lawful money of the United States to the person whose name appears on the Bond registration books of the City Treasurer as the owner thereof as of the close of business on the last day of the month immediately preceding an interest payment date (the "Record Date"), whether or not such day is a business day. Each Bond authenticated on or before November 30, 2014 will bear interest from the date of delivery. Every other Bond will bear interest from the interest payment date next preceding its date of authentication unless it is authenticated as of a day during the period from the Record Date next preceding any interest payment date to the interest payment date, inclusive, in which event it will bear interest from such interest payment date; provided, that if, at the time of authentication of any Bond, interest is then in default on the Bonds, such Bond will bear interest from the interest payment date to which interest has previously been paid or made available for payment on the Bonds.

The Bonds will mature on the dates shown on the inside cover page hereof. The Bonds will be subject to redemption prior to maturity, as described below. See "– Redemption" below. The principal of the Bonds will be payable in lawful money of the United States to the owner thereof upon the surrender thereof at maturity or earlier redemption at the office of the City Treasurer.

The registered owner of an aggregate principal amount of at least \$1,000,000 of the Bonds may submit a written request to the City Treasurer on or before a Record Date for payment of interest on the succeeding interest payment date and thereafter by wire transfer to a commercial bank located within the United States of America. For so long as the Bonds are held in book-entry form by a securities depository selected by the City, payment may be made to the registered owner of the Bonds designated by such securities depository by wire transfer of immediately available funds.

## **Redemption**

### ***Optional Redemption of the Bonds***

The Bonds maturing on or before June 15, 20\_\_ will not be subject to optional redemption prior to their respective stated maturity dates. The Bonds maturing on or after June 15, 20\_\_ will be subject to optional redemption prior to their respective stated maturity dates, at the option of the City, from any source of available funds, as a whole or in part on any date (with the maturities to be redeemed to be determined by the City and by lot within a maturity), on or after June 15, 20\_\_, at the redemption price equal to the principal amount of the Bonds redeemed, together with accrued interest to the date fixed for redemption (the "Redemption Date"), without premium.



### ***Selection of Bonds for Redemption***

Whenever less than all of the outstanding Bonds are called for redemption on any one date, the City Treasurer will select the maturities of Bonds to be redeemed in the sole discretion of the City Treasurer, and whenever less than all the outstanding Bonds maturing on any one date are called for redemption on any date, the City Treasurer will select the Bonds or portions thereof by lot, in any manner which the City Treasurer deems fair. The Bonds may be redeemed in denominations of \$5,000 or any integral multiple thereof.

### ***Notice of Redemption***

The City Treasurer will mail, or cause to be mailed, notice of any redemption of the Bonds, postage prepaid, to the respective registered owners thereof at the addresses appearing on the Bond registration books not less than 20 days and not more than 60 days prior to the Redemption Date.

Notice of redemption also will be given, or caused to be given, by the City Treasurer, by (i) registered or certified mail, postage prepaid, (ii) confirmed facsimile transmission, (iii) overnight delivery service, or (iv) to the extent applicable to the intended recipient, email or similar electronic means, to (a) all organizations registered with the Securities and Exchange Commission as securities depositories and (b) such other services or organizations as may be required in accordance with the Continuing Disclosure Certificate. See "CONTINUING DISCLOSURE" and APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE" herein.

Each notice of redemption will (a) state the Redemption Date; (b) state the redemption price; (c) state the maturity dates of the Bonds called for redemption, and, if less than all of any such maturity is called for redemption, the distinctive numbers of the Bonds of such maturity to be redeemed, and in the case of a Bond redeemed in part only, the respective portions of the principal amount thereof to be redeemed; (d) state the CUSIP number, if any, of each Bond to be redeemed; (e) require that such Bonds be surrendered by the owners at the office of the City Treasurer or his or her agent; and (f) give notice that interest on such Bonds or portions of such Bonds to be redeemed will cease to accrue after the designated Redemption Date. Any notice of redemption may be conditioned on the receipt of funds or any other event specified in the notice. See "– Conditional Notice; Right to Rescind Notice of Optional Redemption" below.

The actual receipt by the owner of any Bond of such notice of redemption will not be a condition precedent to redemption of such Bond, and failure to receive such notice, or any defect in such notice, will not affect the validity of the proceedings for the redemption of such Bond or the cessation of the accrual of interest on such Bond on the Redemption Date.

### ***Effect of Notice of Redemption***

When notice of optional redemption has been given as described above, and when the amount necessary for the redemption of the Bonds called for redemption (principal, premium, if any and accrued interest to the Redemption Date) is set aside for that purpose in the redemption account for the applicable series of Bonds (for each series of Bonds, a "Redemption Account") established under the 2014C Resolution and the 2014D Resolution, as applicable, the Bonds designated for redemption will become due and payable on the Redemption Date, and upon presentation and surrender of said Bonds at the place specified in the notice of redemption, those Bonds will be redeemed and paid at said redemption price out of the applicable Redemption Account. No interest will accrue on such Bonds called for redemption after the Redemption Date and the registered owners of such Bonds will look for payment of such Bonds only to the applicable Redemption Account. Moneys held in a Redemption Account will be invested by the City Treasurer pursuant to the City's policies and guidelines for investment of moneys in the General Fund of the City. See APPENDIX C – "CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE TREASURER – INVESTMENT POLICY."

### ***Conditional Notice; Right to Rescind Notice of Optional Redemption***

Any notice of optional redemption may provide that such redemption is conditioned upon: (i) deposit of sufficient moneys to redeem the applicable Bonds called for redemption on the anticipated Redemption Date, or (ii) the occurrence of any other event specified in the notice of redemption. In the event that such conditional notice of optional redemption has been given and on the scheduled Redemption Date (i) sufficient moneys to redeem the applicable Bonds have not been deposited or (ii) any other event specified in the notice of redemption did not occur, such Bonds for which notice of conditional optional redemption was given will not be redeemed and will remain Outstanding for all purposes and the redemption not occurring will not constitute a default under the Resolutions.

In addition, the City may rescind any optional redemption and notice thereof for any reason on any date prior to any Redemption Date by causing written notice of the rescission to be given to the Registered Owner of all Bonds so called for redemption. Notice of such rescission of redemption will be given in the same manner notice of redemption was originally given. The actual receipt by the Registered Owner of any Bond of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice so mailed will not affect the validity of the rescission.

### **Defeasance**

Payment of all or any portion of the Bonds may be provided for prior to such Bonds' respective stated maturities by irrevocably depositing with the City Treasurer (or any commercial bank or trust company designated by the City Treasurer to act as escrow agent with respect thereto): (a) an amount of cash equal to the principal amount of all of such Bonds or a portion thereof, and all unpaid interest thereon to maturity, except that in the case of Bonds which are to be redeemed prior to such Bonds' respective stated maturities and in respect of which notice of such redemption will have been given as described above or an irrevocable election to give such notice will have been made by the City, the amount to be deposited will be the principal amount thereof, all unpaid interest thereon to the Redemption Date, and premium, if any, due on such Redemption Date; or (b) Defeasance Securities (as defined below) not subject to call, except as described in the definition below, maturing and paying interest at such times and in such amounts, together with interest earnings and cash, if required, as will, without reinvestment, as certified by an independent certified public accountant, be fully sufficient to pay the principal and all unpaid interest to maturity, or to the Redemption Date, as the case may be, and any premium due on the Bonds to be paid or redeemed, as such principal and interest come due; provided, that, in the case of the Bonds which are to be redeemed prior to maturity, notice of such redemption will be given as described above or an irrevocable election to give such notice will have been made by the City; then, all obligations of the City with respect to said outstanding Bonds will cease and terminate, except only the obligation of the City to pay or cause to be paid from the funds deposited as described in this paragraph, to the owners of said Bonds all sums due with respect thereto, and the tax covenant obligations of the City with respect to such Bonds; provided, that the City will have received an opinion of nationally recognized bond counsel that provision for the payment of said Bonds has been made as required by the Resolutions.

As used in this section, the following terms have the meanings given below:

"Defeasance Securities" means any of the following which at the time are legal investments under the laws of the State of California for the moneys proposed to be invested therein: (1) United States Obligations (as defined below); and (2) Pre-refunded fixed interest rate municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee or paying agent has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash or United States Obligations (as defined below); (c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund or the applicable Redemption Account) are sufficient to meet the liabilities of the municipal obligations; (d) the United States Obligations

serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (f) the municipal obligations are rated (without regard to any numerical modifier, plus or minus sign or other modifier), at the time of original deposit to the escrow fund, by any two Rating Agencies (as defined below) not lower than the rating then maintained by the respective Rating Agency on such United States Obligations.

"United States Obligations" means (i) direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including without limitation, the interest component of Resolution Funding Corporation (REFCORP) bonds that have been stripped by request to the Federal Reserve Bank of New York in book-entry form, or (ii) any security issued by an agency or instrumentality of the United States of America that is selected by the Director of Public Finance that results in the escrow fund being rated by any two Rating Agencies (as defined below) at the time of the initial deposit to the escrow fund and upon any substitution or subsequent deposit to the escrow fund, no lower than the rating then maintained by the respective Rating Agency on United States Obligations described in (i) herein.

"Rating Agencies" means Moody's Investors Service, Inc., Fitch Ratings, and Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., or any other nationally-recognized bond rating agency that is the successor to any of the foregoing rating agencies or that is otherwise established after the date of adoption of the related Resolution.

### SOURCES AND USES OF FUNDS

The following are the estimated sources and uses of funds in connection with the Bonds:

<b>Sources</b>	<b>2014C Bonds</b>	<b>2014D Bonds</b>
Principal Amount of Bonds		
Net Original Issue Premium		
<b>Total Sources of Funds</b>		
<b>Uses</b>		
Deposit to Project Subaccount		
Deposit to Bond Subaccount		
Oversight Committee		
Underwriter's Discount		
Costs of Issuance*		
<b>Total Uses of Funds</b>		

\* Includes fees for services of rating agencies, Co-Financial Advisors, Co-Bond Counsel, Disclosure Counsel, costs to the City, printing costs, other miscellaneous costs associated with the issuance of the Bonds, and rounding amounts.

### Deposit and Investment of Bond Proceeds

#### *2014C Bonds Proceeds*

Any bid premium received upon the delivery of the 2014C Bonds, and all taxes collected for payment of the 2014C Bonds, will be deposited into a special subaccount established for the payment of the 2014C Bonds. The subaccount was created by the 2014C Resolution specifically for payment of principal of and interest on the 2014C Bonds (the "2014C Bond Subaccount").

All remaining proceeds of the sale of the 2014C Bonds are required to be deposited by the City Treasurer into a special subaccount within the project account created by the City to hold proceeds of the sale of all of the Proposition B (2010) bonds, which proceeds are required to be applied exclusively to the purposes approved by the voters in Proposition B (2010), and to pay costs of issuance of such bonds. See "THE BONDS – Authority for Issuance; Purposes." The subaccount was created by the 2014C Resolution specifically to hold the proceeds of the 2014C Bonds (the "2014C Project Subaccount").

#### *2014D Bonds Proceeds*

Any bid premium received upon the delivery of the 2014D Bonds, and all taxes collected for payment of the 2014D Bonds, will be deposited into a special subaccount established for the payment of the 2014D Bonds. The subaccount was created by the 2014D Resolution specifically for payment of principal of and interest on the 2014D Bonds (the "2014D Bond Subaccount").

All remaining proceeds of the sale of the 2014D Bonds are required to be deposited by the City Treasurer into a special subaccount within the project account created by the City to hold proceeds of the sale of all of the Proposition A (2014) bonds, which proceeds are required to be applied exclusively to the purposes approved by the voters in Proposition A (2014), and to pay costs of issuance of such bonds. See "THE BONDS – Authority for Issuance; Purposes." The subaccount was created by the 2014D Resolution specifically to hold the proceeds of the 2014D Bonds (the "2014D Project Subaccount").

Under the Resolutions, the 2014C Bond Subaccount, the 2014C Project Subaccount, the 2014D Bond Subaccount and the 2014D Project Subaccount may each be invested in any investment of the City in which moneys in the General Fund of the City are invested. The City Treasurer may commingle any of the moneys held in any such account with other City moneys, or deposit amounts credited to such accounts into a separate fund or funds for investment purposes only. All interest earned on any such account will be retained in that account. See APPENDIX C – "CITY AND COUNTY OF SAN FRANCISCO, OFFICE OF THE TREASURER – INVESTMENT POLICY."

A portion of the proceeds of the Bonds will be used to pay certain costs related to the issuance of the Bonds. Up to 0.1% of the proceeds of the Bonds are required to be appropriated to fund the Citizens' General Obligation Bond Oversight Committee, created to oversee various general obligation bond programs of the City. See "THE BONDS – Authority for Issuance; Purposes" herein.





Scheduled debt service payable with respect to the 2014D Bonds is as follows:

**City and County of San Francisco  
General Obligation Bonds  
Series 2014D<sup>(1)(2)</sup>**

<u>Payment Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Principal and Interest</u>	<u>Fiscal Year Total</u>
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**Total**

<sup>(1)</sup> A portion of the debt service will be paid from original issue premium deposited in the 2014D Bond Subaccount relating to the 2014D Bonds. See "SOURCES AND USES OF FUNDS."

<sup>(2)</sup> Amounts are rounded off to the nearest dollar.

## SECURITY FOR THE BONDS

### General

The Board of Supervisors of the City has the power and is obligated, and under the Resolutions has covenanted, to levy *ad valorem* taxes without limitation as to rate or amount upon all property subject to taxation by the City (except certain property which is taxable at limited rates) for the payment of the principal of and interest on the Bonds when due.

At the option of the Board of Supervisors, other available funds of the City that are not restricted by law to specific uses may be used to pay debt service on the Bonds.

### Factors Affecting Property Tax Security for the Bonds

The annual property tax rate for repayment of the Bonds will be based on the total assessed value of taxable property in the City and the scheduled debt service on the Bonds in each year, less any other lawfully available funds applied by the City for repayment of the Bonds. Fluctuations in the annual debt service on the Bonds, the assessed value of taxable property in the City, and the availability of such other funds in any year, may cause the annual property tax rate applicable to the Bonds to fluctuate. Issuance by the City of additional authorized bonds payable from ad valorem property taxes may cause the City's overall property tax rate to increase.

The principal factors that may affect the City's ability to levy and collect sufficient taxes to pay scheduled debt service on the Bonds each year are discussed in detail in APPENDIX A, as referred to below:

***Total Assessed Value of Taxable Property in the City.*** The greater the assessed value of taxable property in the City, the lower the tax rate necessary to generate taxes sufficient to pay scheduled debt service on bonds. Total net assessed valuation of taxable property in the City in fiscal year 2013-14 is approximately \$172.5 billion. During economic downturns, declining real estate values, increased foreclosures, and increases in requests submitted to the Assessor and the Assessment Appeals Board for reductions in assessed value have generally caused a reduction in the assessed value of some properties in the City. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – PROPERTY TAXATION – Assessed Valuations, Tax Rates and Tax Delinquencies."

Natural and economic forces can affect the assessed value of taxable property in the City. The City is located in a seismically active region, and damage from an earthquake in or near the City could cause moderate to extensive or total damage to taxable property. See "Seismic Risks" below. Other natural or manmade disasters, such as flood, fire, toxic dumping or acts of terrorism, could also cause a reduction in the assessed value of taxable property within the City. Economic and market forces, such as a downturn in the Bay Area's economy generally, can also affect assessed values, particularly as these forces might reverberate in the residential housing and commercial property markets. In addition, the total assessed value can be reduced through the reclassification of taxable property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes).

***Concentration of Taxable Property Ownership.*** The more property (by assessed value) owned by any single assessee, the more exposure of tax collections to weakness in that taxpayer's financial situation and ability or willingness to pay property taxes. For fiscal year 2013-14, no single assessee owned more than 0.57% of the total taxable property in the City. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – PROPERTY TAXATION – Tax Levy and Collection."



**Property Tax Rates.** One factor in the ability of taxpayers to pay additional taxes for general obligation bonds is the cumulative rate of tax. The total tax rate per \$100 of assessed value (including the basic countywide 1% rate required by statute) is discussed further in APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – PROPERTY TAXATION – Assessed Valuations, Tax Rates and Tax Delinquencies."

**Debt Burden on Owners of Taxable Property in the City.** Another measure of the debt burden on local taxpayers is total debt as a percentage of taxable property value. Issuance of general obligation bonds by the City is limited under Section 9.106 of the Charter to 3.00% of the assessed value of all taxable real and personal property located within the City's boundaries. For purposes of this provision of the Charter, the City calculates its debt limit on the basis of total assessed valuation net of non-reimbursable and homeowner exemptions. On this basis, the City's gross general obligation debt limit for fiscal year 2013-14 is approximately \$5.17 billion, based on a net assessed valuation of approximately \$172.5 billion. [As of July 1, 2014, the City had outstanding approximately \$1.91 billion in aggregate principal amount of general obligation bonds, which equals approximately 1.11% of the net assessed valuation for fiscal year 2013-14.] *[To be updated.]* See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS."

**Additional Debt; Authorized but Unissued Bonds.** Issuance of additional authorized bonds can cause the overall property tax rate to increase. [As of December 1, 2013, the City had voter approval to issue up to \$750.67 million in additional aggregate principal amount of new bonds payable from *ad valorem* property taxes.] *[To be updated.]* See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO – CAPITAL FINANCING AND BONDS – General Obligation Bonds." In addition, the City expects that it will propose further bond measures to the voters from time to time to help meet its capital needs, quantified in the City's most recent ten-year Capital Plan at \$25.1 billion. See APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES – CAPITAL FINANCING AND BONDS – Capital Plan."

### **City Long-Term Challenges**

The following discussion highlights certain long-term challenges facing the City and is not meant to be an exhaustive discussion of challenges facing the City. Notwithstanding the City's strong economic and financial performance during the recent recovery and despite significant City initiatives to improve public transportation systems, expand access to healthcare and modernize parks and libraries, the City faces several long-term financial challenges and risks described below.

Significant capital investments are proposed in the City's adopted ten-year capital plan. However identified funding resources are below those necessary to maintain and enhance the City's physical infrastructure. As a result, over \$14 billion in capital needs are deferred from the capital plan's ten-year horizon. Over two-thirds of these unfunded needs relate to the City's transportation and waterfront infrastructure, where maintenance investment has lagged for decades. Mayor Edwin Lee has convened a taskforce to recommend funding mechanisms and strategies to bridge a portion of the gaps in the City's transportation needs, but it is likely that significant funding gaps will remain even assuming the identification of significant new funding resources.

In addition, the City faces long term challenges with respect to the management of pension and post-employment retirement obligations. The City has taken significant steps to address long-term unfunded liabilities for employee pension and other post employment benefits, including retiree health obligations, yet significant liabilities remain. The most recent actuarial analyses estimate unfunded actuarial liabilities of almost \$8 billion for these benefits, comprised of \$4.4 billion for retiree health obligations and \$3.4 billion for employee pension benefits. In recent years, the City and voters have adopted significant changes that should mitigate these unfunded liabilities over time, including adoption of lower-cost benefit tiers, increases to employee and employer contribution requirements, and establishment of a trust fund to set-aside funding for

future retiree health costs. The financial benefit from these changes will phase in over time, however, leaving ongoing financial challenges for the City in the shorter term. Further, the size of these liabilities is based on a number of assumptions, including but not limited to assumed investment returns and actuarial assumptions. It is possible that actual results will differ materially from current assumptions, and such changes in investment returns or other actuarial assumptions could increase budgetary pressures on the City.

Lastly, while the City has adopted a number of measures to better position the City's operating budget for future economic downturns, these measures may not be sufficient. Economic stabilization reserves have grown significantly during the last three fiscal years and now exceed pre-recession peaks, but remain below adopted target levels of 10% of discretionary General Fund revenues.

There is no assurance that other challenges not discussed here may become material to investors in the future. For more information, see APPENDIX A – "CITY AND COUNTY OF SAN FRANCISCO ORGANIZATION AND FINANCES" and in APPENDIX B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2013."

### **Seismic Risks**

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

### **Risk of Sea Level Changes and Flooding**

In May 2009, the California Climate Change Center released a final paper, for informational purposes only, which was funded by the California Energy Commission, the California Environmental Protection Agency, the Metropolitan Transportation Commission, the California Department of Transportation and the California Ocean Protection Council. The title of the paper is "The Impacts of Sea-Level Rise on the California Coast." The paper posits that increases in sea level will be a significant consequence of climate change over the next century. The paper evaluated the population, infrastructure, and property at risk from projected sea-level rise if no actions are taken to protect the coast. The paper concluded that significant property is at risk of flooding from 100-year flood events as a result of a 1.4 meter sea level rise. The paper further estimates that the replacement value of this property totals nearly \$100 billion (in 2000 dollars). Two-thirds of this at-risk property is concentrated in San Francisco Bay, indicating that this region is particularly vulnerable to impacts associated with sea-level rise due to extensive development on the margins of the Bay.

A wide range of critical infrastructure, such as roads, hospitals, schools, emergency facilities, wastewater treatment plants, power plants, and wetlands is also vulnerable. Continued development in vulnerable areas will put additional assets at risk and raise protection costs.

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

### **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.

### **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.

## **TAX MATTERS**

*[To be reviewed / updated by Bond Counsel]*

### **Federal Income Tax**

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed with them, and certain other matters. The City has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the City's compliance with the above-referenced covenants, under present law, in the separate opinions of Co-Bond Counsel, interest on the Bonds is excludable from the gross income of their owners for federal income tax purposes, and thus will be exempt from present Federal income taxes based on gross income. Interest on the Bonds is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporation's taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (excluding S Corporations, Regulated Investment Companies, Real Estate Investment Trusts, REMICS and FASITs) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would include all tax exempt interest, including interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Co-Bond Counsel will express no opinion with respect to any such collateral consequences with respect to the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding the collateral consequences arising with respect to the Bonds described in this paragraph.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity, the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond for a price in excess of its stated principal amount at maturity. (Such Bond is referred to as a "Premium Bond"). Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Premium Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a Premium Bond. The amortized bond premium is treated as a reduction in the amount of tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Bond. Investors who purchase a Premium Bond should consult their own tax advisors regarding the amortization of bond premium and its effect on the Premium Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of such Premium Bond.

Owners of Bonds who dispose of Bonds prior to their stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from their issue price, or purchase Bonds subsequent to the initial public offering should consult their own tax advisors as to the federal, state or local tax consequences of such dispositions or purchases.

#### **State and Local Taxes**

In the separate opinions of Co-Bond Counsel, interest on the Bonds is exempt from present California personal income taxes under present California law. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Co-Bond Counsel will express no opinion with respect to any such state and local tax consequences with respect to the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors regarding any state and local tax consequences arising with respect to the Bonds.

## **Basis of Co-Bond Counsel Opinions**

The separate opinions of Co-Bond Counsel to be delivered concurrently with the delivery of the Bonds and the descriptions of the tax law contained in this Official Statement are based on statutes, judicial decisions, regulations, rulings and other official interpretations of law in existence on the date the Bonds are issued. There can be no assurance that such law or those interpretations will not be changed or that new provisions of law will not be enacted or promulgated at any time while the Bonds are outstanding in a manner that would adversely affect the market value or liquidity or the tax treatment of ownership of the Bonds. Co-Bond Counsel have not undertaken to provide advice with respect to any such future changes.

Each of the opinions of Co-Bond Counsel expresses the professional judgment of the attorneys rendering the opinion on the legal issues explicitly addressed in the opinion. By rendering a legal opinion, the opinion giver does not undertake to be an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Rendering an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction.

In rendering their opinions on tax exemption, Co-Bond Counsel will receive and rely upon certifications and representations of facts, calculations, estimates and expectations furnished by the City and others which Co-Bond Counsel will not have verified independently.

## **Risk of Audit**

The Internal Revenue Service ("IRS") conducts a program of audits of issues of tax-exempt obligations to determine whether, in the view of the IRS, interest on such obligations is properly excluded from the gross income of the owners of such obligations for federal income tax purposes. Whether or not the IRS will decide to audit the Bonds cannot be predicted. If the IRS begins an audit of the Bonds, under current IRS procedures, the IRS will treat the City as the taxpayer subject to the audit and the holders of the Bonds may not have the right to participate in the audit proceedings. The fact that an audit of the Bonds is pending could adversely affect the liquidity or market price of the Bonds until the audit is concluded even if the result of the audit is favorable.

## **Legislation**

From time to time, there are legislative proposals pending in the Congress of the United States that, if enacted, could alter or amend the federal tax matters referred to in this section or adversely affect the market price or liquidity of obligations of the character of the Bonds. In some cases, these proposals have included provisions that had a retroactive effective date.

For example, in connection with federal deficit reduction and tax reform efforts, various proposals have been made recently in Congress and by the President which, if enacted in the forms proposed, would subject interest on bonds that is otherwise excludable from gross income for federal income tax purposes, including interest on the Bonds, to a tax payable by certain bondholders that are individuals, estates or trusts with adjusted gross income in excess of certain thresholds.

It cannot be predicted whether or in what form any such proposal might be introduced in Congress or enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation. Co-Bond Counsel will express no opinion regarding any pending or proposed federal tax legislation.

## **Backup Withholding**

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the Bonds, are in most cases required to be reported to the IRS. Additionally, backup withholding

may apply to any such payments to any owner of Bonds who fails to provide an accurate Form W-9 Payers Request for Taxpayer Identification Number, or a substantially identical form, or to any such owner who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

#### **OTHER LEGAL MATTERS**

Certain legal matters incident to the authorization, issuance and sale of the Bonds and with regard to the tax status of the interest on the Bonds (see "TAX MATTERS" herein) are subject to the legal opinions of Schiff Hardin LLP, San Francisco, California, and Amira Jackmon, Attorney at Law, Berkeley, California, Co-Bond Counsel to the City. The signed legal opinions of Co-Bond Counsel, dated and premised on facts existing and law in effect as of the date of original delivery of the Bonds, will be delivered to the initial purchaser of the Bonds at the time of original delivery of the Bonds.

The proposed forms of the legal opinions of Co-Bond 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 them by recirculation of this Official Statement or otherwise will create no implication that Co-Bond Counsel have reviewed or express any opinion concerning any of the matters referred to in the respective opinions subsequent to their date. In rendering their opinions, Co-Bond Counsel will rely upon certificates and representations of facts to be contained in the transcript of proceedings for the Bonds, which Co-Bond Counsel will not have independently verified.

Co-Bond Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

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

Hawkins Delafield & Wood LLP has served as disclosure counsel to the City and in such capacity has advised the City with respect to applicable securities laws and participated with responsible City officials and staff in conferences and meetings where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the statements or information presented in this Official Statement and has not undertaken to independently verify any of such statements or information. Rather, the City is solely responsible for the accuracy and completeness of the statements and information contained in this Official Statement. Upon the delivery of the Bonds, 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 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 Bonds contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. No purchaser or holder of the Bonds, 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.

#### **PROFESSIONALS INVOLVED IN THE OFFERING**

Stifel, Nicolaus & Company, Incorporated, San Francisco, California and TKG & Associates LLC, San Francisco, California, have served as Co-Financial Advisors to the City with respect to the sale of the Bonds. 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 Bonds. 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-Bond Counsel and Disclosure Counsel will all receive compensation from the City for services rendered in connection with the Bonds contingent upon the sale and delivery of the Bonds. The City Treasurer is acting as paying agent and registrar with respect to the Bonds.

### **ABSENCE OF LITIGATION**

No litigation is pending or threatened concerning the validity of the Bonds, the ability of the City to levy the ad valorem tax required to pay debt service on the Bonds, 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 Bonds and other documents and certificates in connection therewith. The City will furnish to the initial purchaser of the Bonds a certificate of the City as to the foregoing as of the time of the original delivery of the Bonds.

### **CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the City (the "Annual Report") not later than 270 days after the end of the City's fiscal year (which currently ends on June 30), commencing with the report for fiscal year 2013-14, which is due not later than March 27, 2015, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the City with the Municipal Securities Rulemaking Board ("MSRB"). The notices of enumerated events will be filed by the City with the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is summarized in APPENDIX D - "FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the purchaser of the Bonds in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). In the last five years, the City has not failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of enumerated events.

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

### **RATINGS**

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("S&P"), and Fitch Ratings ("Fitch"), have assigned municipal bond ratings of "\_\_\_," "\_\_\_," and "\_\_\_," respectively, to the Bonds. Certain information not included in this Official Statement was supplied by the City to the rating agencies to be considered in evaluating the Bonds. The ratings reflect only the views of each rating agency, and any explanation of the significance of any rating may be obtained only from the respective credit rating agencies: Moody's, at [www.moodys.com](http://www.moodys.com); S&P, at [www.sandp.com](http://www.sandp.com); and Fitch, at [www.fitchratings.com](http://www.fitchratings.com). The information presented on the website of each rating agency is not incorporated by reference as part of this Official Statement. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. No assurance can be given that any rating issued by a rating agency will be retained for any given period of time or that the same will not be revised or withdrawn entirely by such rating agency, if in its judgment circumstances so warrant. Any such revision or withdrawal of the ratings obtained may have an adverse effect on the market price or marketability of the Bonds. The City undertakes no responsibility to oppose any such downward revision, suspension or withdrawal.

## SALE OF THE BONDS

The Bonds were sold at competitive bid on \_\_\_\_\_, 2014. The Bonds were awarded to \_\_\_\_\_ (the "Purchaser"), which 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 Bonds if any are purchased, the obligation to make such purchase being subject to the approval of certain legal matters by Co-Bond Counsel, and certain other conditions to be satisfied by the City.

The Purchaser has certified the reoffering prices or yields for the Bonds 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 Bonds is \$ \_\_\_\_\_, and the Purchaser's gross compensation (or "spread") is \$ \_\_\_\_\_. The Purchaser may offer and sell Bonds to certain dealers and others at yields that differ from those stated on the inside cover. The offering prices or yields may be changed from time to time by the Purchaser.

## MISCELLANEOUS

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

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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, 2013**

**APPENDIX C**

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

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$Par Amount]\*  
CITY AND COUNTY OF SAN FRANCISCO  
GENERAL OBLIGATION BONDS  
(EARTHQUAKE SAFETY AND EMERGENCY  
RESPONSE BONDS, 2010),  
SERIES 2014C

\$Par Amount]\*  
CITY AND COUNTY OF SAN FRANCISCO  
GENERAL OBLIGATION BONDS  
(EARTHQUAKE SAFETY AND EMERGENCY  
RESPONSE BONDS, 2014),  
SERIES 2014D

\$[

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City and County of San Francisco (the "City") in connection with the issuance of the bonds captioned above (the "Bonds"). The 2014C Bonds are issued pursuant to Resolution No. 516-10 and Resolution No. \_\_\_-14, adopted by the Board of Supervisors of the City on November 2, 2010 and \_\_\_\_, 2014, respectively, and duly approved by the Mayor of the City on November 5, 2010 and \_\_\_\_, 2014, respectively (together, the "2014C Resolution"). The 2014D Bonds are issued pursuant to Resolution No. \_\_\_-14 and Resolution No. \_\_\_-14, adopted by the Board of Supervisors of the City on \_\_\_\_, 2014 and \_\_\_\_, 2014, respectively, and duly approved by the Mayor of the City on \_\_\_\_, 2014 and \_\_\_\_, 2014, respectively (together, the "2014D Resolution," and with the 2014C Resolution, the "Resolutions"). The City covenants and agrees as follows:

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

**SECTION 2. Definitions.** The following capitalized terms shall have the following meanings:

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

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

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

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

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

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

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

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

### **SECTION 3. Provision of Annual Reports.**

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City's fiscal year (which is June 30), commencing with the report for the 2013-14 Fiscal Year (which is due not later than March 27, 2015), provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is not the City, the City shall provide the Annual Report to the Dissemination Agent not later than 15 days prior to said date. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; *provided*, that if the audited financial statements of the City are not available by the date required above for the filing of the Annual Report, the City shall submit unaudited financial statements and submit the audited financial statements as soon as they are available. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

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

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

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

- (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 schedule of aggregate annual debt service on tax-supported indebtedness of the City; and
- (f) summary of outstanding and authorized but unissued tax-supported indebtedness of the City.

Any or all of the items listed above may be set forth in a document or set of documents, or may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which are available to the public on the MSRB website. If the document included by

reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

**SECTION 5. Reporting of Significant Events.**

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events numbered 1-9 with respect to the Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB) or adverse tax opinions;
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events numbered 10-16 with respect to the Bonds not later than ten business days after the occurrence of the event, if material:

10. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
11. Modifications to rights of Bond holders;
12. Unscheduled or contingent Bond calls;
13. Release, substitution, or sale of property securing repayment of the Bonds;
14. Non-payment related defaults;
15. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
16. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The City shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3, as provided in Section 3(b).

(d) Whenever the City obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the City shall determine if such event would be material under applicable federal securities laws.

(e) If the City learns of the occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall within ten business days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection 5(b)(12) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolutions.

**SECTION 6. Termination of Reporting Obligation.** The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

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

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

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

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

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

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

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

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

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

Date: \_\_\_\_\_, 2014.

CITY AND COUNTY OF SAN FRANCISCO

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Benjamin Rosenfield  
Controller

Approved as to form:

DENNIS J. HERRERA  
CITY ATTORNEY

By: \_\_\_\_\_  
Deputy City Attorney



**CONTINUING DISCLOSURE CERTIFICATE EXHIBIT A**

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

Name of City: CITY AND COUNTY OF SAN FRANCISCO

Name of Bond Issue: CITY AND COUNTY OF SAN FRANCISCO GENERAL OBLIGATION BONDS  
(EARTHQUAKE SAFETY AND EMERGENCY RESPONSE BONDS, 2010)  
SERIES 2014C

Date of Issuance: \_\_\_\_\_, 2014

NOTICE IS HEREBY GIVEN to the Municipal Securities Rulemaking Board that the City has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the City and County of San Francisco, dated \_\_\_\_\_, 2014. 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 1-10 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 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, 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. As used in this appendix, "Securities" means the Bonds, "Issuer" means the City, and "Agent" means the Paying Agent.*

#### **Information Furnished by DTC Regarding its Book-Entry Only System**

1. The Depository Trust Company ("DTC") will act as securities depository for the securities (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 the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.

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 has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://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.

6. Redemption notices shall 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 Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 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 Issuer or Agent, 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, Agent, or Issuer, 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 Issuer or Agent, 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 Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer 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.

#### **Discontinuation of Book-Entry Only System; Payment to Beneficial Owners**

In the event that the book-entry system described above is no longer used with respect to the Bonds, the following provisions will govern the registration, transfer and exchange of the Bonds.

Payment of the interest on any Bond shall be made by check mailed on the interest payment date to the owner at the owner's address as it appears on the registration books described below as of the Record Date (as defined herein).

The City Treasurer will keep or cause to be kept, at the office of the City Treasurer, or at the designated office of any registrar appointed by the City Treasurer, sufficient books for the registration and transfer of the Bonds, which shall at all times be open to inspection, and, upon presentation for such purpose, the City Treasurer shall, under such reasonable regulations as he or she may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided.

Any Bond may, in accordance with its terms, be transferred, upon the registration books described above, by the person in whose name it is registered, in person or by the duly authorized attorney of such person, upon surrender of such Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form approved by the City Treasurer.

Any Bonds may be exchanged at the office of the City Treasurer for a like aggregate principal amount of other authorized denominations of the same interest rate and maturity.

Whenever any Bond or Bonds shall be surrendered for transfer or exchange, the designated City officials shall execute and the City Treasurer shall authenticate and deliver a new Bond or Bonds of the same series, interest rate and maturity, for a like aggregate principal amount. The City Treasurer shall require the payment by any Bond owner requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer or exchange.

No transfer or exchange of Bonds shall be required to be made by the City Treasurer during the period from the Record Date (as defined in this Official Statement) next preceding each interest payment date to such interest payment date or after a notice of redemption shall have been mailed with respect to such Bond.

**APPENDIX F**

**PROPOSED FORM OF OPINIONS OF CO-BOND COUNSEL**

*[To come]*



APPENDIX A

CITY AND COUNTY OF SAN FRANCISCO  
ORGANIZATION AND FINANCES

This Appendix contains information that is current as of December 1, 2013.

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.

TABLE OF CONTENTS

	<u>Page</u>
CITY GOVERNMENT .....	3
City Charter .....	3
Mayor and Board of Supervisors .....	3
Other Elected and Appointed City Officers .....	4
CITY BUDGET .....	5
Overview .....	5
Budget Process .....	5
November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle .....	6
Role of Controller; Budgetary Analysis and Projections .....	7
General Fund Results; Audited Financial Statements .....	7
Five-Year Financial Plan .....	12
City Budget Adopted for Fiscal Years 2013-14 and 2014-15 .....	12
Impact of the State of California Budget on Local Finances .....	13
Impact of Federal Budget Tax Increases and Expenditure Reductions on Local Finances .....	14
Budgetary Reserves and Economic Stabilization .....	14
Rainy Day Reserve .....	14
Budget Stabilization Reserve .....	15
San Francisco Redevelopment Agency Dissolution .....	15
PROPERTY TAXATION .....	18
Property Taxation System – General .....	18
Assessed Valuations, Tax Rates and Tax Delinquencies .....	18
Tax Levy and Collection .....	20
Taxation of State-Assessed Utility Property .....	22
OTHER CITY TAX REVENUES .....	23
Business Taxes .....	23
Transient Occupancy Tax (Hotel Tax) .....	24
Real Property Transfer Tax .....	25
Sales and Use Tax .....	26
Utility Users Tax .....	27
Emergency Response Fee; Access Line Tax .....	27
Parking Tax .....	28

INTERGOVERNMENTAL REVENUES.....	28
1991 Health and Welfare Realignment.....	28
Public Safety Sales Tax.....	29
Other Intergovernmental Grants and Subventions.....	29
Charges for Services.....	29
CITY GENERAL FUND PROGRAMS AND EXPENDITURES.....	29
General Fund Expenditures by Major Service Area.....	29
Baselines.....	30
EMPLOYMENT COSTS; POST-RETIREMENT OBLIGATIONS.....	31
Labor Relations.....	32
San Francisco Employees' Retirement System ("SFERS" or "Retirement System").....	34
Medical Benefits.....	39
Total City Employee Benefits Costs.....	44
INVESTMENT OF CITY FUNDS.....	44
CAPITAL FINANCING AND BONDS.....	47
Capital Plan.....	47
Tax-Supported Debt Service.....	48
General Obligation Bonds Authorized but Unissued.....	49
Lease Payments and Other Long-Term Obligations.....	51
Commercial Paper Program.....	53
Board Authorized and Unissued Long-Term Obligations.....	54
Overlapping Debt.....	54
MAJOR ECONOMIC DEVELOPMENT PROJECTS.....	56
Hunters Point Shipyard (Phase 1 and 2) and Candlestick Point.....	57
Treasure Island.....	57
Piers 30-32 and Seawall Lot (SWL) 330 – Warrior's Multipurpose Recreation and Entertainment Venue.....	58
Transbay.....	58
Mission Bay.....	58
Seawall Lot (SWL) 337 and Pier 48 (Mission Rock).....	59
Pier 70.....	59
Cruise Terminal.....	59
America's Cup.....	60
Moscone Convention Center.....	60
CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES.....	60
Article XIII A of the California Constitution.....	61
Article XIII B of the California Constitution.....	61
Articles XIII C and XIII D of the California Constitution.....	61
Statutory Limitations.....	62
Proposition 1A.....	63
Proposition 22.....	63
Proposition 26.....	64
Future Initiatives.....	64
LITIGATION AND RISK MANAGEMENT.....	65
Pending Litigation.....	65
Risk Retention Program.....	65



## **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 43<sup>rd</sup> 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 Board of Supervisors.

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	2015
David Chiu, <i>Board President, District 3</i>	2008	2017
Katy Tang, <i>District 4</i>	2013	2014
London Breed, <i>District 5</i>	2012	2017
Jane Kim, <i>District 6</i>	2010	2015
Norman Yee, <i>District 7</i>	2012	2017
Scott Wiener, <i>District 8</i>	2010	2015
David Campos, <i>District 9</i>	2008	2017
Malia Cohen, <i>District 10</i>	2010	2015
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 2013, the City adopted a full two-year budget. The City's fiscal year 2013-14 adopted budget appropriates annual revenues, fund balance, transfers, and reserves of approximately \$7.91 billion, of which the City's General Fund accounts for approximately \$3.95 billion. In fiscal year 2014-15 appropriated revenues, fund balance, transfers and reserves total approximately \$7.93 billion and \$4.05 billion of General Fund budget. For a further discussion of the fiscal years 2013-14 and 2014-15 adopted budgets, see "City Budget Adopted for Fiscal Years 2013-14 and 2014-15" 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](http://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 three significant changes:

- Specifies a two-year (biennial) budget, replacing the annual budget. Fixed two-year budgets were approved in July 2012 by the Board of Supervisors for four departments for fiscal year 2012-13 and 2013-14: the Airport, the Port, the Public Utilities Commission, and MTA. All other departments prepared balanced, rolling two-year budgets beginning in fiscal year 2012-13.
- Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The first five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was adopted by the Board of Supervisors on June 7, 2011, and was updated on March 7, 2012. A new five-year financial plan, covering fiscal years 2013-14 through 2017-18 was adopted by the Board of Supervisors on April 10, 2013. See "Five Year Financial Plan" below.
- Standardizes the processes and deadlines for the City to submit labor agreements for all public employee unions by May 15. 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.

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. These policies are described in further detail below. 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 City 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 City 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 City 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 City Controller to issue periodic or special financial reports during the fiscal year. Each year, the City 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 City Controller issued the most recent of these reports, the fiscal year 2012-13 Nine Month Budget Status Report (the "Nine Month Report"), on May 9, 2013. 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 April 10, 2013, the Board of Supervisors approved the City's second Five-Year Financial Plan. For details see "Five Year Financial Plan" below. 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 11, 2013 the Controller released the Discussion of the Mayor's FY 2013-14 and FY 2014-15 Proposed Budget (the "Revenue Letter"). All of these reports are available from the City Controller's website: [www.sfcontroller.org](http://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 2013-14 and 2014-15 Original Budgets total \$3.95 billion, and \$4.05 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 2009-10 through 2012-13 and the Original Budgets for fiscal years 2013-14 through 2014-15. 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 2012-13 was issued on November 27, 2013. The fiscal year 2012-13 CAFR reported that as of June 30, 2013, the General Fund available for appropriation in subsequent years was \$240.4 million (see Table A-4), of which \$122.7 million was assumed in the fiscal year 2013-14 Original Budget and \$111.6 million was assumed in the fiscal year 2014-15 Original Budget, and \$6.1 million remains available for future appropriations. This represents a \$20.1 million increase in available fund balance over the \$220.3 million available as of June 30, 2012 and resulted primarily from savings and greater-than-budgeted additional tax revenue,

particularly property tax and state realignment revenues, in fiscal year 2012-13. In addition to this available year-end General Fund balance, the City's Rainy Day Reserve Economic Stabilization Account totaled \$23.3 million.

TABLE A-2

**CITY AND COUNTY OF SAN FRANCISCO**  
**Budgeted General Fund Revenues and Appropriations for**  
**Fiscal Years 2009-10 through 2014-15**  
(000s)

	FY 2009-10 Final Revised Budget	FY 2010-11 Final Revised Budget	FY 2011-12 Final Revised Budget	FY 2012-13 Final Revised Budget	FY 2013-14 Original Budget <sup>2,3</sup>	FY 2014-15 Original Budget <sup>2</sup>
Prior-Year Budgetary Fund Balance & Reserves	\$390,512	\$312,040	\$427,886	\$557,097	\$156,426	\$129,329
<b>Budgeted Revenues</b>						
Property Taxes	\$1,021,015	\$984,843	\$1,028,677	\$1,078,083	\$1,153,417	\$1,220,417
Business Taxes	371,848	342,350	389,878	452,806	532,988	564,180
Other Local Taxes	456,140	528,470	602,455	733,295	846,924	869,812
Licenses, Permits and Franchises	25,138	23,242	24,337	25,332	23,061	25,533
Fines, Forfeitures and Penalties	11,662	3,794	7,710	7,194	9,097	9,435
Interest and Investment Earnings	10,984	9,547	6,050	6,776	10,946	11,010
Rents and Concessions	19,884	22,346	22,894	21,424	25,534	20,597
Grants and Subventions	686,058	681,090	679,486	721,967	780,936	782,440
Charges for Services	146,680	145,443	153,678	168,963	177,048	177,805
Other	21,713	30,929	19,232	24,844	14,301	21,175
<b>Total Budgeted Revenues</b>	<b>\$2,771,122</b>	<b>\$2,772,054</b>	<b>\$2,934,397</b>	<b>\$3,240,685</b>	<b>\$3,574,252</b>	<b>\$3,702,404</b>
Bond Proceeds & Repayment of Loans	1,725	785	589	627	1,105	760
<b>Expenditure Appropriations</b>						
Public Protection	\$954,816	\$951,516	\$991,840	\$1,058,324	\$1,130,932	\$1,155,085
Public Works, Transportation & Commerce	44,276	25,763	53,878	68,351	80,797	111,993
Human Welfare & Neighborhood Development	657,274	650,622	677,953	670,958	700,254	717,018
Community Health	481,805	513,625	573,970	635,960	701,978	702,791
Culture and Recreation	93,755	100,043	99,762	105,580	119,579	115,632
General Administration & Finance	174,907	178,709	190,014	190,151	244,591	248,135
General City Responsibilities <sup>1</sup>	96,336	88,755	99,274	86,527	96,975	102,802
<b>Total Expenditure Appropriations</b>	<b>\$2,503,169</b>	<b>\$2,509,032</b>	<b>\$2,686,691</b>	<b>\$2,815,852</b>	<b>\$3,075,105</b>	<b>\$3,153,456</b>
Budgetary reserves and designations, net	\$16,653	\$6,213	\$11,112	\$4,191	\$69,883	\$50,121
Transfers In	\$94,678	\$119,027	\$160,187	\$195,388	\$217,982	\$214,792
Transfers Out	(564,945)	(504,740)	(567,706)	(646,018)	(804,777)	(843,708)
<b>Net Transfers In/Out</b>	<b>(\$470,267)</b>	<b>(\$385,713)</b>	<b>(\$407,519)</b>	<b>(\$450,630)</b>	<b>(\$586,795)</b>	<b>(\$628,916)</b>
<b>Budgeted Excess (Deficiency) of Sources</b>						
Over (Under) Uses	\$173,270	\$183,921	\$257,550	\$527,736	\$0	\$0
Variance of Actual vs. Budget	138,770	243,965	299,547	146,901		
<b>Total Actual Budgetary Fund Balance<sup>3</sup></b>	<b>\$312,040</b>	<b>\$427,886</b>	<b>\$557,097</b>	<b>\$674,637</b>	<b>\$0</b>	<b>\$0</b>

<sup>1</sup> 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.

<sup>2</sup> FY 2013-14 and FY 2014-15 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the previous year's Final Revised Budget.

<sup>3</sup> Total Actual Budgetary Fund Balance for FY 2013-14 will be available upon release of the FY 2013-14 Final Revised Budget in the CAFR.

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, 2013 was \$540.9 million (as shown in Table A-3 and Table A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of \$3.3 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, 2009 through June 30, 2013.

TABLE A-3

**CITY AND COUNTY OF SAN FRANCISCO**  
**Summary of Audited General Fund Balances**  
**Fiscal Year Ended June 30<sup>1</sup>**  
**(000s)**

	2009	2010	2011	2012	2013
Restricted for rainy day (Economic Stabilization account)	\$98,297	\$39,582	\$33,439	\$31,099	\$23,329 <sup>2</sup>
Restricted for rainy day (One-time Spending account)	-	-	-	3,010	3,010 <sup>2</sup>
Committed for budget stabilization (citywide)	-	-	27,183	74,330	121,580
Committed for Recreation & Parks expenditure savings reserve	6,575	4,677	6,248	4,946	15,907 <sup>2</sup>
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	65,902	69,562	57,846	62,699	74,815 <sup>2</sup>
Assigned for appropriation carryforward	91,075	60,935	73,984	85,283	112,327 <sup>2</sup>
Assigned for baseline appropriation funding mandates	-	-	-	-	- <sup>2</sup>
Assigned for budget savings incentive program (citywide)	-	-	8,684	22,410	24,819 <sup>2</sup>
Assigned for salaries and benefits (MOU)	316	4,198	7,151	7,100	6,338 <sup>2</sup>
Assigned for litigation	-	-	-	-	- <sup>2</sup>
Total Fund Balance Not Available for Appropriation	\$262,165	\$178,954	\$214,535	\$290,877	\$382,125 <sup>3</sup>
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies	\$32,900	\$27,758	\$44,900	\$23,637	\$30,254 <sup>4</sup>
Assigned for General reserve	-	-	-	\$22,306	\$21,818
Assigned for subsequent year's budget	95,447	105,328	159,390	104,284	122,689 <sup>5</sup>
Unassigned (available for future appropriation)	-	-	9,061	115,993	117,751
Total Fund Balance Available for Appropriation	\$128,347	\$133,086	\$213,351	\$266,220	\$292,512 <sup>6</sup>
Total Fund Balance, Budget Basis	\$390,512	\$312,040	\$427,886	\$557,097	\$674,637
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$390,512	\$312,040	\$427,886	\$557,097	\$674,637
Unrealized gain or loss on investments	(1,148)	1,851	1,610	6,838	(1,140)
Nonspendable fund balance	11,307	14,874	20,501	19,598	23,854 <sup>7</sup>
Cumulative Excess Property Tax Revenues Recognized on Budget Basis	(56,426)	(71,967)	(43,072)	(46,140)	(38,210)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(37,940)	(55,938)	(63,898)	(62,241)	(93,910)
Deferred Amounts on Loan Receivables	(4,630)	(9,082)	(13,561)	(16,551)	(20,067)
Pre-paid lease revenue	-	-	(1,460)	(2,876)	(4,293)
Total Fund Balance, GAAP Basis	\$301,675	\$191,778	\$328,006	\$455,725	\$540,871

<sup>1</sup> 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.

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

<sup>3</sup> Prior to 2011, titled "Total Reserved Fund Balance"

<sup>4</sup> Prior to 2011, titled "Designated for litigation and contingencies"

<sup>5</sup> Prior to 2011, titled "Unreserved, undesignated fund balance available for appropriation"

<sup>6</sup> Prior to 2011, titled "Total Unreserved Fund Balance"

<sup>7</sup> Prior to 2011, titled "Reserved for Assets Not Available for Appropriation"

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

Table A-4, entitled "Audited Statement of Revenues, Expenditures and Changes in General Fund Balances," is extracted from information in the City's CAFR for the five most recent fiscal years. Audited financial statements for the fiscal year ended June 30, 2013 are included herein as Appendix B – "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2013." 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 30<sup>1</sup>**  
**(000s)**

	2009	2010	2011	2012	2013
<b>Revenues:</b>					
Property Taxes	\$999,528	\$1,044,740	\$1,090,776	\$1,056,143	\$1,122,008
Business Taxes <sup>2</sup>	387,313	353,471	391,057	435,316	479,627
Other Local Taxes	479,194	520,733	608,197	751,301	756,346
Licenses, Permits and Franchises	24,750	24,249	25,252	25,022	26,273
Fines, Forfeitures and Penalties	5,618	17,279	6,868	8,444	6,226
Interest and Investment Income	9,193	7,900	5,910	10,262	2,125
Rents and Concessions	19,096	18,733	21,943	24,932	35,273
Intergovernmental	645,365	651,074	657,238	678,808	720,625
Charges for Services	135,926	138,615	146,631	145,797	164,391
Other	11,199	21,856	10,377	17,090	14,142
<b>Total Revenues</b>	<b>\$2,717,182</b>	<b>\$2,798,650</b>	<b>\$2,964,249</b>	<b>\$3,153,115</b>	<b>\$3,327,036</b>
<b>Expenditures:</b>					
Public Protection	\$889,594	\$948,772	\$950,548	\$991,275	\$1,057,451
Public Works, Transportation & Commerce	61,812	40,225	25,508	52,815	68,014
Human Welfare and Neighborhood Development	630,112	632,713	610,063	626,194	660,657
Community Health	487,638	473,280	493,939	545,962	634,701
Culture and Recreation	97,415	94,895	99,156	100,246	105,870
General Administration & Finance	170,109	169,980	175,381	182,898	186,342
General City Responsibilities	73,904	87,267	85,422	96,132	81,657
<b>Total Expenditures</b>	<b>\$2,410,584</b>	<b>\$2,447,132</b>	<b>\$2,440,017</b>	<b>\$2,595,522</b>	<b>\$2,794,692</b>
Excess of Revenues over Expenditures	\$306,598	\$351,518	\$524,232	\$557,593	\$532,344
<b>Other Financing Sources (Uses):</b>					
Transfers In	\$136,195	\$94,115	\$108,072	\$120,449	\$195,272
Transfers Out	(550,910)	(559,263)	(502,378)	(553,190)	(646,912)
Other Financing Sources	4,157	3,733	6,302	3,682	4,442
Other Financing Uses	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(\$410,558)</b>	<b>(\$461,415)</b>	<b>(\$388,004)</b>	<b>(\$429,059)</b>	<b>(\$447,198)</b>
Extraordinary gain/(loss) from dissolution of the Redevelopment Agency				(815)	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(\$103,960)	(\$109,897)	\$136,228	\$127,719	\$85,146
<b>Total Fund Balance at Beginning of Year</b>	<b>405,635</b>	<b>\$301,675</b>	<b>\$191,778</b>	<b>\$328,006</b>	<b>\$455,725</b>
<b>Total Fund Balance at End of Year -- GAAP Basis<sup>4</sup></b>	<b>\$301,675</b>	<b>\$191,778</b>	<b>\$328,006</b>	<b>\$455,725</b>	<b>\$540,871</b>
<b>Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End</b>					
-- GAAP Basis	\$28,203	(\$2,050)	\$48,070	\$133,794	\$135,795 <sup>3</sup>
-- Budget Basis	\$95,447	\$105,328	\$168,451	\$220,277	\$240,410 <sup>4</sup>

<sup>1</sup> 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).

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

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

<sup>4</sup> 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.

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. The first Five-Year Financial Plan, covering fiscal years 2011-12 through 2015-16, was prepared by the Mayor's Office and Controller's Office in collaboration with City departments and adopted by the Board of Supervisors on June 7, 2011 and updated on March 7, 2012.

The Five-Year Financial Plan for fiscal year 2013-14 through 2017-18 was approved by the Board of Supervisors on April 2, 2013. For General Fund Supported Operations for fiscal year 2013-14 through fiscal year 2017-18, the Plan projected budgetary shortfalls of \$124 million, \$256 million, \$368 million, \$423 million and \$487 million over the next five fiscal years. The \$487 million projected shortfall is a significant improvement from the first Five-Year Financial Plan which in 2011 projected a five-year shortfall of \$829 million. This Plan projected continued recovery in local tax revenues. However, projected increases in employee salary and benefits, citywide operating expenses, and departmental costs are rising faster than projected revenue growth. To the extent budgets are balanced with ongoing savings or revenues, future shortfalls will decrease.

The fiscal year 2013-14 and fiscal year 2014-15 budget approved by the Board of Supervisors on July 23, 2013, closed budget gaps identified in the Five Year Financial Plan. Strategies used to balance the budget are discussed in the budget section below. To the extent that the Mayor's budget is balanced with ongoing savings or revenues, this will reduce the projected deficits for subsequent fiscal years.

The City currently projects revenue growth of \$578 million over the five-year period of this Plan, and expenditure growth of \$1.065 billion. Employee pension costs, wages and other benefit growth are the single largest driver of cost growth and the imbalance between revenues and expenditures, growing by \$459 million, 43% of the total expenditure growth, during the five years of the plan. Other costs projected to increase include: Citywide Operating Costs (\$298 million, 28% of expenditure growth), Department of Public Health specific cost increases (\$133 million, 13%), Charter Mandated Baseline and Reserve Changes (\$118 million, 11%), and Other Department Specific Cost Increases (\$57 million, 5%).

The Plan proposes the following strategies to restore fiscal stability: controlling capital spending and debt restructuring; controlling wage and benefit costs; additional tax and fee revenues; adjustments to baselines and revenue allocations; limiting growth in contract and materials costs; reduced reliance on non-recurring revenues and savings; and ongoing departmental revenues and savings initiatives.

### **City Budget Adopted for Fiscal Years 2013-14 and 2014-15**

On July 24, 2013, Mayor Lee signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for fiscal years ending June 30, 2014 and June 30, 2015. This is the second two-year budget for the entire City. The Controller's Office issued its required Controller's Discussion of the Mayor's fiscal year 2013-14 and fiscal year 2014-15 Proposed Budget on June 11, 2013. The Mayor's budget closed the \$124 million and \$256 million general fund shortfalls for fiscal year 2013-14 and fiscal year 2014-15 identified in the Five Year Financial Plan through a combination of (a) net citywide revenue increases of \$91 million and \$83 million, respectively; (b) a net Citywide expenditure increase of \$6 million in fiscal year 2013-14 for capital projects, followed by Citywide expenditure savings of \$60 million in fiscal year 2014-15, both made possible in part by lower than expected health costs and improved pension system returns; (c) one-time revenues of \$28 million and \$13 million, respectively; (d) departmental savings totaling \$11 million and \$47 million respectively, the largest component of which was securing alternative sources for furniture, fixtures and equipment for the new San Francisco General Hospital building (\$17 million and \$34 million), and (e) cost savings of \$53 million in fiscal year 2014-15 made up of \$33 million in reduced funding for growth in contracts and \$20 million of deferred education enrichment fund allocations to the San Francisco Unified School District and First Five Commission.

On June 27, 2013 the Board of Supervisors Budget and Finance Committee unanimously approved the Mayor's proposed budget with minor revisions totaling \$25 million in fiscal year 2013-14 and \$15.4 million in fiscal year

2014-15. The revisions in fiscal year 2013-14 were funded by \$10.1 million in Committee reductions to the Mayor's budget and \$15 million of additional sources identified by the Mayor, including \$7.5 million in additional expenditure savings identified from fiscal year 2012-13 and \$3.6 million in additional expenditure savings in fiscal year 2013-14, \$1.4 million in additional fiscal year 2012-13 property tax revenue above the amount required to be deposited in the Budget Stabilization Reserve and to fund baseline transfers, \$1.4 million in leftover funds in the budget's technical adjustment reserve and \$1 million from Consumer Protection funds.

The Original Budget for fiscal years 2013-14 and 2014-15 totals \$7.91 billion and \$7.93 billion respectively, representing increases over prior year of \$554 million and \$23 million. The General Fund portion of each year's budget is \$3.95 billion in fiscal year 2013-14 and \$4.05 billion in fiscal year 2014-15 representing consecutive increases of \$463 million and \$98 million. There are 27,669 funded full time positions in the fiscal year 2013-14 Original Budget and 27,850 in the fiscal year 2014-15 Original Budget representing increases of 813 and 181, respectively.

The budget for fiscal years 2013-14 and 2014-15 adheres to the City's policy limiting the use of certain nonrecurring revenues to nonrecurring expenses proposed by the Controller's Office and approved unanimously by the Board of Supervisors on November 22, 2011. The policy was approved by the Mayor on December 1, 2011 and can only be suspended for a given fiscal year by a two-thirds vote of the Board. Specifically, this policy limited the Mayor and Board's ability to use for operating expenses the following nonrecurring revenues: extraordinary year-end General Fund balance (defined as General Fund prior year unassigned fund balance before deposits to the Rainy Day Reserve or Budget Stabilization Reserve in excess of the average of the previous five years), the General Fund share of revenues from prepayments provided under long-term leases, concessions, or contracts, otherwise unrestricted revenues from legal judgments and settlements, and other unrestricted revenues from the sale of land or other fixed assets. Under the policy, these nonrecurring revenues may only be used for nonrecurring expenditures that do not create liability for or expectation of substantial ongoing costs, including but not limited to: discretionary funding of reserves, acquisition of capital equipment, capital projects included in the City's capital plans, development of affordable housing, and discretionary payment of pension, debt or other long term obligations.

### **Impact of the State of California Budget on Local Finances**

The State continues its slow economic recovery. Revenues from the State represent approximately 21.5% of the General Fund revenues appropriated in the fiscal year 2013-14 Original Budget, and thus changes in State revenues could have a significant impact on the City's finances. In a typical year, the Governor releases two primary proposed budget documents: 1) the Governor's Proposed Budget required to be submitted in January; and 2) the "May Revise" to the Governor's Proposed Budget. The Governor's Proposed Budget is then considered and typically revised by the State Legislature. Following that process, the State Legislature adopts, and the Governor signs, the State budget. City policy makers review and estimate the impact of both the Governor's Proposed and May Revise Budgets prior to the City adopting its own budget.

On June 27, 2013, Governor Brown signed the 2013-14 California State budget into law. In contrast to recent budgets, which closed multibillion dollar shortfalls, spending in fiscal year 2013-14 is set to increase by 3 percent over fiscal year 2012-13, including a \$1.1 billion reserve, due to voter-approved tax increases, economic recovery and prior reductions. The City's Original Budget for fiscal years 2013-14 and 2014-15 does not include the allowance for unallocated State funding reductions deemed necessary in budgets for fiscal years 2009-10 through 2012-13. The largest source of uncertainty in the City's budget is related to the implementation of national health care reform (the Affordable Care Act, or ACA). The State's fiscal year 2013-14 budget includes a \$300 million reduction in funding for indigent health care to counties to reflect the expected enrollment of over one million additional adults in Medi-Cal beginning in January, 2014, of which San Francisco's share is \$17 million. The timing and extent to which reduced subventions will be made up 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.

## **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 City is currently reviewing the budget and the projected financial impact to the City is unknown at this time.

### **Budgetary Reserves and Economic Stabilization**

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 one percent 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 required starting balance of the General Reserve was \$32.2 million in fiscal year 2012-13 and is \$44.7 million and \$55.5 million in fiscal years 2013-14 and 2014-15 respectively.

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 (\$13.1 million in fiscal year 2013-14 and \$13.5 million in fiscal year 2014-15), and the Litigation Reserve (\$11.0 million in each year). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

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

#### **Rainy Day Reserve**

In November 2003, City voters approved the creation of the City's Rainy Day Reserve into which the previous Charter-mandated cash reserve was incorporated. Charter Section 9.113.5 requires that if the City 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 2011-12 revenue exceeded the deposit threshold, resulting in a \$6.0 million deposit to the Rainy Day Reserve Economic Stabilization account and a \$3.0 million deposit to the One-Time Capital Expenditures account. The deposit threshold was not exceeded in fiscal year 2012-13 and the fiscal year 2013-14 and 2014-15 budgets do not anticipate deposits to the 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. Moneys 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). Moneys in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. Except for the transfer to SFUSD described below, no draw from the Rainy Day Reserve is budgeted in fiscal years 2013-14 and 2014-15.

If the City 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 2012-13 ending balance of this account was \$23.3 million. The fiscal year 2013-14 and 2014-15 budgets include allocations of \$5.8 million and \$4.4 million, respectively, to the SFUSD. Assuming no other withdrawals or deposits, this would leave a balance remaining in the Rainy Day Reserve at the end of fiscal year 2014-15 of \$13.1 million.

On April 13, 2010, the Board of Supervisors unanimously approved the City 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 and the Budget Stabilization Reserve described below.

### **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 to the new reserve, including Real Property Transfer Tax 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.

The fiscal year 2012-13 ending balance in the reserve was \$121.6 million, an increase of \$47.3 million from the prior year end and \$19.1 million greater than the Nine-Month Report projected ending balance of \$102.5 million, due to fund balance above that appropriated in the subsequent years' budgets. In addition, the Original Budget assumes transfer tax revenue will be above the prior five year adjusted average in both fiscal years 2013-14 and 2014-15, resulting in reserve deposits of \$16.0 million and \$14.4 million, respectively.

The maximum combined value of the Rainy Day Reserve and the Budget Stabilization Reserve is 10% of General Fund revenues, which would be approximately \$357 million for fiscal year 2013-14 based on fiscal year 2013-14 Original Budget. 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.

### **San Francisco Redevelopment Agency Dissolution**

On February 1, 2012, the San Francisco Redevelopment Agency (the "SFRDA") ceased to exist by operation of law as a result of Assembly Bill No. X1 26 (Chapter 5, Statutes of 2011-12, First Extraordinary Session) ("AB 26"), and a California Supreme Court decision described below. AB 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statute of 2011-12) ("AB 1484" and together with AB 26, the "Dissolution Act").

The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency under the Community Redevelopment Law that have not been repealed, restricted or revised pursuant to AB 26 will be vested in the successor agency. The successor agency for each redevelopment agency is generally the county or city that authorized the creation of the redevelopment agency. On January 26, 2012 the City adopted a Board of Supervisors resolution providing for the City to become the successor agency to the SFRDA (the "Successor SFRDA"). The resolution also approved the retention by the City of all the affordable housing assets of the SFRDA (including encumbered funds in the Low and Moderate Income Housing Fund) and authorized the Mayor's Office of Housing

to manage the housing assets and exercise the housing functions that the SFRDA formerly performed. The resolution places most of the non-housing assets of the SFRDA under the jurisdiction of the Director of the Department of Administrative Services.

Pursuant to AB 1484, the Successor SFRDA is a separate public agency from the City, and the assets and liabilities of the former SFRDA will not be transferred to the City. The Successor SFRDA will succeed to the organizational status of the former SFRDA, but without any legal authority to participate in redevelopment activities, except in connection with approved enforceable obligations as provided in the Dissolution Act. In general, the debt of the former SFRDA will become the debt of the Successor SFRDA as the SFRDA's successor agency. Such debt will be payable only from the property tax revenues (former tax increment) or other revenue sources that originally secured such debt. The Dissolution Act does not provide for any new sources of revenue, including general fund revenues of the City, for any SFRDA bonds.

There are significant uncertainties regarding the meaning of certain provisions of the Dissolution Act and the impact of the Dissolution Act on the City, including, among other matters, the obligation imposed on the City in performing its duties as Successor SFRDA, performing the enforceable obligations as Successor SFRDA, paying the debt of the former SFRDA as Successor SFRDA and completing certain projects of the former SFRDA. Future legislation and court decisions may clarify some of these uncertainties. There is also uncertainty about how the City may pursue certain community development goals that the former SFRDA undertook and that are not covered by enforceable obligations, and the City's use of alternative funding sources for projects and programs to pursue such goals.

The total General Fund impact of the dissolution will depend on State decisions regarding the use of tax increment in redevelopment project areas. The State may or may not allow the redevelopment successor agency to retain cash balances to meet contractual obligations for affordable housing and infrastructure improvements. Property tax revenue estimates in the proposed Five Year Financial Plan assume tax increment is used for debt service, to meet obligations made to developers, and approximately \$3.4 million annually for non-debt service uses, resulting in residual tax increment available to be distributed to the taxing entities of approximately \$25.6 million in fiscal year 2013-14, rising to approximately \$42.3 million in fiscal year 2017-18, of which just under 57% would be allocated to the General Fund. This amount could increase depending on uses allowed by the State.

Although uncertainty remains, the State Department of Finance (DOF) has completed reviews of two funds held by the Successor Agency to the San Francisco Redevelopment Agency (the Office of Community Infrastructure and Investment, or OCII). DOF's December 14, 2012 review of the Low and Moderate Income Housing Fund (LMIHF) required \$106.9 million to be surrendered and distributed to taxing entities, and its April 1, 2013 review of the Other Assets Fund (OAF) required \$204.2 million to be surrendered. These amounts were substantially reduced upon appeal by the OCII, and on May 31, 2013, Successor SFRDA remitted \$10.6 million of LMIHF and \$1.0 million of OAF balances, resulting in a total increase of property tax revenue to the City of \$7.5 million, of which \$6.5 million accrued to the General Fund.

On May 29, 2013, the DOF granted a Finding of Completion for the Successor SFRDA. Pursuant to Health and Safety Code (HSC) section 34179.7, the DOF verified that the Successor SFRDA does not owe any amounts to the taxing entities as determined under HSC section 34179.6, subdivisions (d) or (e) and HSC section 34183.5. In addition, the receipt of the Finding of Completion allows the Successor SFRDA to submit a Long Range Property Management Plan ("LRPMP") to the Oversight Board and the DOF for approval. The LRPMP addresses the disposition and use of real properties held by the Successor Agency and must be submitted within six months of receipt of the Finding of Completion. Part 1 of the LRPMP was approved by the DOF on October 4, 2013. The Oversight Board approved Part 2 of the LRPMP on November 25, 2013 and has submitted it to DOF.

#### *AB 26 and Supreme Court Decision*

On December 29, 2011 the California Supreme Court issued its decision in *California Redevelopment Association v. Matosantos* (No. S194861) ("Matosantos") regarding the constitutionality of two budget bills involving redevelopment, AB 26 and ABX1 27 (Chapter 6, Statutes of 2011-12, First Extraordinary Session) ("AB 27"). AB 26 dissolved all redevelopment agencies, and designated "successor agencies" with certain powers and duties. AB 27 would have allowed a redevelopment agency to continue to exist, notwithstanding AB 26, if the city or county

that created the redevelopment agency made certain payments for the benefit of the local schools and other taxing entities. In *Matosantos* the Court upheld AB 26 requiring the dissolution of redevelopment agencies and the transfer of assets and obligations to successor agencies, but invalidated AB 27. The *Matosantos* decision also modified various deadlines for the implementation of AB 26.

As a consequence of the *Matosantos* decision, all California redevelopment agencies, including the former SFRDA, dissolved by operation of law on February 1, 2012. All property tax revenues that would have been allocated to redevelopment agencies, including the former SFRDA, will be allocated to the applicable Redevelopment Property Tax Trust Fund created by the County Auditor-Controller for the "successor agency." Such funds are to be used for payments on indebtedness and other "enforceable obligations" (as defined in the Dissolution Act), and to pay certain administrative costs and any amounts in excess of that amount are to be considered property taxes that will be distributed to taxing agencies.

The Dissolution Act requires successor agencies, such as the Successor SFRDA, to continue to make payments and perform other obligations required under enforceable obligations for former redevelopment agencies. AB 26 defines "enforceable obligations" to include bonds, loans, legally required payments, judgments or settlements, legally binding and enforceable agreements and certain other obligations. The Dissolution Act generally excludes from the definition of enforceable obligations any loans or agreements solely between a redevelopment agency and the city or county that created the agency. It also excludes any agreements that are void as violating the debt limit or public policy. Payment and performance of enforceable obligations is subject to review by oversight boards and by the State Controller and State Department of Finance.

The Dissolution Act expressly limits the liabilities of a successor agency in performing duties under the Dissolution Act to the amount of property tax revenues received by such successor agency under the Dissolution Act (generally equal to the amount of former tax increment received by the former redevelopment agency) and the assets of the former redevelopment agency. The Dissolution Act does not provide for any new sources of revenue, including general fund revenues of the City, for any SFRDA bonds (but as discussed below, the City's costs of performing its obligations under AB 26 and of pursuing the economic development goals of the former SFRDA are uncertain and could be significant).

The Oversight Board and the Department of Finance has approved the ROPS for July 1, 2013 to December 31, 2013.

#### *Impact of Dissolution Act and Information concerning SFRDA*

Although provisions have been made under the Dissolution Act to provide funds (i.e. property tax revenues) to continue certain enforceable obligations of the Successor SFRDA, the costs of performing its duties under the Dissolution Act, including performing all enforceable obligations of the former SFRDA, and pursuing community development goals that the former SFRDA undertook and that are not covered by enforceable obligations are uncertain, and could impose significant costs on the City's general fund not offset by property tax revenues.

The provisions of the Dissolution Act are unclear as to numerous aspects of the operations and finances of the Successor SFRDA, including but not limited to the administration of enforceable obligations (including bonds), the flow and uses of tax increment moneys and the disposition of SFRDA assets. Therefore, there are significant uncertainties regarding the finances and operations of the Successor SFRDA entity and administration of its bonds once the City became the successor agency to the SFRDA. Interpretations and clarification of AB 26 are likely to come from future State legislation or administrative guidance and court decisions. At present, the City cannot predict many aspects or the overall outcome of AB 26 on the City's finances and the SFRDA bonds; however it is likely that at least certain aspects of the implementation of AB 26 may materially impact the finances of the City and may materially impact the SFRDA bonds. Further, future redevelopment and housing activities in the City that would have been undertaken by the SFRDA had it continued in existence will no longer occur if they are not required under preexisting enforceable obligations.

In its audited financial statement for the year ended June 30, 2013, the City included financial information pertaining to the Successor SFRDA in the City's audited financial statements. The Successor SFRDA also prepares its own financial statements.

## 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 30<sup>th</sup>, 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-25: "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 SFRDA (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 SFRDA received \$114 million of property tax increment in fiscal year 2012-13, diverting about \$65 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) has increased slightly from 98.18% for fiscal year 2011-12 to 98.65% for fiscal year 2012-13. 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 363 for fiscal year 2012-13 compared to 802 for fiscal year 2011-12, 927 in fiscal year 2010-11, 901 in fiscal year 2009-10, and 633 in fiscal year 2008-09. This represents 0.18%, 0.32%, 0.45%, 0.46%, and 0.40%, respectively, of total parcels in such fiscal years.



TABLE A-5

**CITY AND COUNTY OF SAN FRANCISCO**  
**Assessed Valuation of Taxable Property**  
**Fiscal Years 2008-09 through 2013-14**  
**(\$000s)**

Fiscal Year	Net Assessed Valuation (NAV) <sup>1</sup>	% Change from Prior Year	Total Tax Rate per \$100 <sup>2</sup>	Total Tax Levy <sup>3</sup>	Total Tax Collected <sup>3</sup>	% Collected June 30
2009-10	150,233,436	6.3%	1.159	1,808,505	1,764,100	97.54%
2010-11	157,865,981	5.1%	1.164	1,888,048	1,849,460	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	2,049,172	n/a	n/a

<sup>1</sup> Based on Certificate of Assessed Valuation dated as of August 15, 2013. Net Assessed Valuation (NAV) is Total Assessed Value for Secured and Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

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

<sup>3</sup> The Total Tax Levy and Total Tax Collected through FY 2012-13 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported on Treasurer/Tax Collector Report 100 and reported to the State of California (available on the website of the California State Controller's Office). Total Tax Levy for FY 2013-14 is based on NAV times the 1.1880% 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.

For fiscal year 2013-14, the total net assessed valuation of taxable property within the City is \$172.5 billion. Of this total, \$162.6 billion (94.3%) represents secured valuations and \$9.87 billion (5.7%) 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. With respect to the fiscal year 2012-13 levy, property owners representing approximately 18.2% of the total assessed valuation in the City filed appeals for a reduction of their assessed value.

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 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 2007-08 through 2012-13 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, 2009	\$7,288
June 30, 2010	14,015
June 30, 2011	41,730
June 30, 2012	53,288
June 30, 2013	36,744

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

As of July 1, 2013, the Assessor granted 18,409 temporary reductions in property assessed values worth a total of \$2.02 billion (equating to a reduction of about \$11.4 million in discretionary general fund taxes), compared to 21,228 temporary reductions with a value of \$2.82 billion (equating to a reduction of about \$16.0 million in discretionary general fund taxes) granted in Spring 2012. The fiscal year 2013-14 \$2.02 billion temporary reduction total represented 1.17% of the fiscal year 2013-14 Net Assessed Valuation of \$172.49 billion shown in Table A-5. The average temporary reduction in assessed value granted, excluding timeshare properties, decreased from \$175,980 in 2012 to \$151,559 in 2013. 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 2<sup>nd</sup> and September 15<sup>th</sup>.

As of June 30, 2013, the total number of open appeals before the Assessment Appeals Board (AAB) was 7,421, compared to 7,729 open AAB appeals as of June 30, 2012, including 5,500 filed since July 1, 2012 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 \$42.3 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all of the taxpayers' requests, this represents a negative potential property tax impact of \$488.6 million with an impact on the discretionary general fund of about \$239.4 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 2013-14 is estimated to produce \$2.05 billion, not including supplemental, escape, and special assessments that may be assessed during the year. Of this amount, the City has budgeted to receive \$1.153 billion into the General Fund and \$127.9 million into special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD are estimated to receive \$125.0 million and \$23.5 million, respectively, and the local ERAF is estimated to receive \$411.3 million (before adjusting for the State's Triple Flip sales tax and vehicle license fees ("VLF") backfill shifts). The Successor SFRDA will receive about \$121.9 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.

The City's General Fund is allocated about 57% 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, 2009	\$16,220
June 30, 2010	17,507
June 30, 2011	17,302
June 30, 2012	17,980
June 30, 2013	18,341

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 ending June 30, 2013 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 2012-13**  
**(000s)**

Assessee	Location	Parcel Number	Type	Total Assessed Value <sup>1</sup>	% of Basis of Levy <sup>2</sup>
HWA 555 Owners LLC	555 California St	0259 026	Commercial Office	\$941,010	0.57%
Paramount Group Real Estate Fund	1 Market St	3713 007	Commercial Office	770,892	0.47%
Emporium Mall LLC	845 Market St	3705 056	Commercial Retail	430,661	0.26%
SPF China Basin Holdings LLC	185 Berry St	3803005	Commercial Office	423,273	0.26%
SHC Embarcadero LLC	4 The Embarcadero	0233 044	Commercial Office	398,608	0.24%
S.F. Hilton Inc.	1 Hilton Square	325031	Commercial Hotel	389,595	0.24%
Post-Montgomery Associates	165 Sutter St	0292 015	Commercial Retail	387,267	0.23%
SHR St. Francis LLC	301-345 Powell St	0307 001	Commercial Hotel	368,994	0.22%
PPF Off One Maritime Plaza LP	300 Clay St	0204 021	Commercial Office	367,384	0.22%
Wells REIT II - 333 Market St LLC	333 Market St	3710020	Commercial Office	349,062	0.21%
				<b>\$4,826,746</b>	<b>2.91%</b>

<sup>1</sup> 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.

<sup>2</sup> 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 2013-14 valuation of property assessed by the State Board of Equalization is \$2.62 billion, as recorded on the fiscal year 2013-14 Certificate of Assessed Valuation.

## 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

Businesses in the City may be subject to two types of taxes. The first is a payroll expense tax, assessed at a rate of 1.5% on gross payroll expense attributable to all work performed or services rendered within the City. The tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. Recent changes were made to the tax exempted small businesses with annual payroll of less than \$250,000 and subjected partnership profit distributions to the tax. The net effect of these provisions was estimated to be approximately \$10.5 million in new revenues beginning in fiscal year 2009-10. The City also levies a registration tax on businesses, which varies from \$25 to \$500 per year per subject business based on the prior year computed payroll tax liability.

Business tax revenues in fiscal year 2012-13 were \$480.1 million representing an increase of \$26.3 million (5.8%) over fiscal year 2012-13 Original Budget and \$42.4 million (9.7%) over fiscal year 2011-12 actual revenue. Business tax revenue is budgeted at \$534.0 million in fiscal year 2013-14 representing an increase of \$53.9 million (11.2%) over FY 2012-13 receipts and \$565.2 million in fiscal year 2014-15 representing an increase of \$31.2 million (5.8%) over FY 2013-14 budget.

TABLE A-9

**CITY AND COUNTY OF SAN FRANCISCO**  
**Business Tax Revenues**  
**Fiscal Years 2008-09 through 2014-15**  
**All Funds**  
**(000s)**

Fiscal Year	Revenue	Change	
2008-09	\$388,654	(\$7,371)	-1.9%
2009-10	354,020	(34,634)	-8.9%
2010-11	391,779	37,759	10.7%
2011-12	437,677	45,898	11.7%
2012-13	480,131	42,454	9.7%
2013-14 budgeted	533,988	53,857	11.2%
2014-15 budgeted	565,180	31,192	5.8%

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 2014-15, Gross Receipts Tax revenues. Figures for FY 2008-09 through FY 2012-13 are audited actuals. Figures for FY 2013-14 and FY 2014-15 are Original Budget amounts.

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

In April 2011, the Board of Supervisors adopted Ordinance 68-11 that established a payroll expense tax exclusion for certain business located in the Central Market and Tenderloin Area. The Ordinance expires according to its terms in 2019. The Controller projects the loss to the City in payroll expense tax revenue due to Ordinance 68-11 to be approximately \$4.2 million annually. Additionally, fiscal year 2011-12 and fiscal year 2012-13 payroll tax amounts include \$4.4 and \$3.5 million respectively in General Fund loss each year from a requirement pursuant to Business and Tax Regulations Code Section 906E, that \$500 credits be provided to Payroll Tax payers if prior year Payroll Tax revenues grew more than 7.5% from the year before. Fiscal year 2011-12 payroll tax revenues ended the year 11.4% higher than fiscal year 2010-11 and fiscal year 2012-13 payroll tax revenues ended the year 9.7% higher than fiscal year 2011-12.

The Gross Receipts Tax and Business Registration Fees Ordinance (Proposition E) was approved by San Francisco voters on November 6, 2012. The ordinance replaces the existing tax which is 1.5% of a business' payroll with a tax on a business' gross receipts at rates that vary by the size and type of business. The new tax structure will be phased-in over a five year period and at the end of the period the gross receipts tax rates will remain fixed. The new tax structure will generate annual tax revenues equal to what would have been generated under the existing tax structure plus the amount of the additional administrative cost of the new system. In addition, the existing business registration fee structure will be replaced by a new higher graduated registration fee structure projected to generate a net revenue increase to the City of approximately \$28.0 million beginning in fiscal year 2013-14. The gross receipts tax will apply to businesses with \$1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. 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.

#### **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 averaging \$180 in fiscal year 2012-13. Increases in RevPAR are budgeted to continue albeit at a slower pace through fiscal year 2014-15. Total hotel tax revenue for fiscal year 2012-13 was \$241.9 million, and budgeted to be \$277.0 million in fiscal year 2013-14 and \$294.2 million in fiscal year 2014-15.

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 there was no obligation on the part of online travel companies to remit hotel tax to the City. San Francisco received a similar judgment as to its hotel tax on February 6, 2013 overturning administrative hearings it conducted to require payment from online travel companies. San Francisco has received approximately \$63 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. While the City plans to appeal the judgment, the City can give no assurance regarding the outcome of this litigation.

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 2008-09 through 2014-15. Beginning in fiscal year 2013-14, hotel tax budgeted in the General Fund in fiscal year 2013-14 will increase by \$56.4 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 2008-09 through 2014-15**  
**All Funds**  
**(000s)**

Fiscal Year	Tax Rate	Revenue	Change	
2008-09	14.00%	\$219,777	(\$5,037)	-2.2%
2009-10	14.00%	192,082	(27,695)	-12.6%
2010-11	14.00%	215,512	23,430	12.2%
2011-12	14.00%	242,843	27,331	12.7%
2012-13	14.00%	241,871	(972)	-0.4%
2013-14 <i>budgeted</i>	14.00%	277,019	35,148	14.5%
2014-15 <i>budgeted</i>	14.00%	294,175	17,157	6.2%

Includes portion allocated to special revenue funds. Figures for FY 2008-09 through FY 2012-13 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds. Figures for FY 2013-14 and FY 2014-15 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 revenue in fiscal year 2012-13 was \$232.7 million, approximately \$0.9 million (0.4%) less than the revenue received in fiscal year 2011-12 due to flattening slight decline in real property sales from their fiscal year 2011-12 peak. Fiscal year 2013-14 and 2014-15 budgets for real property transfer tax revenues are \$225.2 million in each year, reflecting budgeting of continued slowing market activity.

Table A-11 sets forth a history of real property transfer tax receipts for fiscal years 2008-09 through 2012-13, and budgeted receipts for fiscal years 2013-14 and 2014-15.

TABLE A-11

**CITY AND COUNTY OF SAN FRANCISCO**  
**Real Property Transfer Tax Receipts**  
**Fiscal Years 2008-09 through 2014-15**  
**(000s)**

<b>Fiscal Year</b>	<b>Revenue</b>	<b>Change</b>	
2008-09	\$48,957	(\$37,262)	-43.2%
2009-10	83,694	34,737	71.0%
2010-11	135,184	51,489	61.5%
2011-12	233,591	98,407	72.8%
2012-13	232,730	(861)	-0.4%
2013-14 budgeted	225,150	(7,580)	-3.3%
2014-15 budgeted	225,150	-	0.0%

Figures for FY 2008-09 through FY 2012-13 are audited actuals. Figures for FY 2013-14 and FY 2014-15 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 2012-13 were \$122.3 million, an increase of \$0.5 million from Original Budget and a \$5.2 million (4.4%) increase from fiscal year 2011-12 revenue. Revenue growth is budgeted to continue during FY 2013-14 with \$125.7 million budgeted, an increase of \$3.4 million (2.8%) from fiscal year 2012-13 revenue. Continued growth is expected during fiscal year 2014-15 as revenues are budgeted to reach \$130.1 million, \$4.4 million (3.5%) more than fiscal year 2013-14.

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. Table A-12 reflects the City's actual sales and use tax receipts for fiscal years 2008-09 through 2012-13, and budgeted receipts for fiscal years 2013-14 and 2014-15, 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 2008-09 through 2014-15**  
**(000s)**

Fiscal Year	Tax Rate	City Share	Revenue	Change	
2008-09	9.50%	0.75%	\$101,662	(\$9,749)	-8.8%
2008-09 adj. <sup>1</sup>	9.50%	1.00%	137,415	(11,314)	-7.6%
2009-10	9.50%	0.75%	96,605	(5,057)	-5.0%
2009-10 adj. <sup>1</sup>	9.50%	1.00%	128,286	(9,129)	-6.6%
2010-11 <sup>2</sup>	9.50%	0.75%	106,302	9,698	10.0%
2010-11 adj. <sup>1</sup>	9.50%	1.00%	140,924	12,639	9.9%
2011-12	8.50%	0.75%	117,071	10,769	10.1%
2011-12 adj. <sup>1</sup>	8.50%	1.00%	155,466	14,542	10.3%
2012-13	8.50%	0.75%	122,271	5,200	4.4%
2012-13 adj. <sup>1</sup>	8.50%	1.00%	162,825	7,359	4.7%
2013-14 <i>budgeted</i> <sup>2</sup>	8.75%	0.75%	125,697	3,426	2.8%
2013-14 adj. <sup>1</sup> <i>budgeted</i>	8.75%	1.00%	167,751	4,926	3.0%
2014-15 <i>budgeted</i> <sup>2</sup>	8.75%	0.75%	130,096	4,399	3.5%
2014-15 adj. <sup>1</sup> <i>budgeted</i>	8.75%	1.00%	173,622	5,871	3.5%

Figures for FY 2008-09 through FY 2012-13 are audited actuals. Figures for FY 2013-14 and FY 2014-15 are Original Budget amounts.

<sup>1</sup>Adjusted 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.

<sup>2</sup>In 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 2012-13 Utility User Tax revenues were \$91.9 million, representing no change from Original Budget and a \$0.2 million (0.2%) increase from fiscal year 2011-12. Utility User Tax revenue is budgeted to grow at a rate of 2% in fiscal years 2013-14 and 2014-15 to \$93.5 million and \$95.4 million respectively.

### 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 revenues for fiscal year 2012-13 were \$42.6 million, \$0.4 million (0.9%) less than Original Budget and \$1.6 (3.9%) million more than fiscal year 2011-12 revenue. ALT revenues are budgeted to grow at a rate of approximately 1.0% in fiscal years 2013-14 and 2014-15 to \$42.6 million and \$43.0 million respectively.

## 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.

Fiscal year 2012-13 Parking Tax revenue is \$81.6 million \$5.1 million (6.67%) more than final budget and \$5.0 million (6.5%) above fiscal year 2011-12. The recovery in business activity and employment as reflected in increases to payroll and sales tax revenues is driving increases in parking tax revenues.

Original Budget for fiscal year 2013-14 parking tax revenue is \$83.3 million, a \$6.7 million increase (8.8%) from fiscal year 2012-13 Original Budget and \$1.7 million (2.1%) more than the fiscal year 2012-13 results. In fiscal year 2014-15, parking tax revenue is budgeted at \$85.7 million, \$2.5 million (3.0%) over the fiscal year 2013-14 budgeted amount. Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% 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 VLF revenue: 1991 Health and Welfare Realignment, 2011 Health and Human Services Realignment, and Public Safety Realignment. The Governor's May Revise budget estimates statewide realignment funding savings of \$300 million in fiscal year 2013-14 and \$900 million in fiscal year 2014-15 as a result of Affordable Care Act (ACA) implementation. These savings are expected to be achieved by realigning additional responsibilities to counties without increasing funding for them. Fiscal year 2013-14 and 2014-15 realignment revenues are budgeted as follows:

**1991 Health & Welfare Realignment.** In fiscal years 2013-14 and 2014-15, General Fund revenue is anticipated to increase by \$10.4 million (6.9%) and \$5.2 million (3.2%), due to statewide sales tax growth projections contained in the Governor's budget. Growth in state sales tax revenue in one year is distributed to counties in the subsequent year, thus the original budget's fiscal year 2013-14 and 2014-15 allocations reflect projected state sales tax revenue increases in fiscal years 2012-13 and 2013-14, respectively. Changes in the allocation methodology reduced the amount of VLF distributed and increased the amount of sales tax distributed in this type of realignment.

**2011 Health and Human Services Realignment.** Beginning in fiscal year 2011-12 counties received revenue allocations to pay for behavioral health and protective services programs formerly provided by the State. In fiscal year 2013-14 this revenue is budgeted at \$89.1 million, an \$8.6 million (10.6%) increase from the fiscal year 2012-13 revised budget. This increase includes sales tax growth assumed in the Governor's budget. Fiscal year 2014-15 revenue of \$92.4 million is an increase of \$3.4 million (3.8%) from fiscal year 2013-14.

**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. Based on revised allocation formulas, this revenue is budgeted at \$32.8 million in fiscal year 2013-14, a \$15.5 million (89.7%) increase over the fiscal year 2012-13 budget. The increase reflects state sales tax growth and the change in accounting of Trial Court Security revenue from a cost reimbursement to subvention format. The budget for fiscal year 2014-15 is \$30.8 million, a \$2.0 million (6.2%) decrease due to reductions to state funding for Local Community Corrections projected in fiscal year 2014-15 as described in the Governor's budget.

## **Public Safety Sales Tax**

State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. This revenue is a function of the City's proportionate share of statewide sales activity. Revenue from this source for fiscal year 2012-13 was \$83.2 million, an increase of \$6.7 million (8.7%) from fiscal year 2011-12 revenues and \$4.3 million (5.4%) more than fiscal year 2012-13 Original Budget. In fiscal year 2013-14, revenue is budgeted at \$86.8 million, representing an increase of \$7.9 million (10.0%) from the fiscal year 2012-13 budget and \$3.6 million (4.3%) from fiscal year 2012-13 year-end revenue. In fiscal year 2014-15, revenue is budgeted at \$89.9 million, an increase of \$1.7 million (1.9%) from the fiscal year 2013-14 budget. 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. Fiscal year 2013-14 revenue growth assumes a continuation of the 4.5% increase in base sales tax revenue as projected for fiscal year 2012-13, and an increase of approximately 0.5% in San Francisco's County Ratio. Fiscal year 2014-15 revenue reflects state sales tax growth only and no increase in the Ratio.

## **Other Intergovernmental Grants and Subventions**

In addition to those categories listed above, \$407.1 million is budgeted in fiscal year 2013-14 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 \$1.5 million (0.4%) increase from the fiscal year 2012-13 final revenue. The fiscal year 2014-15 budget is \$398.9 million, a decrease of \$8.2 million (2.0%) from fiscal year 2013-14.

## **Charges for Services**

Revenue from charges for services in the General Fund in fiscal year 2012-13 were \$164.3 million, a decrease of \$2.5 million (1.5%) from the Original Budget and an increase of \$18.4 million (12.6%) from prior year. Charges for services revenue is budgeted at \$166.8 million in fiscal year 2013-14 and \$167.5 million in fiscal year 2014-15, representing growth of \$14.2 million (9.3%) and \$0.8 million (0.5%) respectively from prior year.

Fiscal year 2013-14 growth reflects Fire Department ambulance billing recoveries increases over fiscal year 2012-13 due to AB 678 - Medi-Cal: Ground Emergency Medical Transport, passed by the State legislature in 2011.

## **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 \$751.6 million in fiscal year 2013-14 and \$762.9 million in fiscal year 2014-15.

## **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 2008-09 through 2014-15**  
**(000s)**

Major Service Areas	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
	Original Budget	Original Budget	Original Budget	Original Budget	Original Budget	Original Budget	Original Budget
Public Protection	\$899,378	\$955,519	\$947,327	\$998,237	\$1,058,689	\$1,130,932	\$1,155,085
Human Welfare & Neighborhood Development	654,162	642,810	655,026	672,834	670,375	700,254	717,018
Community Health	513,858	488,330	519,319	575,446	609,892	701,978	702,791
General Administration & Finance	182,139	177,892	169,526	199,011	197,994	244,591	248,135
Culture & Recreation	104,232	95,114	97,510	100,740	111,066	119,579	115,632
General City Responsibilities	78,524	104,476	103,128	110,725	145,560	137,025	142,071
Public Works, Transportation & Commerce	53,143	33,414	26,989	51,588	67,529	80,797	111,993
<b>Total*</b>	<b>\$2,485,436</b>	<b>\$2,497,555</b>	<b>\$2,518,824</b>	<b>\$2,708,581</b>	<b>\$2,861,106</b>	<b>\$3,115,155</b>	<b>\$3,192,725</b>

\*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 \$406.4 million, \$215.1 million and \$139.4 million of General Fund support respectively in fiscal year 2013-14 and \$406.8 million, \$225.1 million, and \$146.2 million respectively in fiscal year 2014-15. 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 \$224.4 million of General Fund support in the fiscal year 2013-14 and \$234.8 million in fiscal year 2014-15.

The Public Health Department is budgeted to receive \$553.4 million in General Fund support for public health programs and the operation of San Francisco General Hospital and Laguna Honda Hospital in fiscal year 2013-14 and \$596.9 million in fiscal year 2014-15. As of the Fiscal Year 2012-13 Six Month Report, the Department of Public Health projected ending the fiscal year with a net General Fund deficit of \$45.9 million. The actual shortfall was approximately \$5.8 million due to recognition of prior year revenues and greater than projected expenditure savings.

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 is budgeted pursuant to a formula under the Charter to receive a \$232.0 million General Fund transfer in the fiscal year 2013-14 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 2013-14 & 2014-15**  
**(Millions)**

	FY 2013-14 Required Baseline	FY 2013-14 Original Budget	FY 2014-15 Required Baseline	FY 2014-15 Original Budget
<b>Baselines &amp; Set-Asides</b>				
Municipal Transportation Agency	\$168.7	\$168.7	\$176.3	\$176.3
Parking and Traffic Commission	\$63.3	\$63.3	\$66.1	\$66.1
Children's Services	\$125.5	\$131.2	\$131.1	\$132.5
Library Preservation	\$57.7	\$57.7	\$60.3	\$60.3
<b>Public Education Enrichment Funding</b>				
Unified School District	\$47.4	\$47.4	\$37.2	\$37.2
First Five Commission	\$25.7	\$25.7	\$20.2	\$20.2
City Services Auditor	\$12.9	\$12.9	\$13.4	\$13.4
Human Services Homeless Care Fund	\$14.9	\$14.9	\$14.9	\$14.9
<b>Property Tax Related Set-Asides</b>				
Municipal Symphony	\$2.1	\$2.1	\$2.3	\$2.3
Children's Fund Set-Aside	\$48.0	\$48.0	\$50.9	\$50.9
Library Preservation Set-Aside	\$40.0	\$40.0	\$42.4	\$42.4
Open Space Set-Aside	\$40.0	\$40.0	\$42.4	\$42.4
<b>Staffing and Service-Driven</b>				
Police Minimum Staffing	Requirement potentially not met during course of budget year		Requirement potentially met during course of budget year	
Fire Neighborhood Firehouse Funding	Requirement met		Requirement met	
Treatment on Demand	Requirement not met		Requirement not met	
<b>Total Baseline Spending</b>	<b>\$652.81</b>	<b>\$658.57</b>	<b>\$664.18</b>	<b>\$665.58</b>

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 \$3.5 billion in the fiscal year 2011-12 Original Budget (all-funds), and \$3.8 billion and \$4.0 billion in the fiscal year 2012-13 and fiscal year 2013-14 budgets. Looking only at the General Fund, the combined salary and benefits budget was \$1.7 billion in the fiscal year 2011-12 Original Budget and \$1.8 billion per year in the fiscal year 2012-13 and fiscal year 2013-14 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 2013-14 and 2014-15 includes 27,722 and 27,855 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-Milius-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 and fire employees.

In May 2012, the City negotiated two-year agreements (for fiscal years 2012-13 and 2013-14) with most of its labor unions. In general, the parties agreed to: (1) reforms and/or elimination of certain pay premiums; and (2) some structural reforms of the City's healthcare benefit and cost-sharing structures by having employees contribute more toward the cost of enrolling in employee-only health benefits during the term of the two-year contract. A majority of unions have agreed to further reforms in this area effective January 2015. SEIU miscellaneous employees and staff nurses agreed to healthcare benefit reforms that will take place beyond the term of the July 1, 2012 through June 30, 2014 contract.

City employees who are in non-Police, Fire and Nurse classifications will receive a base wage increase for the first time since 2008, as follows: 1% on July 1, 2013; 1% on January 4, 2014 and 1% on March 29, 2014. The two SEIU-represented units' wage increases differ, as follows: SEIU miscellaneous employees will receive 2% on January 4, 2014 and 1% on March 29, 2014 and the SEIU Staff Nurses will receive 3% on March 29, 2014.

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. The lower entry rates will result in savings of approximately \$0.7 million in fiscal year 2013-14 and \$2.0 million in fiscal year 2014-15. Similar negotiations are underway with the City's firefighters' union.

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. The MTA and the union representing the transit operators (TWU, Local 250-A) agreed to a three-year successor agreement that expires on June 30, 2014. The concessions are valued at \$41.1 million dollars over the life of the agreement.

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, 2013

<u>Organization</u>	<u>Budgeted Positions</u>	<u>Expiration Date of MOU</u>
Automotive Machinists, Local 1414	416	June 30, 2014
Bricklayers, Local 3/Hod Carriers, Local 36	18	June 30, 2014
Building Inspectors Association	90	June 30, 2014
Carpenters, Local 22	110	June 30, 2014
Carpet, Linoleum & Soft Tile	2	June 30, 2014
CIR (Interns & Residents)	2	June 30, 2014
Cement Masons, Local 580	33	June 30, 2014
Deputy Sheriffs Association	867	June 30, 2014
District Attorney Investigators Association	42	June 30, 2014
Electrical Workers, Local 6	858	June 30, 2014
Glaziers, Local 718	10	June 30, 2014
International Alliance of Theatrical Stage Employees, Local 16	19	June 30, 2014
Ironworkers, Local 377	15	June 30, 2014
Laborers International Union, Local 261	1,019	June 30, 2014
Municipal Attorneys' Association	431	June 30, 2014
Municipal Executives Association	1,102	June 30, 2014
MEA - Police Management	6	June 30, 2015
MEA - Fire Management	9	June 30, 2015
Operating Engineers, Local 3	57	June 30, 2014
Painters	123	June 30, 2014
Pile Drivers, Local 34	23	June 30, 2014
Plumbers, Local 38	341	June 30, 2014
Probation Officers Association	161	June 30, 2014
Professional & Technical Engineers, Local 21	4,929	June 30, 2014
Roofers, Local 40	11	June 30, 2014
S.F. Institutional Police Officers Association	2	June 30, 2014
S.F. Firefighters, Local 798	1,732	June 30, 2015
S.F. Police Officers Association	2,501	June 30, 2018
SEIU, Local 1021	11,260	June 30, 2014
SEIU, Local 1021 Staff & Per Diem Nurses	1,575	June 30, 2014
SEIU, Local 1021 H-1 Rescue Paramedics	12	June 30, 2015
Sheet Metal Workers, Local 104	46	June 30, 2014
Stationary Engineers, Local 39	663	June 30, 2014
Supervising Probation Officers, Operating Engineers, Local 3	23	June 30, 2014
Teamsters, Local 853	157	June 30, 2014
Teamsters, Local 856 (Multi-Unit)	105	June 30, 2014
Teamsters, Local 856 (Supervising Nurses)	120	June 30, 2015
TWU, Local 200 (SEAM multi-unit & claims)	318	June 30, 2014
TWU, Local 250-A Auto Service Workers	198	June 30, 2014
TWU-250-A Miscellaneous	93	June 30, 2014
TWU-250-A Transit Operators	2,151	June 30, 2014
Union of American Physicians & Dentists	192	June 30, 2015
Unrepresented Employees	151	June 30, 2014
	<b>31,992</b> <sup>[1]</sup>	

<sup>[1]</sup> 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 Employees' Retirement System ("SFERS" or "Retirement System")

### *History and Administration*

SFERS is charged with administering a defined-benefit pension plan (the "Retirement System") that covers substantially all City employees and certain other employees. The Retirement System was initially established by approval by 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 new 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, 2012 (the date of most recent valuation report) was 33,655, compared to 33,475 members a year earlier. Active membership includes 4,543 vested members and 1,015 reciprocal members. Vested members are individuals who (i) have separated from City service, (ii) have worked for the City for five or more years, and (iii) have elected to receive a deferred vested pension in the future. 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. The total new enrollees in the Retirement System were 2,228 in fiscal year 2011-12 and 2,055 in fiscal year 2010-11. Retirement allowances are paid to approximately 25,000 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, 2012, approximately 184 police officers are enrolled in the program and all will retire over the next two fiscal years.



Table A-16 shows total Retirement System participation for fiscal years 2007-08 through 2011-12.

TABLE A-16

**CITY AND COUNTY OF SAN FRANCISCO**  
**Employees' Retirement System**  
**Fiscal Years 2007 - 08 through 2011 - 12**

As of 1-Jul	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
2008	30,650	3,877	869	35,396	21,514	1.425
2009	29,919	4,096	890	34,905	22,294	1.342
2010	28,222	4,515	978	33,715	23,500	1.201
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

Sources: SFERS' Actuarial Valuation reports as of July 1, 2012, July 1, 2011, July 1, 2010, July 1, 2009, and July 1, 2008.

Note: Table A-16 includes 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. The City Charter proscribes certain actuarial methods and amortization periods to be used by the Retirement System in preparing the actuarial valuation. Before the valuation is conducted, the consulting actuarial firm recommends three long-term economic assumptions: a long-term investment earnings assumption, a long-term wage/inflation assumption and a long-term consumer price index assumption.

At its December 2011 meeting, after review of the analysis and recommendation prepared by the consulting actuarial firm, the Retirement Board voted to phase in reductions to the Retirement System's long-term investment earnings assumption, long-term wage/inflation assumption and long-term consumer price index assumption over a three-year period as follows: long-term investment earnings assumption from 7.75% to 7.50% (fiscal year 2011-12 to 7.66%; fiscal year 2012-13 to 7.58%; fiscal year 2013-14 to 7.50%); long-term wage inflation assumption from 4.00% to 3.75% (fiscal year 2011-12 to 3.91%; fiscal year 2012-13 to 3.83%; fiscal year 2013-14 to 3.75%); and long-term consumer price index assumption from 3.50% to 3.25% (fiscal year 2011-12 to 3.41%; fiscal year 2012-13 to 3.33%; fiscal year 2013-14 to 3.25%). These economic assumptions together with demographic assumptions based on periodic demographic studies are utilized to prepare the actuarial valuation of the Retirement System each year. 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 value of Retirement System liabilities exceeds the actuarial value of Retirement System assets, such amount being known as an "unfunded accrued actuarial liability" or "UAAL."

The UAAL is the difference between estimated liabilities and the value of smoothed plan assets and 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 Actuarial Methods Policy any such gain or loss is amortized over a 15-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 15-year period.

*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 amortized over no more than 20 years.

The consulting actuarial firm combines the three calculations described above to arrive at a total contribution requirement for funding the Retirement System in that 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. The most recent voter-approved retirement changes are described below.

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

- a) created 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) provided that employees commencing employment on or after January 7, 2012 otherwise eligible for membership in CalPERS may become members of SFERS;
- c) effective July 1, 2012, provides for an increase or decrease of employee contributions to SFERS for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. (For example, Miscellaneous employees who earn less than \$50,000 per year would pay the minimum Charter-mandated employee contribution rate; Miscellaneous employees who earn between \$50,000 and \$100,000

per year would pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate; and Miscellaneous employees who earn \$100,000 or more per year would pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are required from Safety employees also); and

- d) provides that, 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; however, the City has prevailed at the Superior Court level to this challenge.

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

Since 2008, the voters of San Francisco have approved three other retirement plan amendments:

- 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.
- The enactment of DROP, a Deferred Retirement Option Program available to certain police members effective July 1, 2008, authorized by City voters' approval on an initiative proposition in the February 2008 election. In June 2011, the Board of Supervisors voted to allow the program to sunset on June 30, 2011.
- Proposition B enacted in June 2008 which increased the years of service required for City employees hired after January 10, 2009 to qualify for employer-funded retiree health benefits, established a separate Retiree Health Care Trust Fund to fund retiree health costs, and increased retirement benefits and retirement cost-of-living adjustments for "miscellaneous" employees (i.e., those covered under Charter Section A8.409).

#### *SFERS Recent Funding Performance and City Employer Contribution History*

From fiscal year 1996-97 through fiscal year 2003-04, the City's contribution to the Retirement System was zero as determined by the consulting actuarial firm of the Retirement System and adopted by the Retirement Board. The zero percent employer funding requirements for this period was due primarily to higher-than-projected investment earnings and lower-than-projected wage increases. Beginning in fiscal year 2004-05, the Retirement Board reinstated required employer contributions based on the funding requirements as determined by the consulting actuarial firm in the manner described above in "Funding Practices." In fiscal year 2011-12, total City employer contributions to the Retirement System were \$391 million, which was 18.09% of that portion of members' earned wages that are includable for calculation and contribution purposes ("Pensionable Salary"). This amount includes \$162 million from the City General Fund. For fiscal year 2012-13, total City employer contributions to the Retirement System were \$423.3 million, of which \$183 million came from the General Fund. For Fiscal Year 2013-14, total City employer contributions to the Retirement System are budgeted at \$505.1 million, which is 21.3% of pensionable salary. This amount includes \$226.9 million from the General Fund. The latest actuarial report as of July 1, 2012 provides that future employer contribution rates are projected to increase to 28% for fiscal year 2014-2015 as the Retirement System recognizes the 2011 economic assumption changes and the losses incurred by the Retirement System in fiscal years 2007-2008 and 2008-2009.

Table A-17 shows Retirement System contributions for fiscal years 2007-08 through 2011-12. "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 accrued actuarial 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 Obligations. "Employee and Employer Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by the Retirement System for fiscal years 2007-08 through 2011-12.

TABLE A-17

**CITY AND COUNTY OF SAN FRANCISCO**  
**Employees' Retirement System ( in \$000s)**  
**Fiscal Years 2007-08 through 2011-12**

As of	Market Value	Actuarial Value	Pension Benefit	Market	Actuarial	Employee &	Employer
<u>1-Jul</u>	<u>of Assets</u>	<u>of Assets</u>	<u>Obligation</u>	<u>Percent</u>	<u>Percent</u>	<u>Employer</u>	<u>Contribution</u>
				<u>Funded</u>	<u>Funded</u>	<u>Contribution</u>	<u>Rates<sup>(1)</sup></u>
2008	15,832,521	15,941,390	15,358,824	103.0	103.8	319,183	5.91%
2009	11,886,729	16,004,730	16,498,649	72.3	97.0	312,715	4.99%
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%

<sup>(1)</sup> Net employer contribution rates in the Actuarial Valuation Report on July 1, 2012 for fiscal years 2012-2013 was 20.71%.

SFERS' Actuarial Valuation report as of July 1, 2012, July 1, 2011, July 1, 2010 and July 1, 2009.

Table A-17 reflects that the Actuarial Percent Funded ratio decreased to 82.6%, corresponding to an unfunded actuarial liability (UAAL) of approximately \$3.4 billion. The UAAL is the difference between the Actuarial Value of Assets and the total Pension Benefit Obligation. This means that as of June 30, 2012, for every dollar of pension benefits the City is obligated to pay, it had approximately \$0.83 in assets available for payment.

*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 71 of the CAFR, attached as Appendix B to this Official Statement, for a breakdown of the asset allocation as of June 30, 2013. The Fund does not hold hedge funds. 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, 30 Van Ness Avenue, Suite 3000, San Francisco, California 94102, or by calling (415) 487-7020. Certain documents are available at the Retirement System website at [www.sfers.org](http://www.sfers.org). These documents are not incorporated herein by reference.

The liabilities of the Retirement System (the Pension Benefit Obligation) are 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, 2013, the Retirement System estimated that the market value of its assets was approximately \$17.0 billion. The estimated market 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 not subject to audit (other than at year end).

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 \$18.1 million in fiscal year 2009-10 and \$17.6 million in fiscal year 2010-11. For fiscal year 2011-12, the City prepaid its annual CalPERS obligation at a level of \$23.4 million. Further discussion of the City's CalPERS plan obligations are summarized in Note 9 to the City's CAFR, as of June 30, 2013, 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 SFUSD, SFCCD, and the San Francisco Superior Court (collectively the "System's Other Beneficiaries"). However, the City is not required to fund medical benefits for the System's Other Beneficiaries and therefore this section focuses on the funding by the City of medical 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; and until May 15, 2013, four members of the Health Service System, active or retired, elected from among their members. After May 15, 2013 one of the members elected from among the members was replaced by a member nominated by the Controller and approved by the Health Service Board pursuant to Proposition C approved by the voters in November 2011. 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-line at [www.myhss.org/finance](http://www.myhss.org/finance) or by writing to the San Francisco Health Service System, 1145 Market Street, Second Floor, San Francisco, California 94103, or by calling (415) 554-1727. Audited annual financial statements for several years are also posted in the Health Service System 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*

Contributions by the participating employers and HSS Beneficiaries to HSS Medical Plans are determined according to applicable provisions of the Charter. To the extent annual medical premiums exceed the contributions made by employers and HSS Beneficiaries as required by the Charter, such excess must be paid by HSS Beneficiaries or, if elected by the Health Service Board, from net assets held in the Health Service Trust Fund.

All City Beneficiaries receive a base contribution from the City toward the monthly cost of their medical benefits calculated pursuant to Charter Section A8.423. Under that section, the Health Service System conducts a survey annually of the 10 most populous counties in California (other than the City) 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 addition to the average contribution described above, the City makes additional medical and other benefit contributions on behalf of City Beneficiaries who are active employees as negotiated and agreed to by such employees' applicable collective bargaining units. City bargaining units have negotiated additional City contributions for enhanced single medical coverage, dependent medical coverage and for additional benefits such as dental care for the members of such bargaining units. These contribution amounts are also paid by the City into 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 include 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 described in the second paragraph of this subsection, 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 retired city participant and the first dependent.

### *Change in Contribution Model to Stabilize Medical Plan Membership and Maintain Competition Among Providers*

In June 2013, the Health Service Board adopted a flat premium contribution model for unions that approve an MOU agreement with the City incorporating the changes by July 31, 2013. The net flat premium structure for 2015 will smooth increases in premiums with premium contributions from all employees. The long term impact of the flat premium contribution model is 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.

### *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 to be implemented in future years 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 and W-2 reporting on total healthcare premium costs for 2012 plan year and implementation of a medical loss ratio rebate on self-insured plans. In addition, a separate summary of benefits was required to be sent to every member and provided to every new member beginning in 2012. In 2014, healthcare flexible spending accounts (FSAs) will be limited to \$2,500 annually.

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 2014 plan year. The three fees are the Federal Health Insurer Tax (HIT), Patient Centered Outcomes Research Institute (PCORI) fee, and the Federal Transitional Pre-Existing Condition Fee. The Federal HIT tax is a fixed-dollar amount distributed across health insurance providers for fully insured plans. The 2014 plan year premiums for Kaiser Permanente and Blue Shield of California included the impact of the HIT tax.

The Patient-Centered Outcomes Research Institute fee (previously known as the Comparative Effectiveness fee) will be charged directly to the Health Service System at a rate of \$2 per beneficiary for members of the Self-Insured plan (approximately 9,400). In 2014 through 2019 this amount will increase with health care inflation.

The Federal Transitional Pre-Existing Condition Fee is a \$63/year fee on each Health Service System beneficiary for plan years 2014-2016. This fee will be approximately \$5.5 million in 2014. This amount will decrease in 2015 and 2016. In 2014, the City will need to modify health benefit eligibility to cover temporary employees who work more than 30 hours per week or 130 hours per month to only a 90 day waiting period for coverage.

### *Local Elections: Proposition C (2011)*

On November 8, 2011, the San Francisco voters approved Proposition C, 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 1% of compensation toward their retiree health care, with matching contribution by the City. For employees or elected officials who left the City workforce before June 30, 2001, and retire after January 6, 2012, Proposition C requires that the City contributions toward retiree health benefits remain at the same levels they were when the employee left the City workforce. Proposition C changes the Health Service System and Health Service Board (HSB) including the following: 1) replace one elected member of the HSB with a member nominated by the City Controller and approved by HSB; 2) change HSB's voting requirement for approving member health plans from two-third to a simple majority; 3) remove the requirement for a plan permitting the member to choose any licensed medical provider; 4) allow for the option to change to a calendar year plan year; and 5) allow HSB to spend money on ways to limit health care costs. Factors that could cause additional medical costs or savings include: 1) projected City savings might be reduced if future labor negotiations or arbitration awards result in any salary increases to offset higher employee retirement contributions; 2) to the extent that changes to pension formulas in this measure cause employees to delay or speed up retirement dates, this could provide additional City savings or costs related to retiree pension and health insurance subsidies; 3) to the extent that changes in the composition of the Health Service Board result in changes to approved health benefit programs, costs could be higher or lower; and 4) to the extent that changes in the composition of the Health Service Board result in changes to approved health benefit programs, costs could be higher or lower. Changing to a calendar plan year allows HSS to convert the City Plan retiree pharmacy benefit to a higher discounted federal program called Employer Group Waiver Plan (EGWP) as of 2013. This will save an estimated \$2.3 million annually, will lower the City's retiree pharmacy expenditures by \$8.5 million annually, and will lower the City's GASB 45 liability.

### *Employer Contributions for Health Service System Benefits*

For fiscal year 2012-13, the Health Service System received approximately \$630.1 million from participating employers for Health Service System benefit costs. Of this total, the City contributed approximately \$528.1 million; approximately \$156.0 million of this \$528.1 million amount was for health care benefits for approximately 26,564 retired City employees and their eligible dependents and approximately \$372.1 million was for benefits for approximately 61,428 active City employees and their eligible dependents. For fiscal year 2013-14, the Health Service System has budgeted to receive approximately \$642.9 million from participating employers for Health Service System benefit costs. The 2014 aggregate plan costs for the City will increase by only 2.4%. 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, encouraging competition among our vendors, 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. In 2015, this flattened trend is anticipated to continue, and the Health Service Board has allocated the Early Retiree Reimbursement Program funds collected of \$3.8M to subsidize coverage based on percent paid by employee/retiree which will continue to stabilize risk pools.

### *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 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 October 8, 2012 report, Cheiron, Inc. estimated that the City's unfunded liability was approximately \$4.42 billion as of July 1, 2010. This estimate assumed a 4.25% return on investments and had an ARC for fiscal year 2011-12 of approximately \$397.9 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, 2010 actuarial valuation. The covered payroll (annual payroll of active employees covered by the plan) was \$2.3 billion and the ratio of the unfunded actuarial accrued liability to the covered payroll was 191.9%.

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 2012-13 annual OPEB cost was \$418.5 million, of which the City funded \$160.3 million which caused, among other factors, the City's long-term liability to increase by \$258.2 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, 2013, 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**  
**Four-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

The October 2012 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, 2013, the fund balance in the Retiree Health Care Trust Fund established by Proposition B was \$31.2 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, 2013 is approximately \$31.2 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Table A-18 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 2008-09 to fiscal year 2013-14.

TABLE A-19

**CITY AND COUNTY OF SAN FRANCISCO**  
Employee Benefit Costs, All Funds  
Fiscal Years 2008-09 through 2013-14  
(000s)

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
	Actual	Actual	Actual	Actual	Actual	Budget
SFERS and PERS Retirement Contributions	\$197,614	\$294,088	\$368,185	\$428,265	\$452,327	\$527,564
Social Security & Medicare	147,576	145,969	140,828	147,682	156,322	162,729
Health - Medical + Dental, active employees <sup>1</sup>	275,682	285,363	296,708	331,665	339,193	370,172
Health - Retiree Medical <sup>1</sup>	116,894	126,829	145,756	151,301	155,885	162,234
Other Benefits <sup>2</sup>	18,998	17,009	22,758	21,362	16,250	16,634
<b>Total Benefit Costs</b>	<b>\$756,764</b>	<b>\$869,258</b>	<b>\$974,235</b>	<b>\$1,080,275</b>	<b>\$1,119,977</b>	<b>\$1,239,332</b>

FY 2008-09 through FY 2012-13 figures are audited actuals. FY 2013-14 figures are original budget.

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

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

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

## INVESTMENT OF CITY FUNDS

### Investment Pool

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

*Investment Policy*

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

The Investment Policy is reviewed and monitored annually by a Treasury Oversight Committee established by the Board of Supervisors. The Treasury Oversight Committee meets quarterly and is comprised of members drawn from (a) the Treasurer; (b) the Controller; (c) a representative appointed by the Board of Supervisors; (d) the County Superintendent of Schools or his/her designee; (e) the Chancellor of the Community College District or his/her designee; and (f) Members of the general public. See "APPENDIX C – City and County of San Francisco Office of the Treasurer – Investment Policy" for a complete copy of the Treasurer's Investment Policy, dated October 2013. The Investment Policy is also posted at the Treasurer's website: [www.sftreasurer.org](http://www.sftreasurer.org). The information available on such website is not incorporated herein by reference.

*Investment Portfolio*

As of October 31, 2013, 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 October 31, 2013			
Type of Investment	Par Value	Book Value	Market Value
U.S. Treasuries	\$ 685,000,000	\$ 685,856,641	\$ 690,994,000
Federal Agencies	3,876,513,000	3,889,035,670	3,899,140,500
State and Local Obligations	139,900,000	145,004,378	142,286,593
Public Time Deposits	720,000	720,000	720,000
Negotiable Certificates of Deposit	200,000,000	200,033,502	200,066,578
Banker's Acceptances	-	-	-
Commercial Paper	-	-	-
Medium Term Notes	523,455,000	529,905,320	519,423,880
Money Market Funds	125,065,263	125,065,263	125,065,263
<b>Total</b>	<b>\$ 5,550,653,263</b>	<b>\$ 5,575,620,774</b>	<b>\$ 5,577,696,814</b>

October 2013 Earned Income Yield: 0.69%

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 October 31, 2013**

Maturity in Months			Par Value	Percentage
0	to	1	\$ 175,065,263	3.15%
1	to	2	97,000,000	1.75%
2	to	3	102,730,000	1.85%
3	to	4	240,000	0.00%
4	to	5	235,765,000	4.25%
5	to	6	21,820,000	0.39%
6	to	12	421,690,000	7.60%
12	to	24	1,740,328,000	31.35%
24	to	36	829,395,000	14.94%
36	to	48	1,113,420,000	20.06%
48	to	60	813,200,000	14.65%
			<u>\$ 5,550,653,263</u>	<u>100.00%</u>

Weighted Average Maturity: 809 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](http://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, 2013 are described in Appendix B: "COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2013," 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 2014-2023 Capital Plan was approved by the CPC on February 25, 2013 and was adopted by the Board of Supervisors in April 2013. The Capital Plan contains \$25.1 billion in capital investments over the coming decade for all City departments, including \$4.7 billion in projects for General Fund-supported departments. The Capital Plan proposes \$88.0 million for General Fund pay-as-you-go capital projects in fiscal year 2013-14. The amount for General Fund pay-as-you-go capital projects is assumed to grow to \$231 million in fiscal year 2022-23. The Capital Plan is not incorporated by reference herein but may be found at <http://onesanfrancisco.org/>. 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 \$2.0 billion of the capital projects of General Fund supported departments are 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 \$14.5 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 \$8.2 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 \$14 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 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 December 1, 2013, the City had approximately \$1.89 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 December 1, 2013 <sup>1 2</sup>

Fiscal Year	Principal	Interest	Annual Debt Service
2014	\$150,279,486	\$88,438,032	\$238,717,518
2015	151,979,884	81,666,532	233,646,416
2016	105,753,046	74,343,844	180,096,890
2017	97,779,110	69,400,105	167,179,215
2018	98,593,225	64,697,632	163,290,857
2019	97,160,545	60,163,962	157,324,507
2020	94,686,232	55,560,375	150,246,607
2021	90,035,457	51,044,062	141,079,519
2022	96,123,401	46,958,724	143,082,125
2023	98,320,251	42,516,801	140,837,052
2024	99,376,206	37,784,550	137,160,756
2025	98,571,476	32,920,682	131,492,158
2026	92,416,279	28,099,652	120,515,931
2027	96,425,840	23,564,823	119,990,663
2028	99,979,035	18,964,084	118,943,119
2029	98,551,751	14,235,655	112,787,406
2030	93,040,095	9,662,829	102,702,924
2031	50,976,950	5,339,777	56,316,727
2032	52,690,000	3,319,875	56,009,875
2033	16,540,000	1,230,200	17,770,200
2034	5,075,000	520,250	5,595,250
2035	5,330,000	266,500	5,596,500
<b>TOTAL <sup>3</sup></b>	<b>\$1,889,683,269</b>	<b>\$810,698,946</b>	<b>\$2,700,382,215</b>

<sup>1</sup> 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.

<sup>2</sup> Totals reflect rounding to nearest dollar.

<sup>3</sup> 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 November 2008, voters approved Proposition A, which authorized the issuance of up to \$887.4 million in general obligation bonds to provide funds to finance the building or rebuilding and improving the earthquake safety of the San Francisco General Hospital and Trauma Center. The City issued the first series of bonds under Proposition A in the amount of approximately \$131.7 million in March 2009. The City issued the second series in the amount of approximately \$294.6 million in March 2010. The City issued its third series in the amount of approximately \$251 million in August 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.

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.

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 \$1,355,991,219 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.

Table A-23 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 December 1, 2013, the City had authorized and unissued refunding general obligation bond authority of approximately \$751 million.



TABLE A-23

**CITY AND COUNTY OF SAN FRANCISCO**  
**General Obligation Bonds (as of December 1, 2013)**

<u>Description of Issue (Date of Authorization)</u>	<u>Series</u>	<u>Issued</u>	<u>Outstanding</u> <sup>1</sup>	<u>Authorized &amp; Unissued</u> <sup>2</sup>
Seismic Safety Loan Program (11/3/92)	2007A	\$30,315,450	\$26,323,269	\$284,684,550
Branch Library Facilities Improvement (11/7/00)	2008A	31,065,000	25,460,000	
Clean & Safe Neighborhood Parks (2/5/08)	2008B	42,520,000	35,165,000	
	2010B	24,785,000	14,025,000	
	2010D	35,645,000	35,645,000	
	2012B	73,355,000	60,270,000	8,695,000
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	103,565,000	
	2010A	120,890,000	68,410,000	
	2010C	173,805,000	173,805,000	
	2012D	251,100,000	211,180,000	209,955,000
Earthquake Safety and Emergency Response Bond (6/8/10)	2010E	79,520,000	74,230,000	
	2012A	183,330,000	150,505,000	
	2012E	38,265,000	37,010,000	
	2013B	31,020,000	31,020,000	80,165,000
Road Repaving & Street Safety (11/8/11)	2012C	74,295,000	61,695,000	
	2013C	129,560,000	129,560,000	44,145,000
Clean & Safe Neighborhood Parks (11/6/12)	2013A	71,970,000	71,970,000	123,030,000
<b>SUB TOTALS</b>		<b>\$1,523,090,450</b>	<b>\$1,309,838,269</b>	<b>\$750,674,550</b>
<b>General Obligation Refunding Bonds:</b>				
Series 2006-R1 issued 10/31/06		\$90,690,000	\$54,155,000	
Series 2006-R2 issued 12/18/06		66,565,000	30,300,000	
Series 2008-R1 issued 5/29/08		232,075,000	53,465,000	
Series 2008-R2 issued 5/29/08		39,320,000	24,610,000	
Series 2008-R3 issued 7/30/08		118,130,000	118,130,000	
Series 2011-R1 issued 11/9/2011		339,475,000	299,185,000	
<b>SUB TOTALS</b>		<b>886,255,000</b>	<b>579,845,000</b>	
<b>TOTALS</b>		<b>\$2,409,345,450</b>	<b>\$1,889,683,269</b>	<b>\$750,674,550</b>

<sup>1</sup> 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.

<sup>2</sup> 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-24 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 December 1, 2013. Note that the annual payment obligations reflected in Table A-23 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

TABLE A-24

**CITY AND COUNTY OF SAN FRANCISCO**  
**Lease Revenue Bonds and Certificates of Participation**  
**As of December 1, 2013**

Fiscal Year	Principal	Interest	Annual Payment Obligation
2014	\$32,446,550	\$39,150,395	\$71,596,945
2015	67,600,751	56,088,843	123,689,594
2016	66,510,000	48,156,382	114,666,382
2017	60,310,000	45,346,520	105,656,520
2018	58,785,000	42,610,401	101,395,401
2019	50,770,000	40,176,612	90,946,612
2020	42,015,000	38,098,182	80,113,182
2021	43,050,000	36,217,345	79,267,345
2022	44,160,000	34,329,701	78,489,701
2023	46,085,000	32,376,293	78,461,293
2024	47,610,000	30,311,319	77,921,319
2025	47,230,000	28,143,340	75,373,340
2026	46,960,000	26,040,319	73,000,319
2027	49,165,000	23,828,851	72,993,851
2028	49,670,000	21,521,169	71,191,169
2029	51,950,000	19,157,247	71,107,247
2030	51,510,000	16,710,856	68,220,856
2031	42,835,000	14,314,379	57,149,379
2032	32,105,000	12,125,573	44,230,573
2033	31,175,000	10,532,806	41,707,806
2034	32,670,000	8,879,731	41,549,731
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	499,471	11,989,471
2043	1,900,000	95,000	1,995,000
<b>TOTAL</b> <sup>1</sup>	<b>\$1,136,442,301</b>	<b>\$655,416,093</b> <sup>2</sup>	<b>\$1,791,858,394</b>

<sup>1</sup> Totals reflect rounding to nearest dollar.

<sup>2</sup> 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, such amount increasing by five percent each fiscal year. As of December 1, 2013 the total authorized amount for such financings was \$61.4 million. The total principal amount outstanding as of December 1, 2013 was \$29.6 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 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 (the "CP Program"). Under the proposed CP Program, Commercial Paper Notes (the "CP Notes") will be 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 financing to be issued when market conditions are favorable. Projects will be 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 expires June 2016.

As of December 1, 2013, the outstanding principal amount of CP Notes is \$32.4 million. The weighted average interest rate for the CP Notes is approximately 0.12%.

### **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 Summer of 2014.

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 2014.

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.

### **Overlapping Debt**

Table A-25 shows bonded debt and long-term obligations as of December 1, 2013 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-25

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

<u>2013-2014 Assessed Valuation</u> (net of non-reimbursable & homeowner exemptions):		\$172,489,208,372
	<b>Outstanding</b>	
<b><u>DIRECT GENERAL OBLIGATION BOND DEBT</u></b>		<b>12/1/2013</b>
General City Purposes Carried on the Tax Roll		\$1,889,683,269
<b>GROSS DIRECT DEBT</b>		<b>\$1,889,683,269</b>
<b><u>DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS</u></b>		
San Francisco COPs, Series 2001A (30 Van Ness Ave. Property)		\$27,930,000
San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project)		34,850,000
San Francisco Finance Corporation, Equipment LRBs Series 2008A, 2010A, 2011A, 2012A, and 2013A		29,620,000
San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1		17,050,000
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2		120,820,000
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007		55,490,000
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A		30,870,000
San Francisco Redevelopment Agency Moscone Convention Center 1992		4,347,301 <sup>1</sup>
San Francisco Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project)		18,670,000
San Francisco COPs, Series 2007A (City Office Buildings - Multiple Properties)		139,945,000
San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital)		148,545,000
San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project)		35,200,000
San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt		32,510,000
San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs		129,550,000
San Francisco Refunding Certificates of Participation, Series 2010A		122,060,000
San Francisco COPs, Refunding Series 2011AB (Moscone)		80,585,000
San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project)		41,860,000
San Francisco COPs, Series 2013A Moscone Center Improvement		28,840,000
San Francisco COPs, Series 2013BC Port Facilities		37,700,000
<b>LONG-TERM OBLIGATIONS</b>		<b>\$1,136,442,301</b>
<b>GROSS DIRECT DEBT &amp; LONG-TERM OBLIGATIONS</b>		<b>\$3,026,125,570</b>
<b><u>OVERLAPPING DEBT &amp; LONG-TERM OBLIGATIONS</u></b>		
Bayside Hester Assessment District		\$660,000
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds		90,643,333
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B		106,311,000
San Francisco Community College District General Obligation Bonds - Election of 2001, 2005		343,720,000
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 2011		41,750,000
San Francisco Redevelopment Agency Obligations (Property Tax Increment)		846,357,806
San Francisco Redevelopment Agency Obligations (Special Tax Bonds)		212,403,097
Association of Bay Area Governments Obligations (Special Tax Bonds)		41,658,913
San Francisco Unified School District General Obligation Bonds, Series Election of 2003, 2006, and 2011		647,360,000
<b>TOTAL OVERLAPPING DEBT &amp; LONG-TERM OBLIGATIONS</b>		<b>\$2,330,864,149</b>
<b>GROSS COMBINED TOTAL OBLIGATIONS</b>		<b>\$5,356,989,719<sup>2</sup></b>

**Ratios to Assessed Valuation:**

	<u>Actual Ratio</u>	<u>Charter Req.</u>
Gross Direct Debt (General Obligation Bonds)	1.10%	< 3.00% <sup>3</sup>
Gross Direct Debt & Long-Term Obligations	1.75%	n/a
Gross Combined Total Obligations	3.11%	n/a

<sup>1</sup> The accreted value as of July 1, 2013 is \$19,298,279

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

<sup>3</sup> 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 8, 2005, voters approved the issuance of up to \$246.3 million in general obligation bonds to improve, construct and equip existing and new facilities of the SFCCD. SFCCD issued an aggregate principal amount of \$90.0 million of the November 2005 authorization in June 2006. In December 2007, SFCCD issued an additional \$110.0 million of such authorization. SFCCD issued the remaining authorization of \$46.3 million in spring 2010.

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. 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. Further, the dissolution of redevelopment agencies may have an adverse impact on the projects described below and many other development projects in the City. See "San Francisco Redevelopment Agency Dissolution" above. 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, a former naval base, is a master planned community of approximately 500 acres located on the southeastern waterfront of San Francisco. The first phase of development, which was conveyed from the Navy in 2005, is currently underway and includes up to 1,600 homes, 27% to 40% of which will be affordable, and 26 acres of parks and open space. Nearly all of the horizontal construction for Phase 1 is complete and the developer broke ground on the vertical development on the first two blocks of homes in June 2013. Two additional blocks are anticipated to break ground in Spring 2014.

In August 2010, the development of the balance of the Shipyard and Candlestick Point received its final approvals from the Board of Supervisors. This includes (i) approximately 10,500 residential housing units across the project site, approximately 32% of which will be offered at below-market rates in a mix of both rental and for-sale housing; (ii) the complete rebuilding of the Alice Griffith Public Housing Development, also known as Double Rock; (iii) approximately 2.5 million square feet of "green" office, research and development uses on the Shipyard; (iv) approximately 150,000 square feet of green office, research and development or other commercial space on Candlestick Point; (v) more than 300 acres of new and restored parks and open space, which includes neighborhood parks, new waterfront parks around the entire perimeter of the Shipyard, connecting to the region's Bay Trail, and a major renovation of the Candlestick Point State Recreation Area into a "Crissy Field" of the southeast, with restored habitat areas and public access to the water; (vi) approximately 635,000 square feet of regional and neighborhood retail on Candlestick Point; and (vii) space for a 10,000-seat performance venue on Candlestick Point. The project is estimated to create thousands of ongoing construction opportunities during the 20- to 30-year construction period, and 10,000 permanent jobs at full build-out. In August 2011, the U.S. Department of Housing and Urban Development (HUD) selected the Alice Griffith Public Housing Development and the surrounding Bayview neighborhood as a recipient of the \$30.5 million Choice Neighborhoods Implementation Grant. The Alice Griffith Plan was one of six finalists submitted by communities nationwide competing for HUD Choice Neighborhoods funding. Construction of infrastructure for Alice Griffith and a new mixed-use retail center on the site of the current stadium will commence in the Summer of 2014 and the first new homes will be available starting in 2016.

### **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.

In August 2010, then-Mayor Gavin Newsom, U.S. House of Representatives Speaker Nancy Pelosi, and U.S. Secretary of the Navy Ray Mabus signed the terms for the conveyance of former Naval Station Treasure Island from the Navy to the City, signifying a major milestone towards realizing an environmentally sustainable new community on Treasure Island and the thousands of construction and permanent jobs it will bring. In April 2011, the Treasure Island Development Authority (TIDA) Board of Directors and the Planning Commission certified the project's Environmental Impact Report (EIR). In June 2011, the Board of Supervisors unanimously upheld the certification of the EIR and approved numerous project documents, including a Disposition and Development Agreement, Development Agreement, Interagency Cooperation Agreement and Treasure Island Homeless Development Initiative (TIHDI) Agreement. Together, these agreements establish a comprehensive vision for the future of the former military base and represented another significant step in moving the project towards implementation. In January 2014, TIDA, acting with and through the San Francisco County Transportation Authority, will begin construction of new west bound on and off ramps connecting the new eastern span of the San Francisco - Oakland Bay Bridge to Yerba Buena Island. The first major land transfer from the Navy is expected to take place in 2014, and the first phase of construction by the developer, Treasure Island Community Development (TICD), is projected to begin in 2015 and 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.

### **Piers 30-32 and Seawall Lot (SWL) 330 – Warrior's Multipurpose Recreation and Entertainment Venue**

The Golden State Warriors, a National Basketball Association (NBA) team, is proposing to develop a waterfront multipurpose recreation and entertainment venue and associated development on Piers 30-32 and SWL 330. Piers 30-32 are located directly south of the Bay Bridge. On the Piers 30-32 site, the Warriors propose constructing a state-of-the-art multi-purpose recreation and entertainment venue for Warriors' home games, concerts, and family shows. Sixty percent of the Piers 30-32 site will be public, open space. There will also be a robust maritime program, which includes preserving the east apron of the pier as a deep water berth for occasional cruise ship and other large vessel berthing. The project also proposes to relocate the San Francisco Fire Department's Fire Boat station from Pier 22½ to the north apron of Piers 30-32 along with ferry and/or water taxi service. Piers 30-32 will also have restaurants (including Red's Java House), retail, bike valet and a limited amount of parking.

On SWL 330, which sits across the Embarcadero from Piers 30-32, the Warriors propose a mixed-use development, which will include residential units and a hotel use. The SWL site will also have ground floor retail and parking.

Economic & Planning Systems (EPS) was commissioned to author a Fiscal Feasibility Report, which provides both the Economic and Financial benefits of the project for the City. The Fiscal Feasibility Report projects that the project could create \$80 million annually in economic activity and generate approximately 5,000 construction jobs and 2,800 permanent jobs within San Francisco. In addition, the Fiscal Feasibility projects that the project could generate approximately \$53 million in one-time revenues and \$19 million in annual revenue to the City.

### **Transbay**

The Transbay Transit Center broke ground on August 11, 2010, and is scheduled to open in August 2017. Demolition of existing structures on the site was completed in August 2011. 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 area surrounding the Transbay Transit Center with is being redeveloped with 4,500 new homes, 1,200 to be "affordable" below-market homes, a 1.6 million square-foot tower, parks, and a retail main street. 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 Center, "City Park," a 5.4-acre public park 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 November 2012, the TJPA finalized the agreement to sell TJPA property to Hines Corporation, 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.

The first phase of the program, which includes constructing the new transit center, is \$300 million over budget. To cover the cost increase, the TJPA will use some of the funding that was committed to the second phase of the project – the Downtown Extension of Caltrain. Planning, OCII, the Mayor's Office and consultants are preparing the origination documents for a Mello-Roos (CFD) to finance a portion of the San Francisco County share of the Downtown Extension, City Park and other public benefits.

### **Mission Bay**

The development plans for Mission Bay include a new University of California-San Francisco (UCSF) research campus containing 2.65 million square feet of building space on 43 acres donated by Catellus and the City; UCSF's 550-bed hospital; 4.4 million square feet of biotech, 'cleantech' and health care office space; 6,350 housing units, with 1,850 (29%) affordable to moderate-, low-, and very low-income households; 400,000 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.



### **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 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.

The developer, Port and OEWD staff have continued to engage relevant agencies and stakeholders in preparation for the commencement of the environmental review process, which begins in January 2014 and is expected to last until mid- to late 2015. That process will be accompanied by negotiation of transaction agreements with final approvals anticipated in late 2015.

### **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 environmental review.

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 between 1.0 to 2.25 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 950 and 2000 housing units, with 15 to 20 percent of them made available to low-income households. This built area includes three historic industrial buildings that will be rehabilitated as part of the Waterfront Site development.

### **Cruise Terminal**

On February 26, 2013 the Port of San Francisco cut the ribbon opening the \$67 million core and shell of the new James R. Herman cruise ship terminal at Pier 27 for use during the America's Cup races in the summer of 2013. The \$44 million second phase commenced after the America's Cup competition was completed and will install maritime equipment, complete an operations area within a portion of Pier 29, and complete improvements to the ground transportation area and Northeast Wharf Plaza. When complete in late 2014, the \$111 million, approximately 88,000 square foot, two-level cruise terminal will replace the current outmoded and insufficient facility at Pier 35 and will include a 2.5 acre park along the Embarcadero ground transportation area capability and a strengthened connection between the Bay and the base of Telegraph Hill.

The proposed size of the terminal was defined to serve current and anticipated ship berthing requirements and associated passenger flows. The Pier 27 cruise terminal was designed to optimally handle vessels carrying 2,600 passengers and will have the capacity to serve vessels carrying up to 4,000 passengers, totaling 40-80 cruise calls a year. 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.

Bay Area Economics was commissioned to provide an economic impact study for the Pier 27 project. The study projects that the project could create approximately \$29.4 million annually in direct economic activity, \$42.2 million in total impacts, and generate approximately 408 jobs within San Francisco. In addition, the Bay Area Economics study projects that the project could generate approximately \$900,000 annually in direct tax revenues that accrue to the City's General Fund. Regionally, Bay Area Economics estimated \$43.4 million in direct impacts and \$66.9 million in total impacts, and approximately 470 jobs in the Bay Area.

### **America's Cup**

On December 31, 2010, the City was selected to host two America's Cup World Series regattas in the summer of 2012 and the 34<sup>th</sup> America's Cup Challenger Selection Series and Match Finals in the summer of 2013. To accommodate the events, the Port invested in a series of Waterfront improvements along the central and northeast waterfront, primarily on Piers 27-29 for the America's Cup Village and at Piers 30-32 for team bases. Prior to the events, the City completed the Brannan Street Wharf project, the core and shell of the Pier 27 James R. Herman Cruise Terminal building, a portion of Jefferson Street, the Marina Green Bicycle Trail and the Pier 43 Bay Link Trail and made significant investments in deferred maintenance needs at Piers 30-32, Pier 23 and several of the aprons and marginal wharves used for the Events. Now that the events have concluded, the City will complete the James R. Herman Cruise Ship Terminal and Northeast Wharf Plaza.

### **Moscone Convention Center**

The Moscone Center Expansion Project would add up to 350,000 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 seek to create 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, or 'paseo' from Third St and a new, enclosed pedestrian bridges connecting the upper levels of the new Moscone North and Moscone South. This would provide enhanced circulation for Moscone convention attendees and reduce on-street congestion while maintaining from the successful activity in Yerba Buena Gardens and the children's cultural facilities.

A May 2012 analysis by Jones Lang Lasalle Hotels estimated that the City could 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. Project sponsors initiated environmental review in March 2013 with the goal of starting construction in late 2014, continuing 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, 2013, 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



EDWIN M. LEE  
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors  
FROM: *per* Mayor Edwin M. Lee *EL*  
RE: Earthquake Safety and Emergency Response General Obligation Bonds,  
2010, Series 2014C – Not to Exceed \$57,840,000 – Sale Resolution  
DATE: July 15, 2014

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Attached for introduction to the Board of Supervisors is the resolution authorizing and directing the sale of not to exceed \$57,840,000 Aggregate Principal Amount of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2010), Series 2014C; prescribing the form and terms of said bonds; authorizing the execution, authentication, and registration of said bonds; providing for the appointment of depositories and other agents for said bonds; providing for the establishment of accounts related to said bonds; providing for the manner of sale of said bonds by competitive sale; approving the forms of Official Notice of Sale and Notice of Intention to Sell Bonds; directing the publication of the Notice of Intention to Sell Bonds; approving the form of the Preliminary Official Statement and the form and execution of the Official Statement relating to the sale of said bonds; Approving the Form of the Continuing Disclosure Certificate; Authorizing and approving modifications to documents; declaring the City's intent to reimburse certain expenditures; ratifying certain actions previously taken; and granting general authority to City officials to take necessary actions in connection with the authorization, issuance, sale, and delivery of said bonds.

I request that this item be calendared in Budget and Finance Committee on July 23rd.

Should you have any questions, please contact Jason Elliott (415) 554-5105.

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<b>Items 20, 21, 22, 23 and 24</b> <b>Files 14-0801, 14-0802, 14-0811, 14-0812,</b> <b>and 14-0840</b>	<b>Department:</b> Office of Public Finance (OPF)
<b>EXECUTIVE SUMMARY</b>	
<b>Legislative Objectives</b>	
<ul style="list-style-type: none"> <li>• File 14-0840 authorizes the issuance \$400,000,000 in aggregate principal amount of Earthquake Safety and Emergency Response general obligation bonds that were approved by the voters on June 4, 2014;</li> <li>• File 14-0811 allows for the sale of not-to-exceed \$106,095,000 of 2014 Earthquake Safety and Emergency Response general obligation bonds, Series 2014D;</li> <li>• File 14-0812 allows for the sale of not-to-exceed \$57,840,000 of 2010 Earthquake Safety and Emergency Response general obligation bonds, Series 2014C;</li> <li>• File 14-0801 appropriates \$106,095,000 in Series 2014D bond proceeds; and</li> <li>• File 14-0802 appropriates \$57,840,000 in Series 2014C bond proceeds.</li> </ul>	
<b>Key Points</b>	
<ul style="list-style-type: none"> <li>• In June 2010, voters approved Proposition B, authorizing the issuance of not-to-exceed \$412,300,000 in general obligation bonds to finance earthquake safety and emergency response projects. Four series of the 2010 bonds, totaling \$332,135,000, have been issued to date. The sale of \$57,840,000 (Series 2014C) is the fifth series of the 2010 bonds.</li> <li>• In June 2014, voters approved Proposition A, authorizing the issuance of up to \$400,000,000 in general obligation bonds to fund the completion of certain projects funded by the 2010 bonds as well as new earthquake safety and emergency response projects. The first series of bonds issued under Proposition A is 2014D.</li> <li>• The projects funded through the two proposed bond sales, Series 2014C and Series 2014D include: repairs to the Public Safety Building, continued work on the Neighborhood Fire Station and Support Facilities, continuation of existing projects related to the Auxiliary Water Supply System, upgrades to District Police Stations, relocation of Medical Examiner Facility, and upgrades to the Traffic Company &amp; Forensic Services Division.</li> </ul>	
<b>Fiscal Impact</b>	
<ul style="list-style-type: none"> <li>• The requested not-to-exceed total of \$163,935,000 in bonds is projected to be sold for a par amount of \$156,205,000, with \$154,299,784 in estimated project funds and \$1,905,216 in issuance and related oversight costs.</li> <li>• The bonds are estimated to have an annual interest rate of 5.02 percent over the approximate 20-year life of the bonds, with interest on the bonds totaling \$91,900,000. The total principal and interest payment on the 20-year bonds is estimated to be \$248,105,000.</li> <li>• Repayment of the annual debt service will be covered through increases in the annual Property Tax rate, and for properties with an assessed value of \$500,000, owners would pay average annual additional \$35.83 in Property Taxes to the City per year if the anticipated \$156,205,000 in bonds are sold.</li> </ul>	
<b>Recommendation</b>	
<ul style="list-style-type: none"> <li>• Approve the proposed resolutions and ordinances.</li> </ul>	

**MANDATE STATEMENT / BACKGROUND****Mandate Statement**

Charter Section 9.105 provides that the issuance and sale of General Obligation bonds are subject to approval by the Board of Supervisors. Charter Section 9.105 also provides that amendments to the appropriation ordinance, as finally adopted, are to be adopted in the same manner as other ordinances, subject to the Controller certifying the availability of funds.

Administrative Code Section 2.71 requires City departments to submit Bond Accountability Reports to the Clerk of the Board, Controller, Treasurer, Director of Public Finance and the Budget and Legislative Analyst 60 days prior to appropriation of bond funds.

Administrative Code Section 3.15 requires Board of Supervisors approval for supplemental budget requests subsequent to the adoption of the annual budget.

**Background**

In June 2010, two-thirds majority of voters of the City approved Proposition B, which authorized the issuance of not-to-exceed \$412,300,000 in general obligation bonds to finance the construction, acquisition, improvement, retrofitting, rehabilitation and completion of earthquake safety and emergency responsiveness facilities and infrastructure.

On November 2, 2010, the Board of Supervisors approved a resolution (File 10-1255) authorizing the issuance of up to \$412,300,000 Earthquake Safety and Emergency Response (ESER) General Obligation Bonds. The Board of Supervisors has previously authorized the following sale and appropriation of \$349,315,000 of the 2010 ESER Bonds.

Month	Amount	File
November 2010	85,000,000	Files 10-1256 and 10-1248
January 2012	192,000,000	Files 11-1344 and 11-1333
June 2012	40,410,000	Files 12-0533 and 12-0527
May 2013	31,905,000	Files 13-0382 and 13-3068
<b>Total</b>	<b>349,315,000</b>	

\$332,135,000 of the \$349,315,000 has been sold to date for projects related to ESER.

In June 2014, voters approved Proposition A, which authorized the issuance of up to \$400,000,000 in general obligation bonds for the completion of certain projects funded by the 2010 ESER bonds as well as new ESER projects. The first series of bonds has not yet been issued under Proposition A.

## DETAILS OF PROPOSED LEGISLATION

The proposed three resolutions do the following:

- File 14-0840 authorizes the issuance \$400,000,000 in aggregate principal amount of City and County of San Francisco General Obligation Bonds that were approved by the voters in June 2014;
- File 14-0811 allows for the sale of not-to-exceed \$106,095,000 of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response Bonds, 2014), Series 2014D; and
- File 14-0812 allows for the sale of not-to-exceed \$57,840,000 of City and County of San Francisco General Obligation Bonds (Earthquake Safety and Emergency Response bonds, 2010), Series 2014C; and,

The proposed two ordinances appropriate \$163,935,000 as follows:

- File 14-0801 appropriates \$106,095,000 in Series 2014D bond proceeds; and
- File 14-0802 appropriates \$57,840,000 in Series 2014C bond proceeds.

The 2014C Bonds will be the fifth series of bonds to be issued under the 2010 Proposition B, and the 2014D Bonds will be the first series to be issued under the 2014 Proposition A. The two series authorized by the proposed resolutions represent a not to exceed aggregate principal amount of \$163,935,000. Table 1 below shows the total amount of the 2010 and 2014 Earthquake Safety and Emergency Response bonds that have been authorized and sold.

**Table 1: Total Authorized and Sold Earthquake Safety and Emergency Response Bonds**

	2010 Bonds	2014 Bonds (Pending)	Total
Authorized	\$412,300,000	\$400,000,000	\$812,300,000
Previously Sold	332,135,000	0	332,135,000
Remaining Balance	\$80,165,000	\$400,000,000	\$480,165,000
<b>Proposed</b>	<b>2014C Series</b>	<b>2014D Series</b>	<b>Total</b>
	57,840,000	106,095,000	163,935,000
Remaining Balance	\$22,325,000	\$293,905,000	\$316,230,000

The proposed sources and uses of the Series 2014C and 2014D bond proceeds are shown in Table 2 below.

**Table 2: Sources and Uses of Funds**

	ESER 2010 Series 2014C	ESER 2014 Series 2014D	Aggregate
<b>Sources</b>			
Bond Proceeds	\$57,840,000	\$106,095,000	\$163,935,000
<b>Uses</b>			
<b>Projects</b>			
Emergency Firefighting Water System (AWSS)	31,003,224	20,000,000	51,003,224
Neighborhood Fire Stations	11,600,000	8,150,600	19,750,600
Public Safety Building	11,782,742	0	11,782,742
District Police Stations	0	6,882,939	6,882,939
Traffic Company & Forensic Services Division	0	30,319,674	30,319,674
Medical Examiner Facility	0	34,252,621	34,252,621
Subtotal, Projects	54,385,966	99,605,834	153,991,800
Controller's Audit Fund	108,772	199,212	307,984
Projects Subtotal	54,494,738	99,805,046	154,299,784
<b>Other Costs of Issuance</b>			
Costs of Issuance	233,902	421,674	655,576
Underwriter's Discount	386,190	707,245	1,093,435
Citizens' General Obligation Bond Oversight Committee	55,170	101,035	156,205
Costs of Issuance Subtotal	675,262	1,229,954	1,905,216
<b>Par Amount of Bonds</b>	<b>55,170,000</b>	<b>101,035,000</b>	<b>156,205,000</b>
Reserve Pending Bond Sale <sup>1</sup>	2,670,000	5,060,000	7,730,000
<b>Total Uses</b>	<b>\$57,840,000</b>	<b>\$106,095,000</b>	<b>\$163,935,000</b>

Source: Letter dated July 15, 2014, from the Office of Public Finance to the Board of Supervisors, re City and County of San Francisco General Obligation Bonds, Earthquake Safety and Emergency Response Bonds, Series 2014C (2010) and 2014D (2014)

Proceeds from the 2014C Bonds will fund the following project costs of \$54,385,966, as shown in Table 2 above:

- \$31,003,224 for renovation of the City's emergency firefighting water system (the Auxiliary Water Supply System or AWSS), which includes planning, design and construction of cisterns, pipelines, and tunnels.
- \$11,600,000 for Neighborhood Fire Station and Support Facilities, which includes design of Fire Station 5 improvements, construction of Fire Station 16 improvements, environmental review of the Station 35 fire boat, and other projects. As shown in Table

<sup>1</sup> The Reserve Pending Sale accounts for variations in interest rates prior to the sale of the proposed bonds.

3 below, \$21,885,235 in 2010 ESER bonds to fund Neighborhood Fire Station and Support Facilities projects remains unsold and unappropriated.

- \$11,782,742 to complete the Public Safety Building project. The project is scheduled for completion in November 2014.

Proceeds from the 2014D Bonds will fund the following project costs of \$99,605,834, as shown in Table 2 above:

- \$6,882,939 for the District Police Stations to fund the initial costs to rehabilitate and seismically upgrade selected police district stations throughout the City.
- \$34,252,621 for the Medical Examiner Facility, which funds the initial costs of relocating the Medical Examiner Facility from the seismically vulnerable Hall of Justice at 850 Bryant Street to a seismically safe facility.
- \$30,319,674 for the Traffic Company & Forensic Services Division to relocate the motorcycle police and crime lab from the seismically vulnerable Hall of Justice and the Hunters Point Shipyard to a safe facility.
- \$20,000,000 for Auxiliary Water Supply System projects funded by the 2014 ESER bonds for continued planning, design, and construction of pipeline, tunnel, and cistern projects.
- \$8,150,600 to fund the Neighborhood Fire Station and Support Facilities projects funded by the 2014 ESER bonds, which continues ongoing projects.

Table 3 below shows the 2010 Proposition B and 2014 Proposition A bond budgets, prior appropriations, and proposed appropriations for the sale of Series 2014C and 2014D bonds. As shown in Table 3, if the Board of Supervisors approves the proposed resolutions and ordinances, the balance of authorized and unsold 2010 Proposition B bonds is \$22,325,000 and 2014 Proposition A bonds is \$293,905,000.

**Table 3: Earthquake Safety and Emergency Response Bond Appropriations**

	Budget	Prior Appropriation	Proposed	Balance
<b>2010 Proposition B</b>			<b>2014C Bonds</b>	
Public Safety Building	\$239,000,000	\$227,217,258	\$11,782,742	\$0
Neighborhood Fire Stations	64,000,000	30,514,765	11,600,000	21,885,235
Auxiliary Water Supply System	102,400,000	71,396,776	31,003,224	0
Oversight, Accountability and Issuance	6,900,000	3,006,199	3,454,034	439,767
<b>Total <sup>a</sup></b>	<b>\$412,300,000</b>	<b>\$332,135,000</b>	<b>\$57,840,000</b>	<b>\$22,325,002</b>
<b>2014 Proposition A</b>			<b>2014D Bonds</b>	
District Police Stations	\$30,000,000		\$6,882,939	\$23,117,061
Medical Examiner Facilities	65,000,000		34,252,621	30,747,379
Traffic Company & Forensic Services	165,000,000		30,319,674	134,680,326
Auxiliary Water Supply System	55,000,000		20,000,000	35,000,000
Neighborhood Fire Stations	85,000,000		8,150,600	76,849,400
Oversight, Accountability and Issuance			6,489,166	(6,489,166)
<b>Total</b>	<b>\$400,000,000</b>		<b>\$106,095,000</b>	<b>\$293,905,000</b>

<sup>a</sup> Variations in total amounts are due to rounding.

## FISCAL IMPACT

The requested not-to-exceed \$163,935,000 in Series 2014C and 2014D bonds (see Table 2 above) are projected to be sold for a par amount of \$156,205,000, which would result in project funds totaling \$154,299,784 and issuance and related oversight costs totaling \$1,905,216. Estimated bond proceeds of \$156,205,000 are projected to have an annual interest rate of 5.02 percent over the approximate 20-year life of the bonds. The Office of Public Finance estimates that average annual debt service on the bonds is \$12,415,000; and total interest payments over the life of the bonds are \$91,900,000. The total principal and interest payment on the 20-year bonds is estimated to be \$248,105,000.

The proposed resolution provides that the proposed bonds could be structured as a 25-year bond, instead of the anticipated 20-year term, if market conditions require a longer period of time, though a 20-year term is anticipated.

Repayment of the proposed bonds is outlined as follows and summarized in Table 4 below:

- For Series 2014C, repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which, according to the Controller's Office, would average \$0.0025 per \$100 or \$2.54 per \$100,000 of assessed valuation over the anticipated 20-year term of the bonds. The owner of a residence with an assessed value of \$500,000, assuming a homeowner's exemption of \$7,000, would pay average annual additional Property Taxes



to the City of \$12.54 per year if the anticipated \$55,170,000 Earthquake Safety and Emergency Response General Obligation Bonds are sold.<sup>2</sup>

- For Series 2014D, repayment of the annual debt service will be recovered through increases in the annual Property Tax rate, which, according to the Controller’s Office, would average \$0.0047 per \$100 or \$4.66 per \$100,000 of assessed valuation over the anticipated 20-year term of the bonds. The owner of a residence with an assessed value of \$500,000, assuming a homeowner’s exemption of \$7,000, would pay average annual additional Property Taxes to the City of \$22.96 per year if the anticipated \$101,035,000 Earthquake Safety and Emergency Response General Obligation Bonds are sold.<sup>3</sup>

**Table 4: Anticipated Property Tax Increase for Bond Repayment**

General Obligation Bonds	Requested		Anticipated Average Annual Property Tax Impact on \$500,000 Home
	Not to exceed Amount	Anticipated Par Amount	
2014C (Proposition B)	57,840,000	55,170,000	12.54
2014D (Proposition A)	106,095,000	101,035,000	23.29
<b>Total</b>	<b>163,935,000</b>	<b>156,205,000</b>	<b>35.83</b>

Source: Controller’s Office of Public Finance

**RECOMMENDATION**

Approve the proposed resolutions and ordinances.

<sup>2</sup> The difference between the authorized amount of \$57,840,000 and the expected par amount of \$55,170,000 is the \$2,670,000 Reserve Pending Sale shown in Table 2.

<sup>3</sup> The difference between the authorized amount of \$106,095,000 and the expected par amount of \$101,035,000 is the \$5,060,000 Reserve Pending Sale shown in Table 2.

