

APPENDIX A

**CITY AND COUNTY OF SAN FRANCISCO
ORGANIZATION AND FINANCES**

This Appendix contains information that is current as of October 1, 2017

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

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

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CITY GOVERNMENT

City Charter

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

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

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

The Charter distributes governing authority among the Mayor, the Board of Supervisors, the various other elected officers, the City Controller and other appointed officers, and the boards and commissions that oversee the various City departments. Compared to the governance of the City prior to 1995, the Charter

concentrates relatively more power in the Mayor and Board of Supervisors. The Mayor appoints most commissioners subject to a two-thirds vote of the Board of Supervisors, unless otherwise provided in the Charter. The Mayor appoints each department head from among persons nominated to the position by the appropriate commission, and may remove department heads.

Mayor and Board of Supervisors

Edwin M. Lee is the 43rd and current Mayor of the City. The Mayor has responsibility for general administration and oversight of all departments in the executive branch of the City. Mayor Lee was elected to his current four-year term on November 3, 2015. Prior to being elected, Mayor Lee was appointed by the Board of Supervisors in January 2011 to fill the remaining year of former Mayor Gavin Newsom’s term when Mayor Newsom was sworn in as the State’s Lieutenant Governor. Mayor Lee served as the City Administrator from 2005 until his appointment to Mayor. He also previously served in each of the following positions: the City’s Director of Public Works, the City’s Director of Purchasing, the Director of the Human Rights Commission, the Deputy Director of the Employee Relations Division, and coordinator for the Mayor’s Family Policy Task Force.

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

TABLE A-1

CITY AND COUNTY OF SAN FRANCISCO		
Board of Supervisors		
Name	First Elected or Appointed	Current Term Expires
Sandra Lee Fewer, <i>District 1</i>	2017	2021
Mark Farrell, <i>District 2</i>	2010	2019
Aaron Peskin, <i>District 3</i>	2017	2021
Katy Tang, <i>District 4</i>	2013	2019
London Breed, Board President, <i>District 5</i>	2017	2021
Jane Kim, <i>District 6</i>	2010	2019
Norman Yee, <i>District 7</i>	2017	2021
Jeff Sheehy, <i>District 8</i>	2017	2021
Hillary Rohen, <i>District 9</i>	2017	2021
Malia Cohen, <i>District 10</i>	2010	2019
Ahsha Safai, <i>District 11</i>	2017	2021

Other Elected and Appointed City Officers

Dennis J. Herrera was re-elected to a four-year term as City Attorney in November 2015. The City Attorney represents the City in legal proceedings in which the City has an interest. Mr. Herrera was first elected City Attorney in December 2001. Before becoming City Attorney, Mr. Herrera had been a partner in a private law firm and had served in the Clinton Administration as Chief of Staff of the U.S. Maritime Administration. He also served as president of the San Francisco Police Commission and was a member of the San Francisco Public Transportation Commission.

Carmen Chu was elected Assessor-Recorder of the City in November 2014. The Assessor-Recorder administers the property tax assessment system of the City. Before becoming Assessor-Recorder, Ms. Chu

was elected in November 2008 and November 2010 to the Board of Supervisors, representing the Sunset/Parkside District 4 after being appointed by then-Mayor Newsom in September 2007.

José Cisneros was re-elected to a four-year term as Treasurer of the City in November 2015. The Treasurer is responsible for the deposit and investment of all City moneys, and also acts as Tax Collector for the City. Mr. Cisneros has served as Treasurer since September 2004, following his appointment by then-Mayor Newsom. Prior to being appointed Treasurer, Mr. Cisneros served as Deputy General Manager, Capital Planning and External Affairs for the MTA.

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

Naomi M. Kelly was appointed to a five-year term as City Administrator by Mayor Lee on February 7, 2012 and re-appointed for a second five-year term on February 8, 2017. 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 2017, the City adopted a full two-year budget. The City's fiscal year 2017-18 adopted budget appropriates annual revenues, fund balance, transfers and reserves of approximately \$10.12 billion, of which the City's General Fund accounts for approximately \$5.15 billion. In fiscal year 2018-19 appropriated revenues, fund balance, transfers and reserves total approximately \$10.00 billion and \$5.31 billion of General Fund budget. For a further

discussion of the fiscal years 2017-18 and 2018-19 adopted budgets, see “City Budget Adopted for Fiscal Years 2017-18 and 2018-19” herein.

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

Budget Process

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

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

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

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

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

November 2009 Charter Amendment Instituting Two-Year Budgetary Cycle

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

Proposition A requires four significant changes:

1. Specifies a two-year (biennial) budget, replacing the annual budget. Fixed two-year budgets are currently approved by the Board of Supervisors for five departments: the Airport, Child Support Services, the Port, the Public Utilities Commission and MTA. All other departments prepared balanced, rolling two-year budgets.
2. Requires a five-year financial plan, which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period. The most recent five-year financial plan, including a forecast of expenditures and revenues and proposed actions to balance them in light of strategic goals, was issued by the Mayor, Budget Analyst for the Board of Supervisors and Controller's Office on December 16, 2016, for fiscal year 2017-18 through fiscal year 2021-22, to be considered by the Board of Supervisors. See "Five Year Financial Plan" below. This plan was most recently updated on March 23, 2017.
3. Charges the Controller's Office with proposing to the Mayor and Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt and financial measures in the case of disaster recovery and requires the City to adopt budgets consistent with these policies once approved. The Controller's Office may recommend additional financial policies or amendments to existing policies no later than October 1 of any subsequent year.
4. Standardizes the processes and deadlines for the City to submit labor agreements for all public employee unions by May 15.

On April 13, 2010, the Board of Supervisors unanimously adopted policies to 1) codify the City's current practice of maintaining an annual General Reserve for current year fiscal pressures not anticipated in the budget and roughly double the size of the General Reserve by fiscal year 2015-16, and 2) create a new Budget Stabilization Reserve funded by excess receipts from volatile revenue streams to augment the existing Rainy Day Reserve to help the City mitigate the impact of multi-year downturns. On November 8 and 22, 2011, the Board of Supervisors unanimously adopted additional financial policies limiting the

future approval of Certificates of Participation and other long-term obligations to 3.25% of discretionary revenue, and specifying that selected nonrecurring revenues may only be spent on nonrecurring expenditures. On December 16, 2014, the Board of Supervisors unanimously adopted financial policies to implement voter-approved changes to the City's Rainy Day Reserve, as well as changes to the General Reserve which would increase the cap from 2% to 3% of revenues and reduce deposit requirements during a recession. These policies are described in further detail below under "Budgetary Reserves." The Controller's Office may propose additional financial policies by October 1 of any year.

Role of Controller; Budgetary Analysis and Projections

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

In addition to the five year planning responsibilities established in Proposition A of November 2009 and discussed above, Charter Section 3.105 directs the Controller to issue periodic or special financial reports during the fiscal year. Each year, the Controller issues six-month and nine-month budget status reports to apprise the City's policymakers of the current budgetary status, including projected year-end revenues, expenditures and fund balances. The Controller issued the most recent of these reports, the fiscal year 2016-17 Nine Month Budget Status Report (the "Nine Month Report"), on May 10, 2017. The City Charter also directs the Controller to annually report on the accuracy of economic assumptions underlying the revenue estimates in the Mayor's proposed budget. On June 9, 2017 the Controller released the Discussion of the Mayor's fiscal year 2017-18 and fiscal year 2018-19 Proposed Budget (the "Revenue Letter" as described in "Budget Process" above). All of these reports are available from the Controller's website: www.sfcontroller.org. The information from said website is not incorporated herein by reference.

General Fund Results: Audited Financial Statements

The General Fund portions of the fiscal years 2017-18 and 2018-19 Original Budgets total \$5.15 billion and \$5.31 billion, respectively. This does not include expenditures of other governmental funds and enterprise fund departments such as the Airport, the MTA, the Public Utilities Commission, the Port and the City-owned hospitals (San Francisco General and Laguna Honda). Table A-2 shows Final Revised Budget revenues and appropriations for the City's General Fund for fiscal years 2012-13 through 2015-16 and the Original Budgets for fiscal years 2016-17 and 2017-18. See "PROPERTY TAXATION –Tax Levy and Collection," "OTHER CITY TAX REVENUES" and "CITY GENERAL FUND PROGRAMS AND EXPENDITURES" herein.

The City's most recently completed Comprehensive Annual Financial Report (the "CAFR," which includes the City's audited financial statements) for fiscal year 2015-16 was issued on November 18, 2016. The fiscal year 2015-16 CAFR reported that as of June 30, 2016, the General Fund available for appropriation in subsequent years was \$435 million (see Table A-4), of which \$172.1 million was assumed in the fiscal year 2016-17 Original Budget and \$191.2 million was assumed in the fiscal year 2017-18 Original Budget. This represents a \$44 million increase in available fund balance over the \$391 million available as of June 30, 2015 and resulted primarily from greater-than-budgeted additional tax revenue, particularly property and business tax revenues, partially offset by weakness in sales and parking tax revenues in fiscal year 2015-16, as well as lower required transfers to support the Department of Public Health. The fiscal year 2016-17 CAFR is scheduled to be completed in late November 2017.

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TABLE A-2

CITY AND COUNTY OF SAN FRANCISCO
Budgeted General Fund Revenues and Appropriations for
Fiscal Years 2013-14 through 2017-18
(000s)

	2013-14 Final Revised Budget	2014-15 Final Revised Budget	2015-16 Final Revised Budget	2016-17 Final Revised Budget ²	2017-18 Original Budget ³
Prior-Year Budgetary Fund Balance & Reserves	\$674,637	\$941,702	\$1,236,090	\$178,109	\$195,221
<u>Budgeted Revenues</u>					
Property Taxes	\$1,153,417	\$1,232,927	\$1,291,000	\$1,412,000	\$1,468,000
Business Taxes	532,988	572,385	634,460	669,450	697,887
Other Local Taxes	846,924	910,430	1,062,535	1,117,245	1,262,875
Licenses, Permits and Franchises	25,533	27,129	27,163	28,876	29,187
Fines, Forfeitures and Penalties	4,994	4,242	4,550	4,580	4,578
Interest and Investment Earnings	10,946	6,853	10,680	13,970	14,353
Rents and Concessions	23,060	22,692	15,432	16,140	15,828
Grants and Subventions	799,188	856,336	900,997	959,099	978,866
Charges for Services	177,081	210,020	219,628	236,102	236,786
Other	14,321	21,532	31,084	61,334	27,821
Total Budgeted Revenues	\$3,588,452	\$3,864,545	\$4,197,529	\$4,518,796	\$4,736,181
Bond Proceeds & Repayment of Loans	1,105	1,026	918	881	881
<u>Expenditure Appropriations</u>					
Public Protection	\$1,102,667	\$1,158,771	\$1,211,007	\$1,298,185	\$1,323,268
Public Works, Transportation & Commerce	79,635	89,270	138,288	176,768	165,498
Human Welfare & Neighborhood Development	745,277	828,555	892,069	970,679	1,009,995
Community Health	703,092	703,569	751,416	786,218	824,100
Culture and Recreation	112,624	119,051	125,253	158,954	158,979
General Administration & Finance	199,709	214,958	235,647	349,308	333,291
General City Responsibilities ¹	86,516	116,322	113,672	154,344	164,895
Total Expenditure Appropriations	\$3,029,520	\$3,230,496	\$3,467,352	\$3,894,456	\$3,980,026
Budgetary reserves and designations, net	\$0	\$39,966	\$9,907	\$58,469	\$61,014
Transfers In	\$242,958	\$199,175	\$235,416	\$161,995	\$159,211
Transfers Out	(720,806)	(873,592)	(962,511)	(906,856)	(1,050,454)
Net Transfers In/Out	(\$477,848)	(\$674,417)	(\$727,095)	(\$744,861)	(\$891,243)
Budgeted Excess (Deficiency) of Sources					
Over (Under) Uses	\$756,825	\$862,394	\$1,230,182	\$0	\$1
Variance of Actual vs. Budget	184,184	373,696	296,673		
Total Actual Budgetary Fund Balance³	\$941,009	\$1,236,090	\$1,526,855	\$0	\$1

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

² Fiscal year 2016-17 Final Revised Budget will be available upon release of the fiscal year 2016-17 CAFR.

³ Fiscal year 2017-18 Original Budget Prior-Year Budgetary Fund Balance & Reserves will be reconciled with the previous year's Final Revised Budget.

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

The City prepares its budget on a modified accrual basis. Accruals for incurred liabilities, such as claims and judgments, workers' compensation, accrued vacation and sick leave pay are funded only as payments are required to be made. The audited General Fund balance as of June 30, 2016 was \$1.4 billion (as shown in Table A-3 and Table A-4) using Generally Accepted Accounting Principles ("GAAP"), derived from audited revenues of \$4.4 billion. Audited General Fund balances are shown in Table A-3 on both a budget basis and a GAAP basis with comparative financial information for the fiscal years ended June 30, 2012 through June 30, 2016.

TABLE A-3

CITY AND COUNTY OF SAN FRANCISCO
Summary of Audited General Fund Balances
Fiscal Years 2011-12 through 2015-16
(000s)

	2011-12	2012-13	2013-14	2014-15	2015-16
Restricted for rainy day (Economic Stabilization account)	\$31,099	\$23,329	\$60,289	\$71,904	\$74,986
Restricted for rainy day (One-time Spending account)	3,010	3,010	22,905	43,065	45,120
Committed for budget stabilization (citywide)	74,330	121,580	132,264	132,264	178,434
Committed for Recreation & Parks expenditure savings reserve	4,946	15,907	12,862	10,551	8,736
<u>Assigned, not available for appropriation</u>					
Assigned for encumbrances	\$62,699	\$74,815	\$92,269	\$137,641	\$190,965
Assigned for appropriation carryforward	85,283	112,327	159,345	201,192	293,921
Assigned for budget savings incentive program (citywide)	22,410	24,819	32,088	33,939	58,907
Assigned for salaries and benefits (MOU)	7,100	6,338	10,040	20,155	18,203
Total Fund Balance Not Available for Appropriation	\$290,877	\$382,125	\$522,062	\$650,711	\$869,272
<u>Assigned and unassigned, available for appropriation</u>					
Assigned for litigation & contingencies	\$23,637	\$30,254	79,223	131,970	\$145,443
Assigned for General reserve	22,306	21,818	-	-	-
Assigned for subsequent year's budget	104,284	122,689	135,938	180,179	172,128
Unassigned for General Reserve	-	-	45,748	62,579	76,913
Unassigned - Budgeted for use second budget year	103,575	111,604	137,075	194,082	191,202
Unassigned - Contingency for second budget year	-	-	-	-	60,000
Unassigned - Available for future appropriation	12,418	6,147	21,656	16,569	11,872
Total Fund Balance Available for Appropriation	\$266,220	\$292,512	\$419,640	\$585,379	\$657,558
Total Fund Balance, Budget Basis	\$557,097	\$674,637	\$941,702	\$1,236,090	\$1,526,830
<u>Budget Basis to GAAP Basis Reconciliation</u>					
Total Fund Balance - Budget Basis	\$557,097	\$674,637	\$941,702	\$1,236,090	\$1,526,830
Unrealized gain or loss on investments	6,838	(1,140)	935	1,141	343
Nonspendable fund balance	19,598	23,854	24,022	24,786	522
Cumulative Excess Property Tax Revenues Recognized	(46,140)	(38,210)	(37,303)	(37,303)	(36,008)
Cumulative Excess Health, Human Service, Franchise Tax and other Revenues on Budget Basis	(62,241)	(93,910)	(66,415)	(50,406)	(56,709)
Deferred Amounts on Loan Receivables	(16,551)	(20,067)	(21,670)	(23,212)	-
Pre-paid lease revenue	(2,876)	(4,293)	(5,709)	(5,900)	(5,816)
Total Fund Balance, GAAP Basis	\$455,725	\$540,871	\$835,562	\$1,145,196	\$1,429,162

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

Table A-4, entitled “Audited Statement of Revenues, Expenditures and Changes in General Fund Balances,” is extracted from information in the City’s CAFR for the five most recent fiscal years. Audited financial statements for the fiscal year ended June 30, 2016 are included herein as Appendix B – “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE YEAR ENDED JUNE 30, 2016.” Prior years’ audited financial statements can be obtained from the City Controller’s website. Information from the City Controller’s website is not incorporated herein by reference. Excluded from this Statement of General Fund Revenues and Expenditures in Table A-4 are fiduciary funds, internal service funds, special revenue funds (which relate to proceeds of specific revenue sources which are legally restricted to expenditures for specific purposes) and all of the enterprise fund departments of the City, each of which prepares separate audited financial statements.

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TABLE A-4

CITY AND COUNTY OF SAN FRANCISCO
Audited Statement of Revenues, Expenditures and Changes in General Fund Balances
Fiscal Years 2011-12 through 2015-16¹
(000s)

	2011-12	2012-13	2013-14	2014-15	2015-16
Revenues:					
Property Taxes	\$1,056,143	\$1,122,008	\$1,178,277	\$1,272,623	\$1,393,574
Business Taxes ²	435,316	479,627	562,896	609,614	659,086
Other Local Taxes	751,301	756,346	922,205	1,085,381	1,054,109
Licenses, Permits and Franchises	25,022	26,273	26,975	27,789	27,909
Fines, Forfeitures and Penalties	8,444	6,226	5,281	6,369	8,985
Interest and Investment Income	10,262	2,125	7,866	7,867	9,613
Rents and Concessions	24,932	35,273	25,501	24,339	46,553
Intergovernmental	678,808	720,625	827,750	854,464	900,820
Charges for Services	145,797	164,391	180,850	215,036	233,976
Other	17,090	14,142	9,760	9,162	22,291
Total Revenues	<u>\$3,153,115</u>	<u>\$3,327,036</u>	<u>\$3,747,361</u>	<u>\$4,112,644</u>	<u>\$4,356,916</u>
Expenditures:					
Public Protection	\$991,275	\$1,057,451	\$1,096,839	\$1,148,405	\$1,204,666
Public Works, Transportation & Commerce	52,815	68,014	78,249	87,452	136,762
Human Welfare and Neighborhood Development	626,194	660,657	720,787	786,362	853,924
Community Health	545,962	634,701	668,701	650,741	666,138
Culture and Recreation	100,246	105,870	113,019	119,278	124,515
General Administration & Finance	182,898	186,342	190,335	208,695	223,844
General City Responsibilities	96,132	81,657	86,968	98,620	114,663
Total Expenditures	<u>\$2,595,522</u>	<u>\$2,794,692</u>	<u>\$2,954,898</u>	<u>\$3,099,553</u>	<u>\$3,324,512</u>
Excess of Revenues over Expenditures	\$557,593	\$532,344	\$792,463	\$1,013,091	\$1,032,404
Other Financing Sources (Uses):					
Transfers In	\$120,449	\$195,272	\$216,449	\$164,712	\$209,494
Transfers Out	(553,190)	(646,912)	(720,806)	(873,741)	(962,343)
Other Financing Sources	3,682	4,442	6,585	5,572	4,411
Other Financing Uses	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>(\$429,059)</u>	<u>(\$447,198)</u>	<u>(\$497,772)</u>	<u>(\$703,457)</u>	<u>(\$748,438)</u>
Extraordinary gain/(loss) from dissolution of the Redevelopment Agency	(815)	-	-	-	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>\$127,719</u>	<u>\$85,146</u>	<u>\$294,691</u>	<u>\$309,634</u>	<u>\$283,966</u>
Total Fund Balance at Beginning of Year	<u>\$328,006</u>	<u>\$455,725</u>	<u>\$540,871</u>	<u>\$835,562</u>	<u>\$1,145,196</u>
Total Fund Balance at End of Year -- GAAP Basis ³	<u>\$455,725</u>	<u>\$540,871</u>	<u>\$835,562</u>	<u>\$1,145,196</u>	<u>\$1,429,162</u>
Assigned for Subsequent Year's Appropriations and Unassigned Fund Balance, Year End					
-- GAAP Basis	\$133,794	\$135,795	\$178,066	\$234,273	\$249,238
-- Budget Basis	\$220,277	\$240,410	\$294,669	\$390,830	\$435,202

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

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

³ Total fiscal year 2012-13 amount is comprised of \$122.7 million in assigned balance subsequently appropriated for use in fiscal year 2013-14 plus \$117.8 million unassigned balance available for future appropriations.

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

Five-Year Financial Plan

The Five-Year Financial Plan (“Plan”) is required under Proposition A, a Charter amendment approved by voters in November 2009. The Charter requires the Plan to forecast expenditures and revenues for the next five fiscal years, propose actions to balance revenues and expenditures during each year of the Plan, and discuss strategic goals and corresponding resources for City departments. Proposition A required that a Plan be adopted every two years. The City updates the Plan annually. The most recently adopted Plan, for fiscal years 2017-18 through 2021-22, was adopted by the Board of Supervisors and signed by the Mayor on May 5, 2017.

On December 16, 2016, the Mayor, Budget Analyst for the Board of Supervisors and the Controller’s Office issued a proposed Plan for fiscal year 2017-18 through fiscal year 2021-22, to be considered by the Board of Supervisors. The proposed Plan projects shortfalls of \$119 million, \$283 million, \$585 million, \$713 million, and \$848 million cumulatively for fiscal years 2017-18 through fiscal year 2021-22, respectively. On March 23, 2017, the proposed Plan was updated with the most recent information on the City’s fiscal condition. For General Fund Supported operations, the updated Plan projects budgetary shortfalls of \$87 million, \$201 million, \$612 million, \$774 million, and \$907 million cumulatively over the next five fiscal years. This represents a cumulative increase in shortfall of \$59 million from the prior projection.

The updated Plan projects growth over a five-year period in General Fund revenues of 11%, primarily composed of growth in local tax sources, offset by projected expenditure increases of 30% over the same period, primarily composed of growth in employee salaries and benefits, citywide operating expenses, and Charter mandated baselines and reserves. The Plan presents an array of fiscal strategies to constrain this increase in expenditures and bring revenues and expenditures into balance. To the extent budgets are balanced with ongoing savings or revenues, future shortfalls are would decrease.

The City currently projects growth in General Fund sources of \$541 million over the Plan period, and expenditure growth of \$1.4 billion. Growth in salaries and benefits account for 51% or \$732 million of the cumulative five year shortfall. Growth in citywide operating costs account for 31% or \$451 million of the cumulative five year shortfall. Growth in Charter mandated baselines and reserves account for 15% or \$214 million of the cumulative five year shortfall. Growth in individual department costs account for 4% or \$52.4 million of the cumulative five year shortfall. These figures incorporate the key assumptions from the December 2016 plan, including:

- **Continued Increases in Employer Contribution Rates to City Retirement System:** Consistent with the December 2016 proposed Plan, the March 2017 update anticipates increased retirement costs. This is in contrast to the pension relief anticipated at the time of the proposed Plan from December 2014, when decreased pension contributions were expected after the amortization of investment losses during the financial crisis. The increase in employer contribution rates is due to three main factors: lower than expected actual fiscal year 2015-16 investment earnings; updated demographic assumptions, which show that retirees are living longer and collecting pensions longer than previously expected, and an appellate court ruling against the City which found that voter-adopted changes to the conditions under which retirees could receive a supplemental COLA violated retirees’ vested rights. Current projections are marginally improved since the December 2016 Plan, as they incorporate the SFERS Retirement Board approved results of their July 1, 2016 actuarial funding valuation, resulting in slightly lower than previously assumed SFERS contribution rates paid by the City for miscellaneous employees. In addition, on December 21, 2016, the CalPERS Board of Administration approved lowering their discount rate assumption, the long-term rate of return , from 7.5% to 7% over three years. The March 2017 Plan update incorporates

increased contribution rates by the City for CalPERS employees, as a result of the discount rate changes beginning in FY 2018-19.

Voter Adopted Revenue and Spending Requirements: Consistent with the December 2016 proposed Plan, the March 2017 update continues to assume several new revenue and expenditure requirements that have been adopted by voters in 2016: a Recreation and Parks baseline (June 2016 Proposition B), a Dignity Fund baseline (November 2016 Proposition I), and a Street Tree Maintenance Fund baseline (November 2016 Proposition E). In addition to these spending requirements, the voters adopted an increase to the Real Property Transfer Tax rate (November 2016 Proposition W) and a tax on the distribution of sugar-sweetened beverages (November 2016 Proposition

The March 2017 update also incorporates the following key changes from the December 2016 Plan:

- **Two-Year Contract Extensions for Most Miscellaneous Employees:** In February 2017, the City negotiated two-year contract extensions (for fiscal years 2017-18 and 2018-19) with most of its labor unions. The parties agreed to a wage increase schedule of 3% on July 1, 2017 and 3% on July 1, 2018, with a provision to delay the fiscal year 2018-19 adjustment by six months if the City's deficit, as projected in the March 2017 update to the Five Year Financial Plan, exceeds \$200 million.
- **Updates to the City's Ten-Year Capital Plan:** On February 28, 2017, the City's Proposed Ten-Year Capital Plan for fiscal years 2018-2027 was introduced to the Board of Supervisors. The assumptions in the Capital Plan are reflected in the March update to the Five Year Financial Plan.

Importantly, the updated Plan does not assume any losses of federal or state revenues, except for formula-driven reductions. Although proposals that would have significant negative impact on the City budget are pending at the state and federal level, it is unclear which will ultimately be adopted and what the specific impacts will be.

While the projected shortfalls in the updated Plan reflect the difference in projected revenues and expenditures over the next five years if current service levels and policies continue, San Francisco's Charter requires that each year's budget be balanced. Balancing the budgets will require some combination of expenditure reductions and/or additional revenues. These projections assume no ongoing solutions are implemented. To the extent budgets are balanced with ongoing solutions, future shortfalls will decrease.

The December 2016 proposed Plan and the March 2017 update do not assume an economic downturn due to the difficulty of predicting recessions; however, the City has historically not experienced more than six consecutive years of expansion and the current economic expansion began over seven years ago. For this reason, the December 2016 proposed Plan includes a recession scenario, which reflects a revenue shortfall of \$960 million during the forecast period, based on the average rates of revenue declines experienced in major tax revenue sources during the previous two recessions.

City Budget Adopted for Fiscal Years 2017-18 and 2018-19

On July 26, 2017, Mayor Lee signed the Consolidated Budget and Annual Appropriation Ordinance (the "Original Budget") for the fiscal years ending June 30, 2018 and June 30, 2019. This is the sixth two-year budget for the entire City. The adopted budget closed the \$119 million and \$283 million General Fund

shortfalls for fiscal year 2017-18 and fiscal year 2018-19 identified in the City's December 2016 Plan update through a combination of increased revenues and expenditures savings.

The Original Budget for fiscal year 2017-18 and fiscal year 2018-19 totals \$10.12 billion and \$10.00 billion respectively, representing a year over year increase of \$532 million in fiscal year 2017-18 and year over year decrease of \$117 million in fiscal year 2018-19. The General Fund portion of each year's budget is \$5.15 billion in fiscal year 2017-18 and \$5.31 billion in fiscal year 2018-19 representing year over year increases of \$83 million and \$138 million. There are 30,835 funded full time positions in the fiscal year 2017-18 Original Budget and 30,938 in the fiscal year 2018-19 Original Budget representing year-over-year increases of 208 and 103 positions, respectively.

Other Budget Updates

On June 9 2017, the Controller's Office issued the Controller's Discussion of the Mayor's FY 2017-18 and FY 2018-19 Proposed Budget ("Revenue Letter"). The report found that the revenue assumptions in the proposed and now-adopted budget are reasonable, voter-required baseline and set-aside requirements are met or exceeded, and that code-mandated reserves and funded and maintained at required levels.

The letter also certified that the Original Budget for fiscal years 2017-18 and 2018-19 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

Revenues from the State represent approximately 15% of the General Fund revenues appropriated in the budget for fiscal years 2017-18 and 2018-19, 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, 2017, the Governor signed the 2017-18 State Budget, appropriating \$183.3 billion from the General Fund and other State funds. General Fund appropriations total \$125.1 billion, \$3.7 billion or 3% more than the 2016-17 budget. The budget agreement focuses on maintaining fiscal prudence by adding mostly one-time expenditures, paying down past budgetary borrowing and state employee pension liabilities, and contributing to stabilization reserves. The budget increases funding to K-14 schools and

community colleges by adding \$3.1 billion above fiscal year 2016-17 funding levels, including \$1.4 billion through the Local Control Funding Formula. The Budget expands the state's Earned Income Tax Credit (EITC) to include a wider income range, as well as self-employed individuals. It also implements the Road Repair and Accountability Act of 2017 (SB1) providing \$54 billion of new transportation infrastructure funding over the next 10 years.

The final fiscal year 2017-18 budget re-bases the In-Home Supportive Services Maintenance-of-Effort (IHSS MOE) agreement negotiated in 2012, as proposed in the Governor's January budget, but provides \$400 million of General Fund support to partially mitigate the increase to counties' costs in fiscal year 2017-18, \$330 million in 2018-19, \$200 million in 2019-20, and \$150 million annually thereafter. The City's fiscal year 2017-18 budget assumes a cost of \$11.1 million to support the IHSS program, partially offset by health and welfare realignment subventions. However, the exact impact of the new IHSS funding structure on San Francisco is still uncertain, as the funding structure and formulas are still being developed. San Francisco's fiscal year 2017-18 budget assumes \$8.6 million of new street-related capital funding through the Road Repair and Accountability Act of 2017 (SB1). This amount is expected to annualize to approximately \$23 million in fiscal year 2018-19.

Impact of Federal Government on Local Finances

The City is continuing to assess the potential material adverse changes in current and anticipated federal funding under the new presidential administration and Congress. These changes include, for example, potential increased costs associated with changes to or termination or replacement of the Affordable Care Act, potential withholding of federal grants or other federal funds flowing to "sanctuary jurisdictions" and suspension or termination of other federal grants for capital projects. The scope and timing of such changes will not be known until the administration concretely proposes specific changes or Congress acts on such proposals, as applicable. As to potential withholding of funds for "sanctuary cities" the City has challenged in federal court the Presidential Executive Order that would cut funding from "sanctuary jurisdictions," and the federal court has entered a preliminary injunction enjoining the executive order. Litigation is proceeding and final disposition of the case may come by end of 2018. The fiscal year 2016-17 Original Budget includes about \$1.2 billion in federal payments, of which about \$1 billion is for entitlement programs mostly administered by the City's Human Services Agency and Department of Public Health. The City also receives about \$800 million in multi-year federal grants. The City will continue to monitor federal budget and policy changes, but cannot at this time determine the financial impacts of any proposed federal budget changes, or whether the budget will include a reserve against anticipated loss of federal funding.

Budgetary Reserves

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

The financial policies passed on April 13, 2010 codified the current practice of maintaining an annual General Reserve to be used for current-year fiscal pressures not anticipated during the budget process. The policy set the reserve equal to 1% of budgeted regular General Fund revenues in fiscal year 2012-13 and increasing by 0.25% each year thereafter until reaching 2% of General Fund revenues in fiscal year 2016-17. The Original Budget for fiscal years 2016-17 and 2017-18 includes starting balances of \$90.4 million and \$106.5 million for the General Reserve for fiscal years 2016-17 and 2017-18, respectively. On December 16, 2014, the Board of Supervisors adopted financial policies to further increase the City's General Reserve from 2% to 3% of General Fund revenues between fiscal year 2017-18 and fiscal year 2020-21 while reducing the required deposit to 1.5% of General Fund revenues during economic downturns. The intent of this policy change is to increase reserves available during a multi-year downturn.

In addition to the operating cash and general reserves the City maintains two types of reserves to offset unanticipated expenses and which are available for appropriation to City departments by action of the Board of Supervisors. These include the Salaries and Benefit Reserve (Original Budget for fiscal years 2017-18 and 2018-19 includes \$14.5 million in fiscal year 2017-18 and \$31.0 million in fiscal year 2018-19), and the Litigation Reserve (Original Budget for fiscal years 2017-18 and 2018-19 includes \$11 million in each year). Balances in both reflect new appropriations to the reserves and do not include carry-forward of prior year balances. The Charter also requires set asides of a portion of departmental expenditure savings in the form of a citywide Budget Savings Incentive Reserve and a Recreation and Parks Budget Savings Incentive Reserve.

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

Rainy Day Reserve

In November 2003, City voters approved the creation of the City's Rainy Day Reserve into which the previous Charter-mandated cash reserve was incorporated. Charter Section 9.113.5 requires that if the Controller projects total General Fund revenues for the upcoming budget year will exceed total General Fund revenues for the current year by more than five percent, then the City's budget shall allocate the anticipated General Fund revenues in excess of that five percent growth into two accounts within the Rainy Day Reserve and for other lawful governmental purposes. Effective January 1, 2015, Proposition C passed by the voters in November 2014 divided the existing Rainy Day Economic Stabilization Account into a City Rainy Day Reserve ("City Reserve") and a School Rainy Day Reserve ("School Reserve") with each reserve account receiving 50% of the existing balance. Additionally, any deposits to the reserve subsequent to January 1, 2015 will be allocated as follows:

- 37.5 percent of the excess revenues to the City Reserve;
- 12.5 percent of the excess revenues to the School Reserve;
- 25 percent of the excess revenues to the Rainy Day One-Time or Capital Expenditures account;
- and
- 25 percent of the excess revenues to any lawful governmental purpose.

Fiscal year 2015-16 revenue exceeded the deposit threshold by \$8.2 million generating a deposit of \$3.1 million to the City Reserve, \$1.0 million to the School Reserve, and \$2.1 million to the One-Time or Capital Expenditures account. Deposits to the Rainy Day Reserve's Economic Stabilization account are subject to a cap of 10% of actual total General Fund revenues as stated in the City's most recent independent annual audit. Amounts in excess of that cap in any year will be allocated to capital and other one-time expenditures.

Monies in the City Reserve are available to provide a budgetary cushion in years when General Fund revenues are projected to decrease from prior-year levels (or, in the case of a multi-year downturn, the highest of any previous year's total General Fund revenues). Monies in the Rainy Day Reserve's One-Time or Capital Expenditures account are available for capital and other one-time spending initiatives. The fiscal year 2015-16 combined ending balance of the One-Time and Economic Stabilization portions of the Reserve was \$120.1 million. There are no projected deposits or withdrawals assumed in the fiscal year 2017-18 and 2018-19 budgets.

Budget Stabilization Reserve

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

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

Fiscal year 2015-16 RPTT receipts exceeded the five-year annual average by \$22.3 million and ending general fund unassigned fund balance was \$47.5 million, triggering a \$52.3 million deposit. However, \$6.2 million of this deposit requirement was offset by the Rainy Day Reserve deposit, resulting in a \$46.2 million deposit to the Budget Stabilization Reserve and leaving an ending balance to \$178.4 million. The fiscal years 2017-18 and 2018-19 budgets assume no reserve deposits given projected RPTT receipts. The Controller's Office determines deposits in October of each year based on actual receipts during the prior fiscal year.

The maximum combined value of the Rainy Day Reserve and the Budget Stabilization Reserve is 10% of General Fund revenues, which would be approximately \$437 million for fiscal year 2015-16. No further deposits will be made once this cap is reached, and no deposits are required in years when the City is eligible to withdraw. The Budget Stabilization Reserve has the same withdrawal requirements as the Rainy Day Reserve, however, there is no provision for allocations to the SFUSD. Withdrawals are structured to occur over a period of three years: in the first year of a downturn, a maximum of 30% of the combined value of the Rainy Day Reserve and Budget Stabilization Reserve could be drawn; in the second year, the maximum withdrawal is 50%; and, in the third year, the entire remaining balance may be drawn.

THE SUCCESSOR AGENCY

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

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

Authority and Personnel

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

The Successor Agency currently employs approximately 47 full-time equivalent positions. The Interim Executive Director, Nadia Sesay, was appointed in January 2017. The other principal full-time staff positions are the Deputy Director, Projects and Programs; the Deputy Director, Finance and Administration; and the Successor Agency General Counsel and Deputy Director. Each project area in which the Successor Agency continues to implement redevelopment plans, is managed by a Project Manager. There are separate staff support divisions with real estate and housing development specialists, architects, engineers and planners, and the Successor Agency has its own fiscal, legal, administrative and property management staffs.

Effect of the Dissolution Act

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

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

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

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

Oversight Board

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

Department of Finance Finding of Completion

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

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

State Controller Asset Transfer Review

The Dissolution Act requires that any assets of a former redevelopment agency transferred to a city, county or other local agency after January 1, 2011, be sent back to the successor agency. The Dissolution Act further requires that the State Controller review any such transfer. The State Controller’s Office issued their Asset Transfer Review in October 2014. The review found \$746,060,330 in assets transferred to the City after January 1, 2011, including unallowable transfers to the City totaling \$666,830, or less than 1% of transferred assets. The City returned \$666,830 to OCII to comply with the State Controller’s Office review.

Continuing Activities

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

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

PROPERTY TAXATION

Property Taxation System – General

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

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

Assessed Valuations, Tax Rates and Tax Delinquencies

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

Additionally, although no additional rate is levied, a portion of property taxes collected within the City is allocated to the Successor Agency (also known as the Office of Community Investment and Infrastructure or OCII). Property tax revenues attributable to the growth in assessed value of taxable property (known

as “tax increment”) within the adopted redevelopment project areas may be utilized by OCII to pay for outstanding and enforceable obligations, causing a loss of tax revenues from those parcels located within project areas to the City and other local taxing agencies, including SFUSD and SFCCD. Taxes collected for payment of debt service on general obligation bonds are not affected or diverted. The Successor Agency received \$122 million of property tax increment in fiscal year 2015-16, diverting about \$69 million that would have otherwise been apportioned to the City’s discretionary general fund.

The percent collected of property tax (current year levies excluding supplemental) was 99.07% for fiscal year 2015-16. This table has been modified from the corresponding table in previous disclosures in order to make the levy and collection figures consistent with statistical reports provided to the State. Foreclosures, defined as the number of trustee deeds recorded by the Assessor-Recorder’s Office, numbered 212 for fiscal year 2015-16 compared to 102 for fiscal year 2014-15. The trustee deeds recorded in fiscal year 2011-12, fiscal year 2012-13 and fiscal year 2013-14 were 804, 363 and 187, respectively. In the first half of fiscal year 2016-17 there were 126 Notices of Trustee’s Sales deeds recorded.

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TABLE A-5

CITY AND COUNTY OF SAN FRANCISCO
Assessed Valuation of Taxable Property
Fiscal Years 2012-13 through 2017-18
(000s)

Fiscal Year	Net Assessed Valuation (NAV)	% Change from Prior Year	Total Tax Rate per \$100 ²	Total Tax Levy ³	Total Tax Collected ³	% Collected June 30
2012-13	\$165,043,120	4.0%	1.169	\$1,997,645	\$1,970,662	98.6%
2013-14	172,489,208	4.5%	1.188	2,138,245	2,113,284	98.8%
2014-15	181,809,981	5.4%	1.174	2,139,050	2,113,968	98.8%
2015-16	194,392,572	6.9%	1.183	2,290,280	2,268,876	99.1%
2016-17	211,532,524	8.8%	1.179	2,494,392	N/A	N/A
2017-18	234,074,597 ¹	10.7%	N/A	N/A	N/A	N/A

¹ Unsecured Rolls, less Non-reimbursable Exemptions and Homeowner Exemptions.

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

³ The Total Tax Levy and Total Tax Collected through fiscal year 2015-16 is based on year-end current year secured and unsecured levies as adjusted through roll corrections, excluding supplemental assessments, as reported to the State of California (available on the website of the California State Controller's Office). Total Tax Levy for fiscal year 2016-17 is based on NAV times the 1.1792% tax rate.

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

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

At the start of fiscal year 2017-18, the total net assessed valuation of taxable property within the City was \$234.1 billion. Of this total, \$220.1 billion (93.5%) represents secured valuations and \$14.0 billion (6.5%) represents unsecured valuations. See "Tax Levy and Collection" below, for a further discussion of secured and unsecured property valuations.

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

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

The City typically experiences increases in assessment appeals activity during economic downturns and decreases in appeals as the economy rebounds. Historically, during severe economic downturns, partial reductions of up to approximately 30% of the assessed valuations appealed have been granted. Assessment appeals granted typically result in revenue refunds, and the level of refund activity depends

on the unique economic circumstances of each fiscal year. Other taxing agencies such as SFUSD, SFCCD, BAAQMD, and BART share proportionately in the rest of any refunds paid as a result of successful appeals. To mitigate the financial risk of potential assessment appeal refunds, the City funds appeal reserves for its share of estimated property tax revenues for each fiscal year. In addition, appeals activity is reviewed each year and incorporated into the current and subsequent years' budget projections of property tax revenues. Refunds of prior years' property taxes from the discretionary General Fund appeals reserve fund for fiscal years 2011-12 through 2015-16 are listed in Table A-6 below.

TABLE A-6

CITY AND COUNTY OF SAN FRANCISCO
Refunds of Prior Years' Property Taxes
General Fund Assessment Appeals Reserve
Fiscal Years 2011-12 through 2016-17
(000s)

Fiscal Year	Amount Refunded
2011-12	\$53,288
2012-13	36,744
2013-14	25,756
2014-15	16,304
2015-16	16,199
2016-17	33,397

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

As of July 1, 2016, the Assessor granted 7,055 temporary reductions in property assessed values worth a total of \$128.7 million (equating to a reduction of approximately \$1.52 million in general fund taxes), compared to 8,598 temporary reductions worth \$425.1 million (equating to a reduction of approximately \$5.03 million in general fund taxes) as of July 1, 2015, and 10,726 temporary reductions worth \$640.3 million (equating to a reduction of approximately \$7.52 million in general fund taxes) as of July 1, 2014. The July 2016 temporary reductions of \$128.7 million represent .06% of the fiscal year 2016-17 Net Assessed Valuation of \$211.5 billion shown in Table A-5. All of the temporary reductions granted are subject to review in the following year. Property owners who are not satisfied with the valuation shown on a Notice of Assessed Value may have a right to file an appeal with the Assessment Appeals Board ("AAB") within a certain period of time. For regular, annual secured property tax assessments, the time period for property owners to file an appeal typically falls between July 2nd and September 15th.

As of December 31, 2016, the total number of open appeals before the AAB was 1,754, compared to 2,931 open AAB appeals as of December 31, 2015. In the first half of fiscal year 2016-17 there were 1,242 appeals filed. The difference between the current assessed value and the taxpayers' opinion of values for the open AAB appeals is \$13.3 billion. Assuming the City did not contest any taxpayer appeals and the Board upheld all of the taxpayers' requests, this represents a negative potential property tax impact of about \$157.29 million (based upon the fiscal year 2015-16 tax rate) with an impact on the General Fund of about \$67.9 million. The volume of appeals is not necessarily an indication of how many appeals will be granted, nor of the magnitude of the reduction in assessed valuation that the Assessor may ultimately grant. City revenue estimates take into account projected losses from pending and future assessment appeals.

Tax Levy and Collection

As the local tax-levying agency under State law, the City levies property taxes on all taxable property within the City's boundaries for the benefit of all overlapping local agencies, including SFUSD, SFCCD, the Bay Area Air Quality Management District and BART. The total tax levy for all taxing entities in fiscal year 2016-17 is estimated to produce about \$2.6 billion, not including supplemental, escape and special assessments that may be assessed during the year. Of this amount, the City has budgeted to receive \$1.4 billion into the General Fund and \$176.2 million into special revenue funds designated for children's programs, libraries and open space. SFUSD and SFCCD are estimated to receive about \$163.1 million and \$30.6 million, respectively, and the local ERAF is estimated to receive \$536.6 million (before adjusting for the vehicle license fees ("VLF") backfill shift). The Successor Agency will receive about \$118 million. The remaining portion is allocated to various other governmental bodies, various special funds, and general obligation bond debt service funds, and other taxing entities. Taxes levied to pay debt service for general obligation bonds issued by the City, SFUSD, SFCCD and BART may only be applied for that purpose.

General Fund property tax revenues in fiscal year 2015-16 were \$1.39 billion, representing an increase of \$102.6 million (7.9%) over fiscal year 2015-16 Original Budget and \$121.0 million (9.5%) over fiscal year 2014-15 actual revenue. Property tax revenue is budgeted at \$1.4 billion in fiscal year 2016-17 representing an increase of \$18.4 million (1.3%) over fiscal year 2015-16 actual receipts and \$1.5 billion in fiscal year 2017-18 representing an annual increase of \$56.0 million (4.0%) over fiscal year 2016-17 budget. Tables A-2 and A-3 set forth a history of budgeted and actual property tax revenues for fiscal years 2011-12 through 2015-16, and budgeted receipts for fiscal years 2016-17 and fiscal year 2017-18.

The City's General Fund is allocated about 48% of total property tax revenue before adjusting for the VLF backfill shift. The State's Triple Flip ended in fiscal year 2015-16, eliminating the sales tax in-lieu revenue from property taxes from succeeding fiscal years and shifting it to the local sales tax revenue line.

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

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

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

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

In October 1993, the Board of Supervisors passed a resolution that adopted the Alternative Method of Tax Apportionment (the “Teeter Plan”). This resolution changed the method by which the City apportions property taxes among itself and other taxing agencies. In June 2017, the Teeter Plan was extended to include the allocation and distribution of special taxes levied for City and County of San Francisco Community Facilities District No. 2014-1 (Transbay Transit Center). 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.

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TABLE A-7

CITY AND COUNTY OF SAN FRANCISCO
Teeter Plan
Tax Loss Reserve Fund Balance
Fiscal Years 2011-12 through 2015-16
(000s)

Year Ended	Amount Funded
2011-12	\$17,980
2012-13	18,341
2013-14	19,654
2014-15	20,569
2015-16	22,882

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

Assessed valuations of the aggregate ten largest assessment parcels in the City for the fiscal year beginning July 1, 2016 are shown in Table A-8. The City cannot determine from its assessment records whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the Office of the Assessor-Recorder.

TABLE A-8

CITY AND COUNTY OF SAN FRANCISCO
Top 10 Parcels Total Assessed Value
July 1, 2017
(000s)

Assessee	Location	Parcel Number	Type	Total Assessed Value ¹	% of Basis of Levy ²
HWA 555 Owners LLC	555 California St	0259 026	Commercial Office	\$998,450	0.43%
Elm Property Venture LLC	101 California St	0263 011	Commercial Office	965,547	0.41%
PPF Paramount One Market Plaza Owner LP	1 Market St	3713 007	Commercial Office	817,948	0.35%
SFDC 50 Fremont LLC	50 Fremont St	3709 019	Commercial Office	675,803	0.29%
SHR St. Francis LLC	301 - 345 Powell St	0307 001	Commercial Hotel	656,823	0.28%
Sutter Bay Hospitals	1101 Van Ness Ave	0695 006	Commercial Hospit	653,432	0.28%
Transbay Tower LLC	415 Mission St	3720 009	Commercial Office	560,825	0.24%
P55 Hotel Owner LLC	55 Cyril Magnin St	0330 026	Commercial Hotel	527,815	0.22%
Union Investment Real Estate GMBH	555 Mission St	3721 120	Commercial Office	483,303	0.21%
Emporium Mall LLC	845 Market St	3705 056	Commercial Retail	456,949	0.19%
					2.90%

¹ Represents the Total Assessed Valuation (TAV) as of the Basis of Levy, which excludes assessments processed during the fiscal year. TAV includes land & improvements, personal property, and fixtures.

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

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

Taxation of State-Assessed Utility Property

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

formulae generally based on the distribution of taxes in the prior year. The fiscal year 2016-17 valuation of property assessed by the State Board of Equalization is \$3.1 billion.

OTHER CITY TAX REVENUES

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

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

Business Taxes

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

The payroll expense tax is authorized by Article 12-A of the San Francisco Business and Tax Regulation Code. The 1.5% payroll tax rate in 2013 was adjusted to 1.35% in tax year 2014, 1.16% in tax year 2015 and annually thereafter according to gross receipts tax collections to ensure that the phase-in of the gross receipts tax neither results in a windfall nor a loss for the City. The new gross receipts tax ordinance, like the current payroll expense tax, is imposed for the privilege of “engaging in business” in San Francisco. The gross receipts tax will apply to businesses with \$1 million or more in gross receipts, adjusted by the Consumer Price Index going forward. Proposition E also imposes a 1.4% tax on administrative office business activities measured by a company’s total payroll expense within San Francisco in lieu of the Gross Receipts Tax, and increases annual business registration fees to as much as \$35,000 for businesses with over \$200 million in gross receipts. Prior to Proposition E, business registration taxes varied from \$25 to \$500 per year per subject business based on the prior year computed payroll tax liability. Proposition E increased the business registration tax rates to between \$75 and \$35,000 annually.

Business tax revenue in fiscal year 2015-16 was \$660.9 million (all funds), representing an increase of \$49.0 million (8.0%) from fiscal year 2014-15. Business tax revenue is budgeted at \$671.4 million in fiscal year 2016-17 representing an increase of \$10.5 million (1.6%) over fiscal year 2015-16 revenue.

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TABLE A-9

CITY AND COUNTY OF SAN FRANCISCO
Business Tax Revenues
Fiscal Years 2013-14 through 2017-18
All Funds
(000s)

Fiscal Year	Revenue	Change	
2011-12	\$437,677	\$45,898	11.7%
2012-13	480,131	42,454	9.7%
2013-14	563,406	83,276	17.3%
2014-15	611,932	48,525	8.6%
2015-16	660,926	48,994	8.0%
2016-17	671,450	10,524	1.6%
2017-18 budgeted	699,987	28,537	4.3%

Includes Payroll Tax, portion of Payroll Tax allocated to special revenue funds for the Community Challenge Grant program, Business Registration Tax, and beginning in fiscal year 2013-14, Gross Receipts Tax revenues. Figures for fiscal years 2013-14 through 2015-16 are audited actuals. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

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

Transient Occupancy Tax (Hotel Tax)

Pursuant to the San Francisco Business and Tax Regulation Code, a 14.0% transient occupancy tax is imposed on occupants of hotel rooms and is remitted by hotel operators monthly. A quarterly tax-filing requirement is also imposed. Hotel tax revenue growth is a function of changes in occupancy, average daily room rates (“ADR”) and room supply. Revenue per available room (RevPAR), the combined effect of occupancy and ADR, increased by more than 7% annually for each of the last six years, driving an 87% increase in hotel tax revenue between fiscal years 2010-11 and 2015-16. Increases in RevPAR are budgeted to continue at a slower pace through fiscal year 2017-18. Fiscal year 2015-16 transient occupancy tax was \$392 million, representing a \$6.6 million decrease from fiscal year 2014-15 revenue. Fiscal year 2016-17 is budgeted to be \$414 million, an increase of \$21.5 million (5.5%) from fiscal year 2015-16. Fiscal year 2017-18 is budgeted to be \$440 million, an increase of \$26 million (6%) from fiscal year 2015-16 budget.

San Francisco and a number of other jurisdictions in California and the United States are currently involved in litigation with online travel companies regarding the companies’ duty to remit hotel taxes on the difference between the wholesale and retail prices paid for hotel rooms. On February 6, 2013, the Los Angeles Superior Court issued a summary judgment concluding that the online travel companies had no obligation to remit hotel tax to San Francisco. The City has received approximately \$88 million in disputed hotel taxes paid by the companies. Under State law, the City is required to accrue interest on such amounts. The portion of these remittances that will be retained or returned (including legal fees and interest) will depend on the ultimate outcome of these lawsuits. San Francisco has appealed the judgment against it. That appeal has been stayed pending the California Supreme Court’s decision in a similar case between the online travel companies and the City of San Diego. That ruling was issued on December 12, 2016 but did not resolve the matters that are the subject to the City’s appeal. The City’s appeal is proceeding, but the schedule for that appeal is not yet known.

TABLE A -10

CITY AND COUNTY OF SAN FRANCISCO
Transient Occupancy Tax Revenues
Fiscal Years 2013-14 through 2017-18
(000s)

Fiscal Year ¹	Tax Rate	Revenue	Change	
2011-12	14.0%	\$239,568	\$24,056	11.2%
2012-13	14.0%	241,961	2,393	1.0%
2013-14	14.0%	313,138	71,177	29.4%
2014-15 ²	14.0%	399,364	86,226	27.5%
2015-16	14.0%	392,686	(6,678)	-1.7%
2016-17 budgeted	14.0%	414,200	21,514	5.5%
2017-18 budgeted	14.0%	440,205	26,004	6.3%

¹Figures for fiscal year 2013-14 through fiscal year 2015-16 are audited actuals and include the portion of hotel tax revenue used to pay debt service on hotel tax revenue bonds. Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

²Amounts in fiscal year 2012-13 and FY 2014-15 are substantially adjusted due to multi-year audit and litigation resolutions.

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

Real Property Transfer Tax

A tax is imposed on all real estate transfers recorded in the City. Transfer tax revenue is more susceptible to economic and real estate cycles than most other City revenue sources. Prior to November 8, 2016, the rates were \$5.00 per \$1,000 of the sale price of the property being transferred for properties valued at \$250,000 or less; \$6.80 per \$1,000 for properties valued more than \$250,000 and less than \$999,999; \$7.50 per \$1,000 for properties valued at \$1.0 million to \$5.0 million; \$20.00 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; and \$25 per \$1,000 for properties valued at more than \$10.0 million. After the passage of Proposition V on November 8, 2016, transfer tax rates were amended, raising the rate to \$22.50 per \$1,000 for properties valued more than \$5.0 million and less than \$10.0 million; \$27.50 per \$1,000 for properties valued at more than \$10.0 million and less than \$25.0 million; and \$30.00 per \$1,000 for properties valued at more than \$25.0 million. This change is projected to result in an additional \$18.2 million in transfer tax revenue in fiscal year 2016-17 and \$34.8 million in fiscal year 2017-18, and is reflected in the December 2016 projected Five Year Plan projections.

Real property transfer tax ("RPTT") revenue in fiscal year 2015-16 was \$269 million, a \$46 million (-14.5%) decrease from fiscal year 2014-15 revenue. Fiscal year 2016-17 RPTT revenue is budgeted to be \$235 million, approximately \$34 million (-13%) less than the revenue received in fiscal year 2015-16 primarily due to the assumption that fiscal year 2014-15 represents the peak in high value property transactions during the current economic cycle. This slowing is budgeted to continue into fiscal year 2017-18 with RPTT revenue budgeted at \$225 million, a reduction of \$10 million (-4%).

TABLE A-11

CITY AND COUNTY OF SAN FRANCISCO
Real Property Transfer Tax Receipts
Fiscal Years 2013-14 through 2017-18
(000s)

Fiscal Year ¹	Revenue	Change	
2011-12	\$233,591	\$98,407	72.8%
2012-13	232,730	(861)	-0.4%
2013-14	261,925	29,195	12.5%
2014-15	314,603	52,678	20.1%
2015-16	269,090	(45,513)	-14.5%
2016-17 budgeted	235,000	(34,090)	-12.7%
2017-18 budgeted	225,000	(10,000)	-4.3%

¹ Figures for fiscal year 2013-14 through 2015-16 are audited actuals.

Figures for fiscal year 2016-17 and 2017-18 are Original Budget amounts.

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

Sales and Use Tax

The State collects the City's local sales tax on retail transactions along with State and special district sales taxes, and then remits the local sales tax collections to the City. The rate of tax is one percent; however, between fiscal year 2004-05 and the first half of fiscal year 2015-16, the State diverted one-quarter of this, and replaced the lost revenue with a shift of local property taxes to the City from local school district funding. This "Triple Flip" concluded on December 31, 2015, after which point the full 1% local tax is recorded in the General Fund.

Local sales tax collections in fiscal year 2015-16 were \$168 million, an increase of \$28 million (20%) from fiscal year 2014-15 sales tax revenue. Moderate revenue growth is expected to continue during fiscal year 2016-17 with \$200.1 million budgeted, an increase of \$8 million (5%) from fiscal year 2015-16. Fiscal year 2017-18 revenue is budgeted to be \$208 million, an increase of \$7 million (3.5%) from fiscal year 2016-17 budget.

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

Table A-12 reflects the City's actual sales and use tax receipts for fiscal years 2011-12 through 2015-16, and budgeted receipt for fiscal year 2016-17 and 2017-18, as well as the imputed impact of the property tax shift made in compensation for the one-quarter of the sales tax revenue taken by the State through the fiscal year 2015-16.

TABLE A-12

CITY AND COUNTY OF SAN FRANCISCO
Sales and Use Tax Revenues
Fiscal Years 2013-14 through 2017-18
(000s)

Fiscal Year*	Tax Rate	City Share	Revenue	Change	
2011-12	8.50%	0.75%	\$117,071	\$10,769	10.1%
2011-12 adj. ¹	8.50%	1.00%	155,466	14,541	10.3%
2012-13	8.50%	0.75%	122,271	5,200	4.4%
2012-13 adj. ¹	8.50%	1.00%	162,825	7,359	4.7%
2013-14	8.75%	0.75%	133,705	11,434	9.4%
2013-14 adj. ¹	8.75%	1.00%	177,299	14,474	8.9%
2014-15	8.75%	0.75%	140,146	6,441	4.8%
2014-15 adj. ¹	8.75%	1.00%	186,891	9,592	5.4%
2015-16	8.75%	0.75%	167,915	27,769	19.8%
2015-16 adj. ²	8.75%	1.00%	204,118	17,227	9.2%
2016-17 <i>budgeted</i> ³	8.75%	1.00%	200,060	(4,058)	-2.4%
2017-18 <i>budgeted</i> ³	8.50%	1.00%	207,060	7,000	3.5%

*Figures for fiscal year 2013-14 through fiscal year 2015-16 are audited actuals. Figures for fiscal years 2016-17 and 2017-18 are Original Budget amounts.

¹Adjusted figures represent the value of the entire 1.00% local sales tax, which was reduced by 0.25% beginning in fiscal year 2004-05 through December 31, 2015 in order to repay the State's Economic Recovery Bonds as authorized under Proposition 57 in March 2004. This 0.25% reduction is backfilled by the State.

²The 2015-16 adjusted figure includes the State's final payment to the Counties for the lost 0.25% of sales tax, from July 1, 2015 through December 31, 2015. It also includes a true-up payment for April through June 2015.

³In November 2012 voters approved Proposition 30, which temporarily increases the state sales tax rate by 0.25% effective January 1, 2013 through December 31, 2016. The City share did not change.

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

Utility Users Tax

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

Fiscal year 2015-16 Utility User Tax revenues were \$99 million, representing no change from fiscal year 2014-15 revenue. Fiscal year 2016-17 revenue is budgeted to be \$94.3 million, representing expected decline of \$4.4 million (4.4%) from fiscal year 2015-16. Fiscal year 2017-18 Utility User Tax revenues are budgeted at \$95.5 million, a \$1.2 million increase from fiscal year 2016-17 budget.

Emergency Response Fee; Access Line Tax

The City imposes an Access Line Tax (“ALT”) on every person who subscribes to telephone communications services in the City. The ALT replaced the Emergency Response Fee (“ERF”) in 2009. It applies to each telephone line in the City and is collected from telephone communications service subscribers by the telephone service supplier. Access Line Tax revenue for fiscal year 2015-16 was \$44 million, a \$5 million (-11%) decrease over the previous fiscal year due to a large one-time payment in fiscal year 2014-15 related to a prior year audit finding. In fiscal year 2016-17, the Access Line Tax revenue is budgeted at \$47 million, a \$3 million (-8%) decrease from fiscal year 2015-16 revenue. Fiscal year 2017-18 revenue is budgeted at \$48 million a \$1 million (3%) increase from fiscal year 2016-17 budget. Budgeted amounts in fiscal year 2016-17 and fiscal year 2017-18 assume annual inflationary increases to the access line tax rate as required under Business and Tax Regulation Code Section 784.

Sugar Sweetened Beverage Tax

On November 9, 2016 voters adopted Proposition V, a one cent per ounce tax on the distribution of sugary beverages. This measure takes effect on January 1, 2018 and is expected to raise \$15 million in annual revenue.

Parking Tax

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

Fiscal year 2015-16 Parking Tax revenue was \$86.0 million, \$1.2 million (-1%) below fiscal year 2014-15 revenue. Parking tax revenue is budgeted at \$92.8 million in fiscal year 2016-17, an increase of \$6.8 million (7%) over the fiscal year 2015-16. In fiscal year 2017-18, Parking Tax revenue is budgeted at \$95.2 million, \$2.4 million (3%) over the fiscal year 2016-17 budgeted amount. Parking tax growth estimates are commensurate with expected changes to the CPI over the same period.

Parking tax revenues are deposited into the General Fund, from which an amount equivalent to 80% is transferred to the MTA for public transit as mandated by Charter Section 16.110.

INTERGOVERNMENTAL REVENUES

State – Realignment

San Francisco receives allocations of State sales tax and Vehicle License Fee (VLF) revenue for 1991 Health and Welfare Realignment and 2011 Public Safety Realignment.

1991 Health & Welfare Realignment. In fiscal year 2015-16, the General Fund share of 1991 realignment revenue was \$176 million. In fiscal year 2016-17, it is budgeted at \$180 million, or \$3 million (2%) more than the fiscal year 2015-16 actual. This growth is attributed to a \$6 million (5%) increase in sales tax distribution and a \$3 million (8%) decrease in the VLF distribution due to the base allocation changes and projected fiscal year 2015-16 growth payments. The fiscal year 2017-18 General Fund share of revenue is budgeted at \$176 million, a net annual decrease of \$3 million (-2%) in sales tax and VLF distributions based on the projected growth payments.

Increases in both years are net of State allocation reductions due to implementation of the Affordable Care Act (ACA) equal to assumed savings for counties as a result of treating fewer uninsured patients. The State's fiscal year 2015-16 Budget included assumed Statewide county savings of \$742 million and the fiscal year 2016-17 Budget included assumed savings of \$565 million as a result of ACA implementation, and redirects these savings from realignment allocations to cover CalWORKs expenditures previously paid for by the State's General Fund. Reductions to the City's allocation are assumed equal to \$11.9 million in both years. Future budget adjustments could be necessary depending on final State determinations of ACA savings amounts, which are expected in January 2017 and January 2018 for fiscal year 2014-15 and fiscal year 2015-16, respectively.

Public Safety Realignment. Public Safety Realignment (AB 109), enacted in early 2011, transfers responsibility for supervising certain kinds of felony offenders and state prison parolees from state prisons and parole agents to county jails and probation officers. In fiscal year 2015-16, this revenue source totaled \$40 million. Based on the State's budget, this revenue is budgeted at \$41 million in fiscal year 2016-17, a \$1 million (2%) increase over the fiscal year 2015-16 actual. This increase reflects increased State funding to support implementation of AB109. The fiscal year 2017-18 budget assumes a \$2 million (6%) increase from fiscal year 2016-17 budget.

Public Safety Sales Tax

State Proposition 172, passed by California voters in November 1993, provided for the continuation of a one-half percent sales tax for public safety expenditures. This revenue is a function of the City's proportionate share of Statewide sales activity. Revenue from this source for fiscal year 2015-16 was \$97 million, an increase of \$3 million (3%) from fiscal year 2014-15 revenues. This revenue is budgeted at \$102 million in fiscal year 2016-17 and \$106 million in fiscal year 2017-18, representing annual growth of \$5 million (5%) and \$4 million (4%) respectively. These revenues are allocated to counties by the State separately from the local one-percent sales tax discussed above, and are used to fund police and fire services. Disbursements are made to counties based on the county ratio, which is the county's percent share of total statewide sales taxes in the most recent calendar year. The county ratio for San Francisco in fiscal year 2015-16 is 3% and is expected to remain at that level in fiscal year 2016-17 and fiscal year 2017-18.

Other Intergovernmental Grants and Subventions

In addition to those categories listed above, the City received \$588 million of funds in fiscal year 2015-16 from grants and subventions from State and federal governments to fund public health, social services and other programs in the General Fund. This represents a \$17 million (3%) increase from fiscal year 2014-15. The fiscal year 2016-17 budget is \$637 million, an increase of \$49 million (8%).

Charges for Services

Revenue from charges for services in the General Fund in fiscal year 2015-16 was \$234 million and is projected to be largely unchanged in the fiscal year 2016-17 and 2017-18 budget.

CITY GENERAL FUND PROGRAMS AND EXPENDITURES

Unique among California cities, San Francisco as a charter city and county must provide the services of both a city and a county. Public services include police, fire and public safety; public health, mental health and other social services; courts, jails, and juvenile justice; public works, streets, and transportation, including port and airport; construction and maintenance of all public buildings and facilities; water,

sewer, and power services; parks and recreation; libraries and cultural facilities and events; zoning and planning, and many others. Employment costs are relatively fixed by labor and retirement agreements, and account for approximately 50% of all City expenditures. In addition, the Charter imposes certain baselines, mandates, and property tax set-asides, which dictate expenditure or service levels for certain programs, and allocate specific revenues or specific proportions thereof to other programs, including MTA, children’s services and public education, and libraries. Budgeted baseline and mandated funding is \$968 million in fiscal year 2016-17 and \$1 billion in fiscal year 2017-18. As noted above, voters approved additional spending requirements on the November 2016 ballot, which are incorporated into five-year projections and will be included in the fiscal year 2017-18 budget.

General Fund Expenditures by Major Service Area

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

TABLE A-13

CITY AND COUNTY OF SAN FRANCISCO					
Expenditures by Major Service Area					
Fiscal Years 2013-14 through 2017-18					
(000s)					
Major Service Areas	2013-14	2014-15	2015-16	2016-17	2017-18
	Final Budget	Final Budget	Final Budget	Final Budget	Original Budget
Public Protection	\$1,130,932	\$1,173,977	\$1,223,981	\$1,298,185	\$1,323,268
Human Welfare & Neighborhood Development	700,254	799,355	857,055	176,768	165,498
Community Health	701,978	736,916	787,554	970,679	1,009,995
General Administration & Finance	244,591	293,107	286,871	786,218	824,100
Culture & Recreation	119,579	126,932	137,062	158,954	158,979
General City Responsibilities	137,025	158,180	186,068	349,308	333,291
Public Works, Transportation & Commerce	80,797	127,973	161,545	154,344	164,895
Total*	\$3,115,155	\$3,416,440	\$3,640,137	\$3,894,456	\$3,980,026

*Total may not add due to rounding

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

Public Protection primarily includes the Police Department, the Fire Department and the Sheriff’s Office. These departments are budgeted to receive \$450 million, \$241 million and \$170 million of General Fund support respectively in fiscal year 2016-17 and \$460 million, \$245 million, and \$178 million respectively in fiscal year 2017-18. Within Human Welfare & Neighborhood Development, the Department of Human Services, which includes aid assistance and aid payments and City grant programs, is budgeted to receive \$219 million of General Fund support in the fiscal year 2016-17 and \$233 million in fiscal year 2017-18.

The Public Health Department is budgeted to receive \$608 million in General Fund support for public health programs and the operation of San Francisco General Hospital and Laguna Honda Hospital in fiscal year 2016-17 and \$712 million in fiscal year 2017-18.

For budgetary purposes, enterprise funds are characterized as either self-supported funds or General Fund-supported funds. General Fund-supported funds include the Convention Facility Fund, the Cultural and Recreation Film Fund the Gas Tax Fund, the Golf Fund, the Grants Fund, the General Hospital Fund, and the Laguna Honda Hospital Fund. The MTA is classified as a self-supported fund, although it receives an annual general fund transfer equal to 80% of general fund parking tax receipts pursuant to the Charter. This transfer is budgeted to be \$74.3 million in fiscal year 2016-17 and \$76.2 million in the fiscal year 2017-18.

Baselines

The Charter requires funding for baselines and other mandated funding requirements. The chart below identifies the required and budgeted levels of appropriation funding for key baselines and mandated funding requirements. Revenue-driven baselines are based on the projected aggregate City discretionary revenues, whereas expenditure-driven baselines are typically a function of total spending. This table reflects spending requirements at the time the fiscal year 2016-17 and fiscal year 2017-18 budget was finally adopted. It does not include spending requirements subsequently adopted by voters in November 2016, which require the City to maintain street trees (Proposition E), estimated at \$19 million annually, and fund services for seniors and adults with disabilities (Proposition I), estimated at \$38 million in fiscal year 2016-17.

TABLE A-14

CITY AND COUNTY OF SAN FRANCISCO		
Baselines & Set-Asides		
Fiscal Year 2016-17		
(millions)		
Baselines & Set-Asides	2016-17 Required Baseline	2016-17 Original Budget
Municipal Transportation Agency (MTA)	\$212.0	\$212.0
MTA Baseline - Population Adjustment	\$38.0	\$38.0
Parking and Traffic Commission	\$79.5	\$79.5
Children's Services	\$153.1	\$157.5
Transitional Aged Youth	\$18.4	\$23.2
Library Preservation	\$72.5	\$72.5
Public Education Baseline Services	\$9.2	\$9.2
Recreation and Park Maintenance of Effort	\$67.4	\$67.4
<u>Public Education Enrichment Funding</u>		
Unified School District	\$64.6	\$64.6
Office of Early Care and Education	\$32.3	\$32.3
City Services Auditor	\$16.3	\$16.3
Human Services Homeless Care Fund	\$16.7	\$16.7
<u>Property Tax Related Set-Asides</u>		
Municipal Symphony	\$2.6	\$2.6
Children's Fund Set-Aside	\$72.6	\$72.6
Library Preservation Set-Aside	\$51.8	\$51.8
Open Space Set-Aside	\$51.8	\$51.8
<u>Staffing and Service-Driven</u>		
Police Minimum Staffing	Requirement likely met	
Fire Neighborhood Firehouse Funding	Requirement met	
Treatment on Demand	Requirement met	
Total Baseline Spending	\$959	\$968

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 nearly half of the City's expenditures, totaling \$5.0 billion in the fiscal year 2017-18 Original Budget (all-funds), and \$5.1 billion in the fiscal year 2018-19 Original Budget. Looking only at the General Fund, the combined salary and benefits budget was \$2.3 billion in the fiscal year 2017-18 Original Budget and \$2.4 billion in the fiscal year 2018-19 Original Budget. This section discusses the organization of City workers into bargaining units, the status of employment contracts, and City expenditures on employee-related costs including salaries, wages, medical benefits, retirement benefits and the City's retirement system, and post-retirement health and medical benefits. Employees of SFUSD, SFCCD and the San Francisco Superior Court are not City employees.

Labor Relations

The City's budget for fiscal years 2017-18 and 2018-19 includes 30,835 and 30,938 budgeted City positions, respectively. City workers are represented by 37 different labor unions. The largest unions in the City are the Service Employees International Union, Local 1021 ("SEIU"); the International Federation of Professional and Technical Engineers, Local 21 ("IFPTE"); and the unions representing police, fire, deputy sheriffs and transit workers.

The wages, hours and working conditions of City employees are determined by collective bargaining pursuant to State law (the Meyers-Milias-Brown Act, California Government Code Sections 3500-3511) and the City Charter. San Francisco is unusual among California's cities and counties in that nearly all of its employees, even managers, are represented by labor organizations. Further, the City Charter provides a unique impasse resolution procedure. In most cities and counties, when labor organizations cannot reach agreement on a new contract, there is no mandatory procedure to settle the impasse. However, in San Francisco, nearly all of the City's contracts advance to interest arbitration in the event the parties cannot reach agreement. This process provides a mandatory ruling by an impartial third party arbitrator, who will set the terms of the new agreement. Except for nurses and less than one-hundred unrepresented employees, the Charter requires that bargaining impasses be resolved through final and binding interest arbitration conducted by a panel of three arbitrators. The award of the arbitration panel is final and binding unless legally challenged. Wages, hours and working conditions of nurses are not subject to interest arbitration, but are subject to Charter-mandated economic limits. Strikes by City employees are prohibited by the Charter. Since 1976, no City employees have participated in a union-authorized strike.

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

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

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

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

In February 2017, the City negotiated two-year contract extensions (for fiscal years 2017-18 and 2018-19) with most of its labor unions. The parties agreed to a wage increase schedule of 3% on July 1, 2017 and 3% on July 1, 2018, with a provision to delay the fiscal year 2018-19 adjustment by six months if the City's deficit for fiscal year 2018-2019, as projected in the March, 2018 update to the Five Year Financial Plan, exceeds \$200 million. MTA and TWU, Local 250-A, along with unions representing MTA service critical employees, agreed to two-year contract extensions with the same wage provisions and term as those contracts covering City employees. Existing agreements with police officers, firefighters, and physicians expire in June 2018; the agreement with supervising nurses expires in June, 2019. Successor labor agreements will be completed prior to the adoption of the 2018-2019 budget.

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

TABLE A-15

**CITY AND COUNTY OF SAN FRANCISCO (All Funds)
Employee Organizations as of July 1, 2016**

Organization	Budgeted Positions	Expiration Date of MOU
Auto Machinist, Lodge 1414	466	30-Jun-19
BrickLayers, Local 3 / Hod Carriers, Local 36	10	30-Jun-19
Building Inspectors Association	92	30-Jun-19
CAIR/CIR (Interns & Residents)	0	30-Jun-19
Carpenters, Local 22	116	30-Jun-19
Carpet, Linoleum & Soft Tile	3	30-Jun-19
Cement Masons, Local 300	43	30-Jun-19
Electrical Workers, Local 6	915	30-Jun-19
Firefighters, Local 798	1,875	30-Jun-18
Glaziers, Local 718	9	30-Jun-19
Hod Carriers, Local 36	8	30-Jun-19
Iron Workers, Local 377	15	30-Jun-19
Laborers, Local 261	1,158	30-Jun-19
Municipal Attorneys Association	465	30-Jun-19
Municipal Exec Assoc - Fire	9	30-Jun-18
Municipal Exec Assoc - Misc	1,330	30-Jun-19
Municipal Exec Assoc - Police	16	30-Jun-18
Operating Engineers, Local 3	65	30-Jun-19
Physician/Dentists, UAPD	203	30-Jun-18
Pile Drivers, Local 34	37	30-Jun-19
Plasterers & Shphnds, Local 66	0	30-Jun-19
Plumbers, Local 38	349	30-Jun-19
Police Officers Association	2,495	30-Jun-18
Prof & Tech Eng, Local 21	6,212	30-Jun-19
Roofers, Local 40	13	30-Jun-19
SEIU 1021, H-1 Paramedics	4	30-Jun-19
SEIU 1021, Misc.	12,509	30-Jun-19
SEIU 1021, Staff & Per Diem RNs	1,720	30-Jun-19
SF City Workers United	131	30-Jun-19
SF Deputy Sheriffs Assn	825	30-Jun-19
SF Probation Off Assoc	152	30-Jun-19
SF Sheriff's Managers and Supv	100	30-Jun-19
SFDA Investigators Assn	45	30-Jun-19
SFIPOA, Op Eng, Local 3	2	30-Jun-19
Sheet Metal Workers, Local 104	43	30-Jun-19
Stationary Engineers, Local 39	690	30-Jun-19
Sup Probation Ofcr, Op Eng 3	31	30-Jun-19
Teamsters, Local 853	173	30-Jun-19
Teamsters, Local 856 Multi-Unit	112	30-Jun-19
Teamsters, Local 856 Spv Nurses	127	30-Jun-19
Theatrical Stage Emp, Local 16	27	30-Jun-19
TWU Local 200	364	30-Jun-19
TWU Local 250-A, AutoServWrkr	126	30-Jun-19
TWU Local 250-A, Misc	111	30-Jun-19
TWU Local 250-A, TranFareInsp	54	30-Jun-19
TWU Local 250-A, TransitOpr	2,659	30-Jun-19
¹ Unrepresented Employees	<u>83</u> ¹	30-Jun-18
	35,990	

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

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

History and Administration

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

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

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

In 2014, the Retirement System filed an application with the Internal Revenue Service ("IRS") for a Determination Letter. In July 2014, the IRS issued a favorable Determination Letter for SFERS. Issuance of a Determination Letter constitutes a finding by the IRS that operation of the defined benefit plan in accordance with the plan provisions and documents disclosed in the application qualifies the plan for federal tax exempt status. A tax qualified plan also provides tax advantages to the City and to members of the Retirement System. The favorable Determination Letter included IRS review of all SFERS provisions, including the provisions of Proposition C approved by the City voters in November 2011.

Membership

Retirement System members include eligible employees of the City and County of San Francisco, the SFUSD, the SFCCD, and the San Francisco Trial Courts.

The Retirement System estimates that the total active membership as of July 1, 2016 is 40,051, compared to 37,821 at July 1, 2015. Active membership at July 1, 2016 includes 6,617 terminated vested members and 1,028 reciprocal members. Terminated vested members are former employees who have vested rights in future benefits from SFERS. Reciprocal members are individuals who have established membership in a reciprocal pension plan such as CalPERS and may be eligible to receive a reciprocal pension from the Retirement System in the future. Monthly retirement allowances are paid to approximately 28,286 retired members and beneficiaries. Benefit recipients include retired members, vested members receiving a vesting allowance, and qualified survivors.

Table A-16 displays total Retirement System participation (City and County of San Francisco, SFUSD, SFCCD, and San Francisco Trial Courts) as of the five most recent actuarial valuation dates, July 1, 2012 through July 1, 2016.

TABLE A-16

SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System
Fiscal Years 2011-12 through 2015-16

As of 7/1	Active Members	Vested Members	Reciprocal Members	Total Non-retired	Retirees/ Continuants	Active to Retiree Ratio
2011-12	28,097	4,543	1,015	33,655	25,190	1.115
2012-13	28,717	4,933	1,040	34,690	26,034	1.103
2013-14	29,516	5,409	1,032	35,957	26,852	1.099
2014-15	30,837	5,960	1,024	37,821	27,485	1.122
2015-16	32,406	6,617	1,028	40,051	28,286	1.146

Sources: SFERS' annual July 1 actuarial valuation reports

See <http://mysfers.org/resources/publications/sfers-actuarial-valuations/>

Notes: Member counts exclude DROP participants.

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

Funding Practices

Employer and employee (member) contributions are mandated by the Charter. Sponsoring employers are required to contribute 100% of the actuarially determined contribution approved by the Retirement Board. The Charter specifies that employer contributions consist of the normal cost (the present value of the benefits that SFERS expects to become payable in the future attributable to a current year's employment) plus an amortization of the unfunded liability over a period not to exceed 20 years. The Retirement Board sets the funding policy subject to the Charter requirements.

The Retirement Board adopts the economic and demographic assumptions used in the annual valuations. Demographic assumptions such as retirement, termination and disability rates are based upon periodic demographic studies performed by the consulting actuarial firm approximately every five years. Economic assumptions are reviewed each year by the Retirement Board after receiving an economic experience analysis from the consulting actuarial firm.

At the November 2016 Retirement Board meeting, the Board voted to make no changes in economic assumptions for the July 1, 2016 actuarial valuation following the recommendation of the consulting actuarial firm. Key economic assumptions are the long-term investment earnings assumption of 7.50%, the long-term wage inflation assumption of 3.75%, and the long-term consumer price index assumption of 3.25%. In November 2015 the Board voted to update demographic assumptions, including mortality, after review of a new demographic assumptions study by the consulting actuarial firm.

While employee contribution rates are mandated by the Charter, sources of payment of employee contributions (i.e. City or employee) may be the subject of collective bargaining agreements with each union or bargaining unit. Since July 1, 2011, substantially all employee groups have agreed through collective bargaining for employees to contribute all employee contributions through pre-tax payroll deductions.

Prospective purchasers of the City's bonds should carefully review and assess the assumptions regarding the performance of the Retirement System. Audited financials and actuarial reports may be found on the Retirement System's website, mysfers.org, under Publications. The information on such website is not incorporated herein by reference. There is a risk that actual results will differ significantly from assumptions. In addition, prospective purchasers of the City's bonds are cautioned that the information

and assumptions speak only as of the respective dates contained in the underlying source documents, and are therefore subject to change.

Employer Contribution History and Annual Valuations

Fiscal year 2014-15 total City employer contributions were \$556.5 million which included \$243.6 million from the General Fund. Fiscal year 2015-16 total City employer contributions were \$496.3 million which included \$215.2 million from the General Fund. For fiscal year 2016-17, total City employer contributions to the Retirement System are budgeted at \$515.0 million which includes \$240.4 million from the General Fund. These budgeted amounts are based upon the fiscal year 2016-17 employer contribution rate of 21.40% (estimated to be 18.8% after taking into account the 2011 Proposition C cost-sharing provisions). The fiscal year 2017-18 employer contribution rate is 23.46% per the July 1, 2016 actuarial valuation report (estimated to be 20.1% after taking into account cost-sharing provisions). The increase in employer contribution rate from 21.40% to 23.46% results primarily from two reasons: 1) the retroactive grant of 2013 and 2014 Supplemental COLAs after the October 2015 California Court of Appeal determination in *Protect Our Benefits v. City and County of San Francisco* that the “full funding” requirement for Supplemental COLAs adopted under Proposition C does not apply to members who retired on or after November 6, 1996 and were hired prior to January 7, 2012, and 2) the continued phase in of the 2015 assumption changes approved by the Retirement Board. As discussed under “City Budget – Five Year Financial Plan” increases in retirement costs are projected in the City’s December 2016 Five Year Financial Plan.

Table A-17 shows total Retirement System liabilities, assets, and percent funded for the last five actuarial valuations as well as contributions for the fiscal years 2011-12 through 2015-16. Information is shown for all employers in the Retirement System (City and County of San Francisco, SFUSD, SFCCD, and San Francisco Trial Courts). “Actuarial Liability” reflects the actuarial accrued liability of the Retirement System measured for purposes of determining the funding contribution. “Market Value of Assets” reflects the fair market value of assets held in trust for payment of pension benefits. “Actuarial Value of Assets” are the plan assets with investment returns different than expected smoothed over five years to provide a more stable contribution rate. The “Market Percent Funded” column is determined by dividing the market value of assets by the actuarial accrued liability. The “Actuarial Percent Funded” column is determined by dividing the actuarial value of assets by the actuarial accrued liability. “Employee and Employer Contributions” reflects the total of mandated employee contributions and employer contributions received by the Retirement System in the fiscal year ended June 30th prior to the July 1st valuation date.

TABLE A-17

SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System
Fiscal Years 2011-12 through 2015-16
(000s)

As of 7/1	Actuarial Liability	Market Value of Assets	Actuarial Value of Assets	Market Percent Funded	Actuarial Percent Funded	Employee & Employer Contributions in prior FY	Employer Contribution Rates ¹ in prior FY
2011-12	\$19,393,854	\$15,293,724	\$16,027,683	78.9%	82.6%	\$608,957	18.09%
2012-13	20,224,777	17,011,545	16,303,397	84.1%	80.6	701,596	20.71
2013-14	21,122,567	19,920,607	18,012,088	94.3%	85.3	821,902	24.82
2014-15	22,970,892	20,428,069	19,653,339	88.9%	85.6	894,325	26.76
2015-16	24,403,882	20,154,503	20,654,703	82.6%	84.6	849,569	22.80

¹ Employer contribution rates for fiscal years 2016-17 and 2017-18 are 21.40% and 23.46%, respectively.

Sources: SFERS' audited year-end financial statements and required supplemental information
SFERS' annual July 1 actuarial valuation reports

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

Please note in the table above, that the Market Percent Funded ratio is lower than the Actuarial Percent Funded ratio for the first time in four years. The Actuarial Percent Funded ratio does not yet fully reflect all asset losses from the last five fiscal years.

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

GASB Disclosures

The Retirement System discloses accounting and financial reporting information under GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement was first implemented by the Retirement System in fiscal year 2013-14. The City discloses accounting and financial information about the Retirement System under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This accounting statement was first effective in fiscal year 2014-15. These accounting statements separated financial reporting from funding and required additional disclosures in the notes to the financial statements and required supplemental information. In general, the City's funding of its pension obligations are not affected by the GASB 68 changes to the reporting of the City's pension liability. Funding requirements are specified in the City Charter and are described in "Funding Practices" above.

Total Pension Liability reported under GASB Statements No. 67 and 68 differs from the Actuarial Liability calculated for funding purposes in several ways, including the following differences. First, Total Pension Liability measured at fiscal year-end is a roll-forward of liabilities calculated at the beginning of the year and is based upon a beginning of year census adjusted for significant events that occurred during the year. Second, Total Pension Liability is based upon a discount rate determined by a blend of the assumed investment return to the extent the fiduciary net position is available to make payments and at a municipal bond rate to the extent that the fiduciary net position is unavailable to make payments. Differences between the discount rate and assumed investment return have ranged from zero to six basis points at the last four fiscal year-ends. The third distinct difference is that Total Pension Liability includes a provision for Supplemental COLAS that may be granted in the future, while Actuarial Liability for funding purposes includes only Supplemental COLAS that have been already been granted.

See Note 2(s) of the City’s CAFR attached to this Official Statement as Appendix B for more information about the effects of GASB 68 and certain other new accounting standards on the City’s financial statements.

Table A-17A below shows the collective Total Pension Liability, Plan Fiduciary Net Position (market value of assets), and Net Pension Liability for all employers who sponsor the Retirement System. The City’s audited financial statements disclose only its own proportionate share of the Net Pension Liability and other required GASB 68 disclosures.

TABLE A-17A

**SAN FRANCISCO CITY AND COUNTY
Employees' Retirement System (000s)
GASB 67/68 Disclosures**

As of 6/30	Collective Total Pension Liability (TPL)	Discount Rate	Plan Fiduciary Net Position	Plan Net Position as % of TPL	Collective Net Pension Liability (NPL)	City and County's Proportionate Share of NPL
2012-13	\$20,785,417	7.52 %	\$17,011,545	81.8 %	\$3,773,872	\$3,552,075
2013-14	21,691,042	7.58	19,920,607	91.8	1,770,435	1,660,365
2014-15	22,724,102	7.46	20,428,069	89.9	2,296,033	2,156,049
2015-16	25,967,281	7.50	20,154,503	77.6	5,812,778	5,476,653

Sources: SFERS fiscal year-end GASB 67/68 Reports as of June 30, 2014, 2015, and 2016.

Notes: Collective amounts include all employees (City and County, SFUSD, SFCCD, Superior Courts)

The fiscal year 2016 increase in the City’s net pension liability is due to investment return shortfalls, the Appeals Court’s elimination of the full funding requirement for payment of Supplemental COLAs for certain members, and the impact of the Retirement Board’s 2015 adoption of revised demographic assumptions.

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Asset Management

The assets of the Retirement System, (the “Fund”) are invested in a broadly diversified manner across the institutional global capital markets. In addition to U.S. equities and fixed income securities, the Fund holds international equities, global sovereign and corporate debt, global public and private real estate and an array of alternative investments including private equity and venture capital limited partnerships. For a breakdown of the asset allocation as of June 30, 2016, see Appendix B: “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2016,” Page 72. Although the Fund did not hold hedge funds as of June 30, 2016, the Board approved a 5% allocation to absolute return/hedge funds at its February 2015 meeting. Implementation of this new allocation began during fiscal year 2016-17.

Annualized investment returns (net of fees and expenses) for the Retirement System for the five years ending June 30, 2016 were 7.53%. For the ten-year and twenty-year periods ending June 30, 2016, annualized investment returns were 5.85% and 7.66% respectively.

The investments, their allocation, transactions and proxy votes are regularly reviewed by the Retirement Board and monitored by an internal staff of investment professionals who in turn are advised by external consultants who are specialists in the areas of investments detailed above. A description of the Retirement System’s investment policy, a description of asset allocation targets and current investments, and the Annual Report of the Retirement System are available upon request from the Retirement System by writing to the San Francisco Retirement System, 1145 Market Street, 5th Floor, San Francisco, California 94103, or by calling (415) 487-7020. Certain documents are available at the Retirement System website at www.mysfers.org. These documents are not incorporated herein by reference.

Recent Voter Approved Changes to the Retirement Plan

The levels of SFERS plan benefits are established under the Charter and approved directly by the voters, rather than through the collective bargaining process. Changes to retirement benefits require a voter-approved Charter amendment. As detailed below, the most recent changes to SFERS plan benefits have been intended to reduce pension costs associated with future City employees.

Voters of San Francisco approved Proposition C in November 2011 which provided the following:

1. New SFERS benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raise the minimum service retirement age for Miscellaneous members from 50 to 53; limit covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculate final compensation using highest three-year average compensation; and decrease vesting allowances for Miscellaneous members by lowering the City’s funding for a portion of the vesting allowance from 100% to 50%;
2. Employees commencing employment on or after January 7, 2012 otherwise eligible for membership in CalPERS may become members of SFERS;
3. Cost-sharing provisions which increase or decrease employee contributions to SFERS on and after July 1, 2012 for certain SFERS members based on the employer contribution rate set by the Retirement Board for that year. For example, Miscellaneous employees who earn between \$50,000 and \$100,000 per year pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate, while Miscellaneous employees who earn

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

4. Effective July 1, 2012, no Supplemental COLA will be paid unless SFERS is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits - in any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

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

On July 13, 2016, the SFERS Board adopted a Resolution to exempt members who retired before November 6, 1996, from the “fully funded” provision related to payment of Supplemental COLAs under Proposition C. The Resolution directed that retroactive payments for Supplemental COLAs be made to these retirees. After the Board adopted the Resolution, the Retirement System published an actuarial study on the cost to the Fund of payments to the pre-1996 retirees. The study reports that the two retroactive supplemental payments will trigger immediate payments of \$34 million, create additional liability for continuing payments of \$114 million, and cause a new unfunded liability of \$148 million. This liability does not include the Supplemental COLA payments that may be triggered in the future. Under the cost sharing formulas in Proposition C, the City and its employees will pay for these costs in the form of higher yearly contribution rates. The Controller has projected the future cost to the City and its employees to be \$260 million, with over \$200 million to be paid in the next five fiscal years. The City obtained a permanent injunction to prevent SFERS from making Supplemental COLA payments to these members who retired before November 6, 1996. The Retirement Board has appealed the Superior Court’s injunction, and the schedule for that appeal is not yet known.

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

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

As of June 30, 2016, the audited market value of Retirement System assets was \$20.2 billion. As of June 30, 2017, the unaudited market value of SFERS’ portfolio was \$21.5 billion. These values represent, as of the date specified, the estimated value of the Retirement System’s portfolio if it were liquidated on that date. The Retirement System cannot be certain of the value of certain of its portfolio assets and, accordingly, the market value of the portfolio could be more or less. Moreover, appraisals for classes of assets that are not publicly traded are based on estimates which typically lag changes in actual market value by three to six months. Representations of market valuations are audited at each fiscal year end as part of the annual audit of the Retirement System’s financial statements.

The Retirement System investment portfolio is structured for long-term performance. The Retirement System continually reviews investment and asset allocation policies as part of its regular operations and

continues to rely on an investment policy which is consistent with the principles of diversification and the search for long-term value. Market fluctuations are an expected investment risk for any long-term strategy. Significant market fluctuations are expected to have significant impact on the value of the Retirement System investment portfolio.

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

Other Employee Retirement Benefits

As noted above, various City employees are members of CalPERS, an agent multiple-employer public employee defined benefit plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. The City makes certain payments to CalPERS in respect of such members, at rates determined by the CalPERS board. Such payment from the General Fund equaled \$19.2 million in fiscal year 2012-13 and \$20.0 million in fiscal year 2013-14. For fiscal year 2014-15, the City prepaid its annual CalPERS obligation at a level of \$25.2 million. Further discussion of the City's CalPERS plan obligations are summarized in Note 9 to the City's CAFR, as of June 30, 2016, attached to this Official Statement as Appendix B. A discussion of other post-employment benefits, including retiree medical benefits, is provided below under "Medical Benefits – *Post-Employment Health Care Benefits and GASB 45.*"

Medical Benefits

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

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

The San Francisco Health Service System oversees a trust fund (the "Health Service Trust Fund") established pursuant to Charter Sections 12.203 and A8.428 through which medical benefits for the SFHSS Beneficiaries are funded. The San Francisco Health Service System issues annually a publicly available, independently audited financial report that includes financial statements for the Health Service Trust

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

As presently structured under the City Charter, the Health Service Trust Fund is not a fund through which assets are accumulated to finance post-employment healthcare benefits (an "OPEB trust fund"). Thus, the Health Service Trust Fund is not currently affected by Governmental Accounting Standards Board ("GASB") Statement Number 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* ("GASB 45"), which applies to OPEB trust funds.

Determination of Employer and Employee Contributions for Medical Benefits

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

In the Memoranda of Understandings negotiated through collective bargaining in June 2014, the 10-County Average was eliminated in the calculation of premiums for active employees represented by most unions, and exchanged for a percentage based employee premium contribution. The long term impact of the premium contribution model is anticipated to be a reduction in the relative proportion of the projected increases in the City's contributions for healthcare, stabilization of the medical plan membership and maintenance of competition among plans. The contribution amounts are paid by the City into the Health Service Trust Fund. The 10-County Average is still used as a basis for calculating all retiree premiums. To the extent annual medical premiums exceed the contributions made by the City as required by the Charter and union agreements, such excess must be paid by SFHSS Beneficiaries or, if elected by the Health Service Board, from net assets also held in the Health Service Trust Fund. Medical benefits for City Beneficiaries who are retired or otherwise not employed by the City (e.g., surviving spouses and surviving domestic partners of City retirees) ("Nonemployee City Beneficiaries") are funded through contributions from such Nonemployee City Beneficiaries and the City as determined pursuant to Charter Section A8.428. The San Francisco Health Service System medical benefit eligibility requirements for Nonemployee City Beneficiaries are described below under "*Post-Employment Health Care Benefits and GASB 45.*"

Contributions relating to Nonemployee City Beneficiaries are also based on the negotiated methodologies found in most of the union agreements and, when applicable, the City contribution of the "10-County average contribution" corresponding to such Nonemployee City Beneficiaries as described in Charter Section A8.423 along with the following:

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

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

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

Health Care Reform

The description that follows of the implementation of the Patient Protection and Affordable Care Act is current. The election of a Republican President in November 2016 who promised to repeal “Obamacare” (or the Affordable Care Act (“ACA”) combined with both Houses of Congress with Republican majorities who are equally set on repealing the ACA puts many of the fees and taxes in limbo until legislation is passed to “repeal and replace Obamacare” by the current Congress and signed by President Trump (“HealthReform 2.0”).

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (Public Law 111-114), and on March 30, 2010 signed the Health Care and Education Reconciliation of 2010 (collectively, the “Health Care Reform Law” or the ACA or “Obamacare”). The ACA was intended to extend health insurance to over 32 million uninsured Americans by 2019, and includes other significant changes with respect to the obligation to carry health insurance by individuals and the provision of health care by private and public employers, such as the City.

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

Provisions of Health Care Reform already implemented by SFHSS 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, expanded eligibility to cover member dependent children up to age 26 in 2011, eliminated copayments for women’s preventative health including contraception in 2012, W-2 reporting on total healthcare premium costs, implementation of a medical loss ratio rebate on self-insured plans, issuance of a separate summary of benefits to every member and provided to every new member and providing information on State Exchanges to both employees currently on COBRA and future COBRA recipients and as of 2015 and 2016, and beyond, healthcare FSAs are limited to \$2,550 annually.

The change to the definition of a full time employee was implemented in 2015. The City modified health benefit eligibility to employees who are employed, on average, at least 20 hours of service per week. The Automatic Enrollment requirement in the Health Care Reform was deferred indefinitely. This requires that employers automatically enroll new full-time employees in one of the employer’s health benefit plans (subject to any waiting period authorized by law). Further it is required employees be given adequate notice and the opportunity to opt out of any coverage in which they were automatically enrolled. It is uncertain when or if final guidance will be issued by the Department of Labor.

The federal Health Care Reform Law created two direct fees: Transitional Reinsurance Fee and Patient Centered Outcomes Research Institute (“PCORI”) fee and one tax, the Federal Health Insurer Tax (“HIT”). The Transitional Reinsurance Fee was eliminated beginning in 2017 and the HIT tax was waived in 2017. PCORI was factored into the calculation of medical premium rates and premium equivalents for the 2017 plan year and the impact on the City is \$0.22 million.

Beginning in 2013, the PCORI Fee was assessed at the rate of \$2.00 per enrollee per year to all participants in the Self-Insured medical-only plan (approximately 8,600). The fee is charged directly to SFHSS. In 2015 the rate was \$2.17, \$2.25 in 2016 and \$2.25 in 2017. SFHSS pays this fee directly to the Internal Revenue Service (IRS) and the fee will increase with health care inflation until it sunsets in 2019.

The Federal HIT tax is a fixed-dollar amount applied to “full funded” HMOs and was charged in the 2016 plan year. The 2016 plan year premiums for Kaiser Permanente, Blue Shield of California, and the dental and vision plans included the impact of the HIT tax. Late in 2016, Blue Shield and the California Department of Managed Health Care agreed that the HIT tax was not applicable to Blue Shield because SFHSS “flex funds” Blue Shield meaning that SFHSS is at risk directly for non-physician costs and thus it is not fully-insured. This resulted in a refund for 2016 of \$9.93 million which is being applied to the 2018 rate stabilization reserve. The estimated impact of the HIT tax on the City was \$12.73 million. When the refund from Blue Shield of California is taken into account, the total impact on the City was \$2.8 million for Kaiser Permanente, and the dental and vision plans.

Beginning in 2016, employers are required to report coverage for employees to the IRS each January on complex electronic interface systems using 1095 forms. The San Francisco Health Service System spent over 2,080 hours on system configuration and is compliant with this requirement for 2016 and 2017.

Local Elections:

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

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

Proposition C (2011) City Pension and Health Care Benefit

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

Employer Contributions for San Francisco Health Service System Benefits

For fiscal year 2015-16, based on the most recent audited financial statements, the San Francisco Health Service System received approximately \$674.6 million from participating employers for San Francisco Health Service System benefit costs. Of this total, the City contributed approximately \$569.0 million; approximately \$158.4 million of this \$569.0 million amount was for health care benefits for approximately 23,453 retired City employees and their eligible dependents and approximately \$410.6 million was for benefits for approximately 31,085 active City employees and their eligible dependents.

The 2018 aggregate plan costs for the City increased by 3.28%. This is due to a number of factors including aggressive contracting by SFHSS that maintains competition among the City's vendors, implementing Accountable Care Organizations that reduced utilization and increased use of generic prescription rates and changing the City's Blue Shield plan from a fully-funded to a flex-funded product and implementing a narrow network. Flex-funding allows lower premiums to be set by the City's actuarial consultant, AON-Hewitt, without the typical margins added by Blue Shield; however, more risk is assumed by the City and reserves are required to protect against this risk. The flatten trend is anticipated to continue.

Post-Employment Health Care Benefits and GASB 45

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

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

1. 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,
2. 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,
3. The Controller, Mayor, Trust Board, and two-thirds of the Board of Supervisors approve changes to these limits.

GASB 45 Reporting Requirements

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

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

City’s Estimated Liability

The City is required by GASB 45 to prepare a new actuarial study of its post-retirement benefits obligation every two years. As of July 1, 2014, the most recent actuarial valuation date, the funded status of retiree health care benefits was 1.1%. The actuarial accrued liability for benefits was \$4.26 billion, and the actuarial value of assets was \$49.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.21 billion. As of July 1, 2014, the estimated covered payroll (annual payroll of active employees covered by the plan) was \$2.62 billion and the ratio of the UAAL to the covered payroll was 160.8%. The City’s actuary is currently updating this valuation for release in January, 2017.

The difference between the estimated ARC and the amount expended on post-retirement medical benefits in any year is the amount by which the City’s overall liability for such benefits increases in that year. The City’s most recent CAFR estimated that the 2015-16 annual OPEB cost was \$326.1 million, of which the City funded \$168.9 million which caused, among other factors, the City’s long-term liability to increase by \$157.3 million (as shown on the City’s balance sheet and below). The annual OPEB cost consists of the ARC, one year of interest on the net OPEB obligation, and recognition of one year of amortization of the net OPEB obligation. While GASB 45 does not require funding of the annual OPEB cost, any differences between the amount funded in a year and the annual OPEB cost are recorded as increases or decreases in the net OPEB obligation. See Note 9(b) to the City’s CAFR, as of June 30, 2016, included as Appendix B to this Official Statement. Five-year trend information is displayed in Table A-18 (dollars in thousands):

TABLE A-18

CITY AND COUNTY OF SAN FRANCISCO
Five-year Trend
Fiscal Years 2011-12 to 2015-16
(000s)

Fiscal Year Ended	Annual OPEB	Percentage of Annual OPEB Cost Funded	Net OPEB Obligation
2011-12	\$405,850	38.5%	\$1,348,883
2012-13	418,539	38.3%	1,607,130
2013-14	353,251	47.2%	1,793,753
2014-15	363,643	46.0%	1,990,155
2015-16	326,133	51.8%	2,147,434

Actuarial projections of the City’s OPEB liability will be affected by Proposition B as well as by changes in the other factors affecting that calculation. For example, the City’s actuarial analysis shows that by 2031, Proposition B’s three-percent of salary funding requirement will be sufficient to cover the cost of retiree health benefits for employees hired after January 10, 2009. See “Retirement System – *Recent Voter Approved Changes to the Retirement Plan*” above. As of June 30, 2016, the fund balance in the Retiree Health Care Trust Fund established by Proposition B was \$114.8 million, an increase of 57% versus the prior year. Future projections of the City’s GASB 45 liability will be lowered by the SFHSS implementation of the Employer Group Waiver Plan prescription benefit program for City Plan retirees. See “– Local Elections: Proposition C (2011).”

Total City Employee Benefits Costs

The City budgets to pay its ARC for pension and has established a Retiree Health Care Trust Fund into which both the City and employees are required to contribute funds as retiree health care benefits are earned. Currently, these Trust deposits are only required on behalf of employees hired after 2009, and are therefore limited, but is expected to grow as the workforce retires and this requirement is extended to all employees in 2016. Proposition A, passed by San Francisco voters on November 5, 2013 restricted the City's ability to make withdrawals from the Retiree Health Care Trust Fund.

The balance in the Retiree Health Care Trust Fund as of June 30, 2016 is approximately \$114.8 million. The City will continue to monitor and update its actuarial valuations of liability as required under GASB 45. Table A-19 provides a five-year history for all health benefits costs paid including pension, health, dental and other miscellaneous benefits. For all fiscal years shown, a "pay-as-you-go" approach was used by the City for health care benefits.

Table A-19 below provides a summary of the City's employee benefit actual and budgeted costs from fiscal years 2012-13 to fiscal year 2016-17.

TABLE A-19

CITY AND COUNTY OF SAN FRANCISCO					
Employee Benefit Costs, All Funds					
Fiscal Years 2012-13 through 2016-17¹					
(000s)					
	2012-13	2013-14	2014-15	2015-16	2016-17
	Actual	Actual	Actual	Actual	Budget
SFERS and PERS Retirement Contributions	\$452,325	\$535,309	\$593,619	\$531,821	\$550,302
Social Security & Medicare	156,322	160,288	171,877	184,530	196,741
Health - Medical + Dental, active employees ²	370,346	369,428	383,218	421,864	451,905
Health - Retiree Medical ²	155,885	161,859	146,164	158,939	169,612
Other Benefits ³	16,665	16,106	18,439	20,827	26,719
Total Benefit Costs	\$1,151,543	\$1,242,990	\$1,313,318	\$1,317,981	\$1,395,279

¹Fiscal year 2012-13 through fiscal year 2015-16 figures are audited actuals. Fiscal year 2016-17 figures are original budget.

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

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

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. A complete copy of the Treasurer's Investment Policy, dated May 2016, is included as an appendix to this Official Statement. The Investment Policy is also posted at the Treasurer's website. The information available on such website is not incorporated herein by reference.

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Investment Portfolio

As of August 31, 2017, the City's surplus investment fund consisted of the investments classified in Table A-20, and had the investment maturity distribution presented in Table A-21.

TABLE A-20

**City and County of San Francisco
Investment Portfolio
Pooled Funds
As of August 31, 2017**

<u>Type of Investment</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. Treasuries	\$625,000,000	\$622,117,103	\$623,924,250
Federal Agencies	4,242,655,000	4,242,459,002	4,241,648,011
State and Local Obligations	287,133,823	289,206,729	287,573,278
Public Time Deposits	960,000	960,000	960,000
Negotiable Certificates of Deposit	1,477,838,000	1,477,838,000	1,478,725,745
Banker's Acceptances			
Commercial Paper	985,000,000	980,671,350	982,262,736
Medium Term Notes	64,775,000	64,938,774	64,900,653
Money Market Funds	152,060,496	152,060,496	152,060,496
Supranationals	369,300,000	368,829,713	369,280,699
Total	<u>\$8,204,722,319</u>	<u>\$8,199,081,167</u>	<u>\$8,201,335,867</u>

August 2017 Earned Income Yield: 1.41%

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

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TABLE A-21

**City and County of San Francisco
Investment Maturity Distribution
Pooled Funds
As of August 31, 2017**

Maturity in Months			Par Value	Percentage
0	to	1	\$841,855,496	10.3%
1	to	2	607,000,000	7.4%
2	to	3	271,500,000	3.3%
3	to	4	650,000,000	7.9%
4	to	5	100,000,000	1.2%
5	to	6	205,690,000	2.5%
6	to	12	2,004,170,000	24.4%
12	to	24	1,252,093,000	15.3%
24	to	36	1,400,010,000	17.1%
36	to	48	359,778,823	4.4%
48	to	60	512,625,000	6.2%
			\$8,204,722,319	100.0%

Weighted Average Maturity: 487 Days

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

Further Information

A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board of Supervisors monthly. The monthly reports and annual reports are available on the Treasurer’s web page: www.sftreasurer.org. The monthly reports and annual reports are not incorporated by reference herein.

Additional information on the City’s investments, investment policies, and risk exposure as of June 30, 2017 are described in Appendix B: “COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THE FISCAL YEAR ENDED JUNE 30, 2016,” Notes 2(d) and 5.

CAPITAL FINANCING AND BONDS

Capital Plan

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

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

The Capital Plan is required to be submitted to the Mayor and the Board of Supervisors by each March 1 in odd-numbered years and adopted by the Board of Supervisors and the Mayor on or before May 1 of the same year. The fiscal year 2018-2027 Capital Plan was approved by the CPC on February 27, 2017 and was adopted by the Board of Supervisors in April 2017. The Capital Plan contains \$35.2 billion in capital investments over the coming decade for all City departments, including \$5.25 billion in projects for General Fund-supported departments. The Capital Plan proposes \$1.9 billion for General Fund pay-as-you-go capital projects over the next ten years. The amount for General Fund pay-as-you-go capital projects is assumed to grow to over \$200 million per year by fiscal year 2023-24. Major capital projects for General Fund-supported departments included in the Capital Plan consist of upgrades to public health, police, and fire facilities; improvements to homeless service sites; street and right-of-way improvements; the removal of barriers to accessibility; park improvements; the relocation of public health staff and services to improved spaces, among other capital projects. \$2.1 billion of the capital projects of General Fund supported departments are expected to be financed with general obligation bonds and other long-term obligations. The balance is expected to be funded by federal and State funds, the General Fund, and other sources.

In addition to the City General Fund-supported capital spending, the Capital Plan recommends \$18.9 billion in enterprise fund department projects to continue major transit, economic development and public utility projects such as the Central Subway project, runway and terminal upgrades at San Francisco International Airport, Pier 70 infrastructure investments, and the Sewer System Improvement Program, among others. Approximately \$12.3 billion of enterprise fund department capital projects is financed with revenue bonds. The balance is expected to be funded by federal and State funds, user/operator fees, General Fund and other sources.

While significant investments are proposed in the City's adopted Capital Plan, identified resources remain below those necessary to maintain and enhance the City's physical infrastructure. As a result, over \$4.6 billion in capital needs including enhancements are deferred from the plan's horizon. Over two-thirds of these unfunded needs are for the City's transportation and waterfront infrastructure, where core maintenance investments have lagged for decades. Mayor Edwin Lee has convened a taskforce to recommend funding mechanisms to bridge a portion of the gaps in the City's transportation needs, but it is likely that significant funding gaps will remain even assuming the identification of significant new funding sources for these needs.

Failure to make the capital improvements and repairs recommended in the Capital Plan may have the following impacts: (i) failing to meet federal, State or local legal mandates; (ii) failing to provide for the imminent life, health, safety and security of occupants and the public; (iii) failing to prevent the loss of use

of the asset; (iv) impairing the value of the City's assets; (v) increasing future repair and replacement costs; and (vi) harming the local economy.

Tax-Supported Debt Service

Under the State Constitution and the Charter, City bonds secured by *ad valorem* property taxes ("general obligation bonds") can only be authorized with a two-thirds approval of the voters. As of October 1, 2017, the City had approximately \$2.07 billion aggregate principal amount of general obligation bonds outstanding.

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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 October 1, 2017 ^{1 2}

Fiscal Year	Principal	Interest	Annual Debt Service
2017-18	\$123,873,225	\$88,868,612	\$212,741,837
2018-19	124,230,545	84,676,748	208,907,293
2019-20	123,541,232	78,649,111	202,190,343
2020-21	122,085,457	72,700,986	194,786,443
2021-22	128,083,401	67,121,223	195,204,624
2022-23	131,760,251	61,192,905	192,953,156
2023-24	134,366,206	54,907,030	189,273,236
2024-25	135,221,476	48,463,484	183,684,960
2025-26	130,491,279	42,140,369	172,631,648
2026-27	135,690,840	36,402,040	172,092,880
2027-28	140,604,035	30,447,874	171,051,909
2028-29	141,041,751	24,668,943	165,710,694
2029-30	137,285,095	18,856,513	156,141,608
2030-31	99,261,950	13,238,784	112,500,734
2031-32	102,620,000	9,573,281	112,193,281
2032-33	68,105,000	5,848,349	73,953,349
2033-34	43,770,000	3,291,929	47,061,929
2034-35	35,160,000	1,711,971	36,871,971
2035-36	12,680,000	475,476	13,155,476
TOTAL ³	\$2,069,871,743	\$743,235,628	\$2,813,107,371

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

² Totals reflect rounding to nearest dollar.

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

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

General Obligation Bonds

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

In November 1992, voters approved Proposition A, which authorized the issuance of up to \$350.0 million in general obligation bonds to provide moneys to fund the City’s Seismic Safety Loan Program (the “Loan Program”). The purpose of the Loan Program is to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings in San Francisco for affordable housing and market-rate residential, commercial and institutional purposes. In April 1994, the City issued \$35.0 million in taxable

general obligation bonds to fund the Loan Program and in October 2002, the City redeemed all outstanding bonds remaining from such issuance. In February 2007, the Board of Supervisors approved the issuance of additional indebtedness under this authorization in an amount not to exceed \$35.0 million. Such issuance would be achieved pursuant to the terms of a Credit Agreement with Bank of America, N.A. (the "Credit Bank"), under which the Credit Bank agreed to fund one or more loans to the City from time to time as evidenced by the City's issuance to the Credit Bank of the Taxable General Obligation Bond (Seismic Safety Loan Program), Series 2007A. The funding by the Credit Bank of the loans at the City's request and the terms of repayment of such loans are governed by the terms of the Credit Agreement. Loan funds received by the City from the Credit Bank are in turn used to finance loans to Seismic Safety Loan Program borrowers. In March 2007, the City initiated an initial borrowing of \$2.0 million, and in October 2007, the City borrowed approximately \$3.8 million from the Credit Bank. In January 2008, the City borrowed approximately \$3.9 million and in November 2008, the City borrowed \$1.3 million from the Credit Bank. Further borrowings under the Credit Agreement with the Credit Bank (up to the \$35.0 million not-to-exceed amount) are expected as additional loans to Seismic Safety Loan Program borrowers are approved. On November 8, 2016, voters approved Proposition C, authorizing the use of Seismic Safety Bond Program to fund the purchase and improvement of buildings in need of safety upgrades in order to convert them into affordable housing.

In February 2008, voters approved Proposition A, which authorized the issuance of up to \$185.0 million in general obligation bonds for the construction, reconstruction, purchase, and/or improvement of park and recreation facilities located in the City and under the jurisdiction of the Recreation and Parks Commission or under the jurisdiction of the Port Commission. The City issued the first series of bonds under Proposition A in the amount of approximately \$42.5 million in August 2008. The City issued the second series in the amount of approximately \$60.4 million in March 2010 and the third series in the amount of approximately \$73.4 million in March 2012. The City issued the fourth series in the amount of approximately \$8.7 million in January 2016.

In June 2010, voters approved Proposition B, which authorized the issuance of up to \$412.3 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement and retrofitting of neighborhood fire and police stations, the auxiliary water supply system, a public safety building, and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds under Proposition B in the amount of \$79.5 million in December 2010 and the second series of bonds in the amount of \$183.3 million in March 2012. The City issued the third series in the amount of approximately \$38.3 million in August 2012 and the fourth series of bonds in the amount of \$31.0 million in June 2013, and the fifth series in the amount of \$54.9 million was issued in October 2014. The final series was issued in June 2016 in the amount of approximately \$25 million. In November 2011, voters approved Proposition B, which authorized the issuance of up to \$248.0 million in general obligation bonds to provide funds to repair and repave City streets and remove potholes; strengthen and seismically upgrade street structures; redesign street corridors by adding or improving pedestrian signals, lighting, sidewalk extensions, bicycle lanes, trees and landscaping; construct and renovate curb ramps and sidewalks to increase accessibility and safety for everyone, including persons with disabilities; and add and upgrade traffic signals to improve MUNI service and traffic flow. The City issued the first series of bonds under Proposition B in the amount of approximately \$74.3 million in March 2012 and the second series of bonds in the amount of \$129.6 million in June 2013. The City issued the final series in June 2016 in the amount of approximately \$109 million.

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

the Port Commission. The City issued the first series of bonds under Proposition B in the amount of approximately \$71.9 million in June 2013. The City issued the second series of bonds in the amount of \$43 million in January 2016.

In June 2014, voters approved Proposition A, which authorized the issuance of up to \$400.0 million in general obligation bonds to provide funds to finance the construction, acquisition, improvement and retrofitting of neighborhood fire and police stations, emergency firefighting water system, medical examiner facility, traffic company & forensic services division and other critical infrastructure and facilities for earthquake safety and related costs. The City issued the first series of bonds in the amount of \$100.6 million in October 2014 and the second series of bonds in the amount of \$44 million in June 2016.

In November 2014, voters approved Proposition A, which authorized the issuance of up to \$500 million in general obligation bonds to provide funds to finance the construction, acquisition and improvement of certain transportation and transit related improvements and other related costs. The City issued the first series of bonds under Proposition A in the amount of approximately \$67 million in June 2015.

In November 2015, voters approved Proposition A which authorized the issuance of up to \$310 million in general obligation bonds to provide funds to finance the construction, development, acquisition, and preservation of housing affordable to low- and middle-income households and to assist in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; to repair and reconstruct dilapidated public housing; to fund a middle-income rental program; and to provide for homeownership down payment assistance opportunities for educators and middle-income households. The City issued the first series of bonds under Proposition A in the amount of approximately \$75 million in October 2016.

In June 2016, voters approved Proposition A, which authorized the issuance of up to \$350 million in general obligation bonds to provide funds to protect public health and safety, improve community medical and mental health care services, earthquake safety, and emergency medical response; to seismically improve, and modernize neighborhood fire stations and vital public health and homeless service sites; to construct a seismically safe and improved San Francisco Fire Department ambulance deployment facility; and to pay related costs. The City issued the first series of the bonds under Proposition A in the amount of approximately \$173.1 million in January 2017.

Refunding General Obligation Bonds

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

TABLE A-23

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Refunding Bonds
As of October 1, 2017

Series Name	Date Issued	Principal Amount Issued	Amount Outstanding
2008-R1	May 2008	\$232,075,000	\$8,170,000
2008-R2	May 2008	39,320,000	11,105,000
2008-R3	July 2008	118,130,000	-
2011-R1	November 2011	339,475,000	226,920,000 ¹
2015-R1	February 2015	293,910,000	277,165,000 ²

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

² Series 2006-R1, 2006-R2, and 2008-R3 Bonds were refunded by the 2015-R1 Bonds in February 2015.
 Series 2008-R3 Bonds were partially refunded and are no longer outstanding.

Table A-24 below lists for each of the City’s voter-authorized general obligation bond programs the amount issued and outstanding, and the amount of remaining authorization for which bonds have not yet been issued. Series are grouped by program authorization in chronological order. The authorized and unissued column refers to total program authorization that can still be issued, and does not refer to any particular series. As of October 1, 2017, the City had authorized and unissued general obligation bond authority of approximately \$1.37 billion.

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TABLE A-24

CITY AND COUNTY OF SAN FRANCISCO
General Obligation Bonds
As of October 1, 2017

Description of Issue (Date of Authorization)	Series	Issued	Outstanding ¹	Authorized & Unissued
Seismic Safety Loan Program (11/3/92)	2007A	\$30,315,450	\$21,461,743	
	2015A	24,000,000	24,000,000	260,684,550
Clean & Safe Neighborhood Parks (2/5/08)	2010B	24,785,000	5,120,000	
	2010D	35,645,000	35,645,000	
	2012B	73,355,000	50,675,000	
	2016A	8,695,000	7,825,000	
San Francisco General Hospital and Trauma Center (11/4/08)	2009A	131,650,000	10,790,000	
	2010A	120,890,000	24,980,000	
	2010C	173,805,000	173,805,000	
	2012D	251,100,000	163,495,000	
	2014A	209,955,000	169,055,000	
Earthquake Safety and Emergency Response Bond (6/8/10)	2010E	79,520,000	43,175,000	
	2012A	183,330,000	127,945,000	
	2012E	38,265,000	31,400,000	
	2013B	31,020,000	18,320,000	
	2014C	54,950,000	43,665,000	
	2016C	25,215,000	23,260,000	
Road Repaving & Street Safety (11/8/11)	2012C	74,295,000	51,880,000	
	2013C	129,560,000	76,465,000	
	2016E	44,145,000	40,715,000	
Clean & Safe Neighborhood Parks (11/6/12)	2013A	71,970,000	42,490,000	
	2016B	43,220,000	25,395,000	79,810,000
Earthquake Safety and Emergency Response Bond (6/3/14)	2014D	100,670,000	79,970,000	
	2016D	109,595,000	78,475,000	189,735,000
Transportation and Road Improvement (11/4/15)	2015B	67,005,000	45,375,000	432,995,000
Affordable Housing Bond (11/4/15)	2016F	75,130,000	53,060,000	234,870,000
Public Health and Safety Bond (6/7/16)	2017A	173,120,000	125,760,000	176,880,000
SUB TOTALS		\$2,385,205,450	\$1,594,201,743	\$1,374,974,550
General Obligation Refunding Bonds:				
Series 2008-R1 issued 5/29/08		232,075,000	6,675,000	
Series 2008-R2 issued 5/29/08		39,320,000	5,680,000	
Series 2011-R1 issued 11/9/12		339,475,000	202,220,000	
Series 2015-R1 issued 2/25/15		293,910,000	261,095,000	
SUB TOTALS		904,780,000	475,670,000	
TOTALS		\$3,289,985,450	\$2,069,871,743	\$1,374,974,550

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

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

Lease Payments and Other Long-Term Obligations

The Charter requires that any lease-financing agreements with a nonprofit corporation or another public agency must be approved by a majority vote of the City's electorate, except (i) leases approved prior to April 1, 1977, (ii) refunding lease financing expected to result in net savings, and (iii) certain lease financing

for capital equipment. The Charter does not require voter approval of lease financing agreements with for-profit corporations or entities.

Table A-25 sets forth the aggregate annual lease payment obligations supported by the City's General Fund with respect to outstanding lease revenue bonds and certificates of participation as of October 1, 2017. Note that the annual payment obligations reflected in Table A-25 reflect the fully accreted value of any capital appreciation obligations as of the payment dates.

TABLE A-25

CITY AND COUNTY OF SAN FRANCISCO
Lease Revenue Bonds and Certificates of Participation
As of October 1, 2017

Fiscal Year	Principal	Interest	Annual Payment Obligation
2017-18	\$40,995,000	\$46,158,845	\$87,153,845
2018-19	63,790,000	62,426,217	126,216,217
2019-20	49,630,000	59,788,198	109,418,198
2020-21	58,345,000	57,310,890	115,655,890
2021-22	58,775,000	54,742,504	113,517,504
2022-23	61,390,000	52,119,175	113,509,175
2023-24	63,620,000	49,374,771	112,994,771
2024-25	63,985,000	46,505,114	110,490,114
2025-26	64,500,000	43,645,624	108,145,624
2026-27	67,545,000	40,628,011	108,173,011
2027-28	68,940,000	37,474,005	106,414,005
2028-29	72,160,000	34,218,461	106,378,461
2029-30	72,540,000	30,826,226	103,366,226
2030-31	64,540,000	27,588,665	92,128,665
2031-32	54,320,000	24,737,593	79,057,593
2032-33	55,495,000	22,446,642	77,941,642
2033-34	57,735,000	19,918,261	77,653,261
2034-35	46,410,000	17,650,673	64,060,673
2035-36	45,695,000	15,599,242	61,294,242
2036-37	44,775,000	13,589,230	58,364,230
2037-38	46,595,000	11,612,665	58,207,665
2038-39	48,485,000	9,553,956	58,038,956
2039-40	50,470,000	7,407,472	57,877,472
2040-41	52,520,000	5,172,668	57,692,668
2041-42	19,400,000	3,007,611	22,407,611
2042-43	10,125,000	1,242,000	11,367,000
2043-44	8,555,000	818,000	9,373,000
2044-45	8,895,000	475,800	9,370,800
2045-46	1,470,000	120,000	1,590,000
2046-47	1,530,000	61,200	1,591,200
TOTAL ¹	\$1,423,230,000	\$796,219,719 ²	\$2,219,449,719

¹ Totals reflect rounding to nearest dollar.

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

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

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

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

In 1990, voters approved Proposition C, which amended the Charter to authorize the City to lease-purchase equipment through a nonprofit corporation without additional voter approval but with certain restrictions. The City and County of San Francisco Finance Corporation (the "Corporation") was incorporated for that purpose. Proposition C provides that the outstanding aggregate principal amount of obligations with respect to lease financings may not exceed \$20.0 million, with such amount increasing by five percent each fiscal year. As of October 1, 2017 the total authorized amount for such financings was \$71.1 million. The total principal amount outstanding as of October 1, 2017 was \$1.4 million.

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

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

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

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

Commercial Paper Program

The Board authorized on March 17, 2009 and the Mayor approved on March 24, 2009 the establishment of a not-to-exceed \$150.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 1 and 1-T and Series 2 and 2-T (the "CP Program"). Commercial Paper Notes (the "CP Notes") are

issued from time to time to pay approved project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles in anticipation of long-term or other take-out financing to be issued when market conditions are favorable. Projects are eligible to access the CP Program once the Board and the Mayor have approved the project and the long-term, permanent financing for the project. The former Series 1 and 1-T and Series 2 and 2-T letters of credit issued in 2010 by J.P. Morgan Chase Bank, N.A. and U.S. Bank National Association expired in June 2016. In May 2016, the City obtained renewal credit facilities securing the CP Notes issued by State Street Bank and Trust Company with a maximum principal amount of \$75 million and by U.S. Bank National Association with a maximum principal amount of \$75 million. The renewal credit facilities will expire in May 2021.

The Board authorized on July 16, 2013 and the Mayor approved on July 25, 2013 an additional \$100.0 million Lease Revenue Commercial Paper Certificates of Participation Program, Series 3 and 3-T and Series 4 and 4-T that increases the total authorization of the CP Program to \$250.0 million. The Series 3 and 3-T and 4 and 4-T are secured by a letter of credit issued by State Street Bank and Trust Company expiring February 2019.

As of September 30, 2017, the outstanding principal amount of CP Notes is \$22.3 million. The weighted average interest rate for CP Notes is approximately 0.88%.

Board Authorized and Unissued Long-Term Obligations

The Board of Supervisors authorized on October 26, 2010 and the Mayor approved on November 5, 2010 the issuance of not to exceed \$38 million in City and County of San Francisco certificates of participation to partially finance the rebuilding of severely distressed public housing sites, while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (the HOPE SF Project). The City anticipates issuing the certificates in the June of 2017.

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

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

Overlapping Debt

Table A-26 shows bonded debt and long-term obligations as of October 1, 2017 sold in the public capital markets by the City and those public agencies whose boundaries overlap the boundaries of the City in whole or in part. Long-term obligations of non-City agencies generally are not payable from revenues of the City. In many cases, long-term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. In the table, lease obligations of the City which support indebtedness incurred by others are included. As noted below, the Charter limits the City's outstanding general obligation bond debt to 3% of the total assessed valuation of all taxable real and personal property within the City.

TABLE A-26

CITY AND COUNTY OF SAN FRANCISCO
Statement of Direct and Overlapping Debt and Long-Term Obligations
As of October 1, 2017

<u>2017-18 Assessed Valuation</u> (net of non-reimbursable & homeowner exemptions):	\$234,074,596,933	
<u>DIRECT GENERAL OBLIGATION BOND DEBT</u>		
General City Purposes Carried on the Tax Roll	\$2,069,871,743	
GROSS DIRECT DEBT	\$2,069,871,743	
<u>DIRECT LEASE PAYMENT AND LONG-TERM OBLIGATIONS</u>		
San Francisco Finance Corporation, Equipment LRBs Series 2012A, and 2013A	\$1,450,000	
San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1	9,975,000	
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2	96,020,000	
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007	43,940,000	
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A	27,030,000	
San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital)	125,570,000	
San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project)	31,190,000	
San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt	23,240,000	
San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs	129,550,000	
San Francisco Refunding Certificates of Participation, Series 2010A	100,575,000	
San Francisco COPs, Refunding Series 2011AB (Moscone)	25,515,000	
San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project)	36,815,000	
San Francisco COPs, Series 2013A Moscone Center Improvement	-	
San Francisco COPs, Series 2013BC Port Facilities	32,275,000	
San Francisco COPs, Series 2014-R1 (Courthouse Project), 2014-R2 (Juvenile Hall Project)	38,350,000	
San Francisco COPs, Series 2015AB War Memorial Veterans Building Seismic Upgrade and Improvements	127,810,000	
San Francisco Refunding COPs, Series 2015-R1 (City Office Buildings-Multiple Properties Project)	118,100,000	
San Francisco COPs, Series 2016A War Memorial Veterans Building Seismic Upgrade and Improvements	15,170,000	
San Francisco COPs Series 2017A (Hope SF)	28,320,000	
San Francisco COPs Series 2017B (Moscone Convention Center Expansion)	412,355,000	
LONG-TERM OBLIGATIONS	\$1,423,250,000	
GROSS DIRECT DEBT & LONG-TERM OBLIGATIONS	\$3,493,121,743	
<u>OVERLAPPING DEBT & LONG-TERM OBLIGATIONS</u>		
Bayshore Hester Assessment District	\$510,000	
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	72,628,333	
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B	100,763,400	
San Francisco Community College District General Obligation Bonds (2001, 2005)	247,520,000	
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds (2011)	30,995,000	
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	760,367,853	
San Francisco Redevelopment Agency Obligations (Special Tax Bonds)	148,875,249	
Association of Bay Area Governments Obligations (Special Tax Bonds)	17,795,000	
Special Tax District No. 2009-1 Improvement Area 1, 2 SF Sustainable Financing	2,999,392	
San Francisco Unified School District General Obligation Bonds (2003, 2006, 2011, 2015R, 2016, 2017)	1,021,010,000	
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	\$2,403,464,227	
GROSS COMBINED TOTAL OBLIGATIONS	\$5,896,585,970 ¹	
<u>Ratios to Assessed Valuation:</u>		
	Actual Ratio	Charter Req.
Gross Direct Debt (General Obligation Bonds)	0.88%	< 3.00% ²
Gross Direct Debt & Long-Term Obligations	1.49%	n/a
Gross Combined Total Obligations	2.52%	n/a

¹ Excludes revenue and mortgage revenue bonds and non-bonded third party financing lease obligations. Also excludes tax allocation bonds sold in August, 2009.

² Section 9.106 of the City Charter limits issuance of general obligation bonds of the City to 3% of the assessed value of all taxable real and personal property, located within the City and County.

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

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

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

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

On November 8, 2016, voters approved Proposition A. Proposition A of 2016 authorized the SFUSD to issue an aggregate principal amount not to exceed \$744.25 million of general obligation bonds to repair and rehabilitate San Francisco Unified School District facilities to current accessibility, health, safety, seismic and instructional standards, replace worn-out plumbing, electrical, HVAC, and major building systems, renovate outdated classrooms and training facilities, construct school facilities and replace aging modular classrooms, improve information technology systems and food service preparation systems. The SFUSD issued the first series in the aggregate principal amount of \$180.0 million under the Proposition A of 2016 authorization in March 2017.

MAJOR ECONOMIC DEVELOPMENT PROJECTS

Numerous development and construction projects are in progress throughout the City at any given time. This section describes several of the most significant privately owned and managed real estate developments currently under way in the City in which there is City participation, generally in the form of a public/private partnership. The information in this section has been prepared by the City based on City-approved plans as well as unofficial plans and representations of the developer in each case, and includes forward-looking statements. These forward-looking statements consist of expressions of opinion, estimates, predictions, projections, plans and the like; such forward-looking statements in this section are

those of the developers and not of the City. The City makes no prediction, representation or assurance that the plans and projects described will actually be accomplished, or the time frame in which the developments will be completed, or as to the financial impact on City real estate taxes, developer fees, other tax and fee income, employment, retail or real estate activity, or other consequences that might be expected or projected to result from the successful completion of each development project. Completion of development in each case may depend on the local economy, the real estate market, the financial health of the developer and others involved in the project, specific features of each development and its attractiveness to buyers, tenants and others, as well as the financial health of such buyers, tenants, and others. Completion and success of each development will also likely depend on other factors unknown to the City.

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

The Hunters Point Shipyard Phase 1 and 2 and Candlestick Point project area will deliver approximately 12,100 new homes, approximately 32 percent of which will be below market rate and will include the rebuilding of the Alice Griffith public housing development consistent with the City's HOPE SF program, up to 3 million square feet of research and development space, and more than 350 acres of new parks in the southeast portion of San Francisco (the "Project"). In total, the Project will generate over \$6 billion of new economic activity to the City, more than 12,000 permanent jobs, hundreds of new construction jobs each year, new community facilities, new transit infrastructure, and provide approximately \$90 million in community benefits. The Project's full build out will occur over 20 to 30 years. In the next five years over 1,000 units of housing and 26 acres of parks will be completed in the first phase of the Shipyard.

The first phase of development has begun at the Hunters Point Shipyard site with approximately 200 completed units and an additional 350 units currently under construction. An additional 230 units will begin construction in 2017. On Candlestick Point, 306 housing units are under construction which includes a mix of public housing replacement and new, affordable units. In 2016, horizontal infrastructure construction commenced, which will support up to 1,710 units of housing, including 290 stand-alone affordable units and up to 145 inclusionary units, a 635,000 square foot mixed-use retail center, 220-room hotel, and a community facilities parcel. Two hillside open space areas at the base of Bayview Hill will be improved and a new wedge park and plaza will also be constructed, adding a total of 8.6 acres of open space adjacent to the new retail and residential development.

Treasure Island

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

The first major land transfer from the Navy to the Treasure Island Development Authority ("TIDA") occurred in May 2015 and included the northern half of Yerba Buena Island and more than half of the area of Treasure Island. The developer, Treasure Island Community Development ("TICD"), received its first land transfer in February 2016, and demolition and initial infrastructure improvements under

contract are currently underway. The first phase of development will include extensive horizontal infrastructure improvements (utilities, roadway improvements, site preparation, etc.) as well as the initial vertical developments. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

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

The Golden State Warriors, a National Basketball Association team, is developing a multipurpose recreation and entertainment venue and associated development in Mission Bay. The site is bordered by Third Street to the West, Terry Francois Boulevard to the East, 16th Street to the South and South Street to the North. The Warriors project includes a state-of-the-art multi-purpose recreation and entertainment venue for Warriors' home games, concerts and family shows. The site will also have restaurants, retail, office space, bike valet, public plazas and a limited amount of parking, and trigger the construction of a new 5 acre Bay Front Park between the new event center and the Bay. Environmental review has been completed for the site, and was upheld in a November 2016 decision. The project began construction in January 2017 and the event center is scheduled to open in time for the 2019-2020 basketball season.

Transbay

The Transbay Project Redevelopment Project Area was adopted in 2005 with the purpose of redeveloping 10 acres of property owned by the State in order to generate funding for the new Salesforce Transit Center. In 2012 the Transit Center District Plan, the guiding document for the area surrounding the transit center, was approved by the Planning Commission and by the Board of Supervisors. The Transit Center District Plan includes additional funding sources for the Salesforce Transit Center. The Transbay Program will replace the former 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 Salesforce Transit Center broke ground on August 11, 2010, and is scheduled to commence operations in Spring 2018. Demolition of existing structures on the site was completed in August 2011.

The 10 acres of property formerly owned by the State surrounding the Transbay Transit Center is being redeveloped with plans for 3,300 new homes, 1,400 to be affordable below-market rate homes, over 2 million square feet of new office space, over 9 acres of new parks and open space, and a new retail boulevard on Folsom Street. The first project completed in the neighborhood was Rene Cazenave Apartments, 120 units of permanent affordable housing for formerly homeless individuals. Recently completed was Solaire, 479 residential units of which 70 units are affordable. There are over 1,600 units currently under construction on Folsom Street, 767,000 square feet of office space under construction at Howard and Beale Streets, and 1.4 million square feet of office space under construction at Mission and First Streets.

The Pelli Clarke Pelli Architects-designed transit center will serve more than 100,000 people per day through eleven 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 Salesforce Transit Center, "Salesforce Park," a 5.4-acre public park atop the facility, that will serve as a living green roof for the transit facility. The center will have a LEED rating of at least Silver. The \$6 billion Program is funded by various public funding partners, including the federal government, the State, the Metropolitan Transportation

Commission, the San Francisco County and San Mateo County Transportation Authorities, and AC Transit, among others.

Mission Bay

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

Over 5,296 units have been completed with an additional 493 units under construction, along with several new parks. Another 119 affordable housing units, a 250-room hotel and the mixed-use Chase Event Center project will house the Golden State Warriors have broken or will break ground in 2017.

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

Mission Rock is a proposed mixed-use development at Seawall Lot 337 and Pier 48, Port-owned property comprising approximately 25 acres. The Port, OEWD in its capacity as lead negotiator, and Mission Rock’s competitively-selected master developer, Seawall Lot 337 Associates, LLC, have agreed on a development concept and corresponding financial terms for Mission Rock, which are reflected in a non-binding Term Sheet that the Port Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following environmental review.

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

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

Pier 70

Plans for Pier 70 call for substantial development, including major parks and historic building rehabilitation, on this 69-acre site to achieve a number of goals, including preservation and adaptive reuse of historic structures; retention of the ship repair operations; provision of new open space; reactivation and economic development on the site; and needed infrastructure and site remediation. The Port, which controls Pier 70, and OEWD, in its capacity as lead negotiator, have initiated preliminary negotiations with

Forest City, the developer selected to build a new mixed-use neighborhood on a 28-acre portion of Pier 70 known as the Waterfront Site. The parties have agreed on a development concept and corresponding financial terms for the Waterfront Site, which are reflected in a non-binding Term Sheet that the Port Commission and Board of Supervisors have endorsed and which will be finalized in a Development Agreement following community and environmental review. In November 2014, Proposition F was approved by the voters, authorizing an increase of height limits on Pier 70 from 40 feet to 90 feet.

Current development plans for the Pier 70 Waterfront Site call for 7 acres of parks and up to 3.25 million square feet of above-grade construction (not including parking) which may include up to 1.7 million square feet of office space; up to 400,000 square feet of retail, small-scale production, arts space intended to establish the new district as destination with unique character; and approximately 1600 housing units, with 30% percent of them made available to low- and middle- income households. This built area includes three historic industrial buildings that will be rehabilitated as part of the Waterfront Site development. Conclusion of the environmental review process, transaction agreements and planning approval are expected in mid-2017.

Moscone Convention Center

The Moscone Center Expansion Project will add approximately 300,000 square feet and repurpose an additional 120,000 square feet to the portion of the existing Moscone Center located on Howard Street between 3rd and 4th Streets in the Yerba Buena Gardens neighborhood of San Francisco. Nearly 140,000 square feet of this additional space would be created by excavating and expanding the existing below-grade exhibition halls that connect the Moscone North and South buildings under Howard Street, with the remaining consisting of new and repurposed lobby area, new multi-purpose/meeting room area, and new and repurposed building support area.

In addition to adding new rentable square footage, the project architects propose an iconic sense of arrival that enhances Moscone's civic presence on Howard Street and reconnects it to the surrounding neighborhood through the creation of reintroduced lost mid-block passageways. As such, the project proposes a new mid-block pedestrian entrance from Third Street and a replacement pedestrian bridge connecting Yerba Buena Gardens with the cultural facilities and children's playground to the south. An additional enclosed pedestrian bridge would provide enhanced circulation for Moscone convention attendees and reduce on-street congestion.

A May 2012 analysis by Jones Lang Lasalle Hotels estimated that the City would lose up to \$2 billion in foregone revenue over the next decade if Moscone was not expanded. The project allows the City to recover approximately \$734 million of this future revenue and create 3,480 local jobs through a phased construction schedule that keeps Moscone in continuous revenue generating operation.

The proposed project is a joint partnership between the City and the hotel industry, acting through the Tourist Improvement District Management Corporation, with the City paying approximately one-third of all expansion costs and the hotel community paying approximately two-thirds. The Board of Supervisors unanimously approved the creation of the Moscone Expansion District and the issuance of \$507 million in Certificates of Participation on February 5, 2013 and the Planning Commission unanimously approved the project on August 15, 2014. Project development began in December 2012, with major construction starting in November 2014. The project is expected to reach completion by the end of 2018.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND EXPENDITURES

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

Article XIII A of the California Constitution

Article XIII A of the California Constitution, known as "Proposition 13," was approved by the California voters in June of 1978. It limits the amount of *ad valorem* tax on real property to 1% of "full cash value," as determined by the county assessor. Article XIII A defines "full cash value" to mean the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when "purchased, newly constructed or a change in ownership has occurred" (as such terms are used in Article XIII A) after the 1975 assessment. Furthermore, all real property valuation may be increased or decreased to reflect the inflation rate, as shown by the CPI or comparable data, in an amount not to exceed 2% per year, or may be reduced in the event of declining property values caused by damage, destruction or other factors. Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on 1) indebtedness approved by the voters prior to July 1, 1978, 2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition, or 3) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district voting on the proposition, but only if certain accountability measures are included in the proposition.

The California Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher or lower than 2%, depending on the assessor's measure of the restoration of value of the damaged property. The California courts have upheld the constitutionality of this procedure.

Since its adoption, Article XIII A has been amended a number of times. These amendments have created a number of exceptions to the requirement that property be assessed when purchased, newly constructed or a change in ownership has occurred. These exceptions include certain transfers of real property between family members, certain purchases of replacement dwellings for persons over age 55 and by property owners whose original property has been destroyed in a declared disaster, and certain improvements to accommodate persons with disabilities and for seismic upgrades to property. These amendments have resulted in marginal reductions in the property tax revenues of the City. Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII .

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

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

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

Article XIII D contains several provisions making it generally more difficult for local agencies, such as the City, to levy and maintain "assessments" (as defined in Article XIII D) for local services and programs. The City has created a number of special assessment districts both for neighborhood business improvement purposes and community benefit purposes, and has caused limited obligation bonds to be issued in 1996 to finance construction of a new public right of way. The City cannot predict the future impact of

Proposition 218 on the finances of the City, and no assurance can be given that Proposition 218 will not have a material adverse impact on the City's revenues.

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 *Felder 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 and XIII of the California Constitution. Proposition 26 re-categorizes many State and local fees as taxes, requires local governments to obtain two-thirds voter approval for taxes levied by local governments, and requires the State to obtain the approval of two-thirds of both houses of the State Legislature to approve State laws that increase taxes. Furthermore, pursuant to Proposition 26, any increase in a fee beyond the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require a two-thirds vote. In addition, for State-imposed charges, any tax or fee adopted after January 1, 2010 with a majority vote which would have required a two-thirds vote if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII of the State Constitution to state that a “tax” means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law, including late payment fees, fees imposed under administrative citation ordinances, parking violations, etc.; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218. Fees, charges and payments that are made pursuant to a voluntary contract that are not “imposed by a local government” are not considered taxes and are not covered by Proposition 26.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of property owners.

Future Initiatives and Changes in Law

The laws and Constitutional provisions described above were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the City or the City’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the City.

On April 25, 2013, the California Supreme Court in *McWilliams v. City of Long Beach* (April 25, 2013, No. S202037), held that the claims provisions of the Government Claims Act (Government Code Section 900 *et. seq.*) govern local tax and fee refund actions (absent another State statute governing the issue), and that local ordinances were without effect. The effect of the *McWilliams* case is that local governments could face class actions over disputes involving taxes and fees. Such cases could expose local governments to significant refund claims in the future. The City cannot predict whether any such class claims will be filed against it in the future, the outcome of any such claim or its impact on the City.

LITIGATION AND RISK MANAGEMENT

Pending Litigation

There are a number of lawsuits and claims routinely pending against the City, including those summarized in Note 16 to the City's CAFR as of June 30, 2016, attached as Appendix B to this Official Statement. Included among these are a number of actions which if successful would be payable from the City's General Fund. In the opinion of the City Attorney, such suits and claims presently pending will not materially impair the ability of the City to pay debt service on the Certificates, its General Fund lease or other debt obligations, nor materially impair the City's ability to fund current operations.

Millennium Tower is a 58-story luxury residential building completed in 2009 and located at 301 Mission Street in downtown San Francisco. On August 17, 2016, some owners of condominiums in Millennium Tower filed a lawsuit (the "Lehman Lawsuit") against the Transbay Joint Powers Authority ("TJPA") and the individual members of the TJPA, including the City. The TJPA is a joint exercise of powers authority created by the City, the Alameda-Contra Costa Transit District, the Peninsula Corridor Joint Powers Board, and Caltrans (ex officio). The TJPA is responsible under State law for developing and operating the Transbay Transit Center, which will be a new regional transit hub located near the Millennium Tower. See "MAJOR ECONOMIC DEVELOPMENT PROJECTS—Transbay".

The TJPA began excavation and construction of the Transbay Transit Center in 2010, after the Millennium Tower was completed. In brief, the Lehman Lawsuit claims that the construction of the Transbay Transit Center harmed the Millennium Tower by causing it to settle into the soil more than planned and tilt toward the west/northwest, and the owners claim unspecified monetary damages for inverse condemnation and nuisance. The TJPA has asserted that the Millennium Tower was already sinking more than planned and tilting before the TJPA began construction of the Transbay Transit Center and that the TJPA took precautionary efforts to avoid exacerbating the situation. In addition to the Lehman Lawsuit, several other lawsuits have been filed against the TJPA related to the subsidence and tilting of the Millennium Tower. Since the Lehman Lawsuit, the City has been named as a defendant in two other lawsuits related to the Millennium Tower including the "Buttery Lawsuit". The Buttery Lawsuit alleged that the City failed to inform buyers of various conditions of the Millennium Tower property, but all claims against the City in that action have been voluntary dismissed. On May 4, 2017, a new lawsuit was filed by additional owners, the Montana family and their trust (the "Montana Lawsuit"), against a number of parties, including the TJPA and the City. The City expects that other lawsuits may be filed against the TJPA and the City relating to the Millennium Tower. The City continues to evaluate the lawsuits, and the subject matter of the lawsuits, but cannot now make any prediction as to the outcome of the lawsuits, or whether the lawsuits, if determined adversely to the TJPA or the City, would have a material adverse impact on City finances.

Risk Retention Program

Citywide risk management is coordinated by the Office of Risk Management Division within the City's General Services Agency, which is under the supervision of the City Administrator. With certain exceptions, it is the general policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed but rather to first evaluate self-insurance for such risks. The City's policy in this regard is based on its analysis that it is more economical to manage its risks internally and administer, adjust, settle, defend, and pay claims from budgeted resources (i.e., "self-insurance"). The City obtains commercial insurance in certain circumstances, including when required by bond or lease financing covenants and for other limited purposes. The City actuarially determines liability and workers' compensation risk exposures as permitted under State law. The City does not maintain commercial earthquake coverage, with certain minor exceptions.

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

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

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

The City's estimated liability and workers' compensation risk exposures are summarized in Note 16 to the City's CAFR, attached to this Official Statement as Appendix B.